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A case study of Caribbean chartered airline services for possible application in the Eastern Cape

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Tourism is becoming a vital component of economic development in South Africa. In the light of South Africa having hosted the 2010 Football World Cup, it is important to identify sustainable tourism that continues to benefit the economy long after the event is over. The Eastern Cape is identified as a region that has not been entirely successful in attracting large number of tourists, despite its varied tourist attractions. One of the constraints to tourism development is the lack of direct flight connections with northern Europe. As a result, research into the development of charter services between Port Elizabeth, the largest city in the Eastern Cape, and selected northern European destinations is considered. The research looked at the successful tourism development policy in the Caribbean and aimed to identify how similar policies could work in the Eastern Cape. A comparative case study of the connection between the charter airline operations and tourism development in the Caribbean, with the focus on the Dominican Republic, was analysed to provide motivation for such research. Its findings can be related to the Port Elizabeth-based charter airline operation being considered in this study. A second objective was to identify constraints on the project or market failures which would prevent the implementation of charter services. The comparative case study was followed up by an actual cost benefit analysis of establishing a charter

Keywords: airlines, Caribbean, case study, charter, constraints, development, market failures, South Africa, tourism.

Een vergelijkende case studie tussen het Caribisch gebied en de Oost-Kaap wat chartermaatschappij voordelen

Toerisme wordt steeds meer een essentieel onderdeel van de economische ontwikkeling in Zuid-Afrika. Met Zuid-Afrika als gastheer van het WK voetbal 2010 nog vers in het geheugen, is het belangrijk om manieren te identificeren die een duurzame ontwikkeling op het gebied van toerisme verwezenlijken, om zo de economische voordelen, ook nog lang na het WK voorbij is, te blijven vergroten. De Oost-Kaap is geïdentificeerd als een regio die, ondanks haar gevarieerde toeristische attracties, nog niet erg succesvol is in het aantrekken van een groot aantal toeristen. Een van de beperkingen als het aankomt op de ontwikkeling van het toerisme, is het ontbreken van directe vliegverbindingen met Noord- Europa. Als resultaat hiervan is de ontwikkeling van chartervluchten tussen Port Elizabeth, de grootste stad van Oost-Kaap, en geselecteerde Noord-Europese bestemmingen, in dit onderzoek overwogen. Het onderzoek keek naar de succesvolle ontwikkeling van het toerisme in het Caribisch gebied en probeerde te bepalen hoe dergelijk beleid zal werken in het geval van de Oost-Kaap. Een vergelijkende case studie naar het verband tussen chartervluchten en de ontwikkeling van het toerisme in het Caribisch gebied, met focus op de Dominicaanse Republiek, werd geanalyseerd, om motivatie te bieden voor dergelijk onderzoek voor Zuid- Afrika. De bevindingen kunnen worden gerelateerd aan de chartervluchten op Port Elizabeth, welke worden overwogen in deze studie. Een tweede doelstelling was om beperkingen op het project en de tekortkomingen van de markt te identificeren die de invoering van chartervluchten zouden kunnen voorkomen. De vergelijkende case studie werd opgevolgd door een werkelijke kosten-batenanalyse van de oprichting van een chartervluchtverbinding.

Trefwoorden: beperkingen van markt falen, case studie, charter, het Caribisch gebied, luchtvaartmaatschappijen, ontwikkeling, toerisme, Zuid-Afrika.

包机业在加勒比海与实际应用在南非东开普省的好处

旅游业正成为南非经济发展的重要组成部分。在南非主办了2010年世界杯足球赛之后的长时间中，旅游业的可持续发展被认为是对经济长期增长的重要途径。东开普尽管被认为拥有多样的旅游景点，但它并没有完全成功地吸引大量游客到访该地区。对当地旅游业发展的制约因素之一目前已被确认，这是因为与北欧缺乏直航。调查结果发现在伊丽莎白港和最大的城市东开普以及北欧之间发展包机服务应该尽早被确定。该研究着眼于在加勒比海地区成功的发展旅游政策，并试图从中发现类似的适用于东开普的政策，和在加勒比海地区包机和旅游业的发展联系。同时集中在多米尼加共和国的案例研究分析是为了提供这类研究的可行性。这个被考虑到可能与伊丽莎白港的包机服务是有联系。另一个目的是试图发现项目或市场的制约因素，从而在包机服务执行过程中起到防范作用。该案例的比较研究是建立在一个包机服务的实际成本效益分析上的。

关键词：南非，加勒比海，旅游，开发，包机，航空公司，案例研究，约束力， 市场失效

Introduction

Tourism is an increasingly important revenue-generating industry in South Africa. The number of tourists visiting the country grew at an average of about seven per cent between 2005 and 2007. The tourism industry generated an income of about 7.9 per cent of the GDP in 2007 a level which is a significant contribution to the economy (South African Tourism Strategic Unit, 2008). Due to this sector's fast and sustained growth, it has the potential to seriously challenge the mining industry as one of the major contributors to the country's economy (Ntuli, 2009).

The tourism development study undertaken between 2004 and 2007 looked at the Eastern Cape and particularly Port Elizabeth as regions in need of sustained tourism development due to the high unemployment rate and the requirement for long-term economic growth. The Eastern Cape is the second largest province in South Africa. It offers a large variety of tourism products, such as a large number of malaria-free game reserves, 800 kilometres of subtropical coastline, South Africa's only ski resort at Tiffindell and South Africa's largest biodiversity. Port Elizabeth is the biggest city in the Eastern Cape and is situated on the south eastern coast of South Africa about 750 kilometres from Cape Town. It is a city that offers a diverse selection of attractions, scenic nature trails, historic heritage, magnificent wildlife, cultural experiences, countless water sport activities and 40 kilometres of beautiful coastline and beaches.

Despite the variety in tourism products, the Eastern Cape is one of the regions in South Africa that has been least successful in attracting tourists. Of the tourists that arrive at the Johannesburg International Airport or Cape Town International Airport, only a small proportion reaches the Eastern Cape (Horwath Hotel, Tourism and Leisure Consulting, 2004).

The tourism situation in Eastern Cape

Of the total number of foreign tourists visiting South Africa in 2007, 7.8 per cent visited the Eastern Cape (Centre for Tourism Studies, 2008). The majority of these tourists (78.3 per cent) were European residents (Eastern Cape Tourism Board, 2008). Table 1 indicates the growth in tourism in the Eastern Cape between 2004 and 2008.

Table 1 indicates that while there has been a steady growth in the arrival of foreign tourists to the Eastern Cape. However, the average length of stay is short when compared to other provinces in South Africa. It appears that most of the foreign tourists who visit the province are transitory visitors on their way to the Western Cape and so they only stay for a short period. This low number of bed nights spent by tourists in the Eastern Cape is a worrying statistic.

Table 2 shows the results of a survey conducted between November 2006 and March 2007 on the composition of the foreign tourists visiting the region. In compiling this table, a sample of 250 tourists visiting Port Elizabeth were interviewed regarding their choice of accommodation as part of the research.

The Visiting Friends and Relatives (VFR) category represents the largest number of foreign tourists to the region who spend very little on accommodation while visiting. Almost 40 per cent of the tourists that chose a bed & breakfast or a hotel were transitory on their way to Johannesburg or Cape Town. The latest figures for 2007 show that, despite an increase of the number of bed nights spent by tourists in South Africa during 2007 compared to 2006, the Eastern Cape has experienced a decrease in the percentage share from 6.4 per cent in 2006 to 5.8 per cent in 2007 (South African Tourism, 2008) .

One of the reasons for this unfortunate state of affairs is the additional cost of purchasing a plane ticket from Cape Town or Johannesburg to Port Elizabeth or East London, the second major city in the Eastern Cape. The length of stay could increase were tourists to be brought in by the proposed charter project as research shows that tourists travelling on charter packages tend to spend between seven and 14 days within a 300 kilometre radius of the arrival area (Gold, 2001).

The main objective of this research is to explore the viability of developing a charter airline service between Port Elizabeth and long-haul destinations in northern Europe to increase the level of tourist income generated in the Port Elizabeth area. A comparative case study of the connection between the charter airline operations and tourism development in the Caribbean, with a focus on the Dominican Republic, was analysed to provide motivation for such research. The case study helped to identify the effects of charter airlines on tourism development in the Caribbean and explores whether this could be emulated in the Eastern Cape.

Table 1: Foreign tourism growth in the Eastern Cape

Year	2004	2005	2006	2007	2008
Foreign tourist arrivals	616 828	646 800	679 140	713 097	748 752
Expenditure foreign tourism	R2.9 bn	R3.6 bn	R3.8 bn	R4.4 bn	R5.1 bn
Average length of stay	3 days	4 days	4 days	3 days	3 days

Source: South African Tourism (2009)

Table 2: Type of foreign tourists by accommodation (author's unpublished data from a pilot study conducted between November 2006 and March 2007)

Type of Tourist by Accommodation	Visiting Friends and Relatives (VFR)	Bed & Breakfast/Guest House	Camping	Hotel	Game Lodge
Number of Tourists	93	59	12	47	39
Percentage (%)	37.2	23.6	4.8	18.8	15.6

The Caribbean case study

The Caribbean case study had as its primary objective the analysis of the charter airline services and how these airlines contribute to the development of the tourism industry in the area. Its findings can be related to the Port Elizabeth-based charter airline operation being considered in this study. The two destinations, namely the Caribbean and South Africa, compete for European tourism over the same time period, namely the November to March season.

The study surveys a number of important Caribbean tourist destinations. The destinations were also chosen on the basis of their attractiveness to tourists from countries such as Mauritius, Mexico and the United States.

Most attention is focused on the Dominican Republic because it has the highest tourist numbers. Between 2003 and 2007 the Dominican Republic experienced a tourist arrival increase of almost four per cent (from 3 268 161 to 3 398 374) while overall tourist arrivals to the Caribbean countries grew by an average of 1.7 per cent (Caribbean Tourism Organization, 2008: 8–9).

The report that details the Caribbean case study identified both the main countries from which the tourists originate and where they go (see Table 3). The Dominican Republic, Antigua and Barbados received some of the highest percentages of European tourists. For a number of countries in the sample, namely Aruba, Barbados, Dominican Republic and Jamaica, the growth rate of tourists arriving from Europe between 2003 and 2007 was nine per cent, more than twice the growth rate from the US. The reasons for the higher growth rate during this period appear to have been an increase in the countries' marketing efforts and favourable exchange rate changes (Caribbean Tourism Organization, 2008).

Tourism is the highest gross foreign exchange earner in the Caribbean region, but much of these earnings are lost to imports needed to sustain it. The tourism industry is also a major provider of employment in the region with an expected 587 000 people being directly employed by the industry in 2010 (World Travel and Tourism Council, 2010).

In the year 2000 most tourism authorities in the Caribbean countries underwent a review of their strategies for developing the tourism industry. Their goal was to improve the resilience, sustainability and attractiveness of the services they provided to their tourists (Caribbean Tourism Organization, 2008).

Based on their reviews, the tourism authorities in the Caribbean decided to place more emphasis on:

- continued expansion of the industry
- diversification of geographic markets
- greater inclusion of the resident population in key decision making (an essential component).

The objectives are similar to those of the Tourism Marketing Plan for the Eastern Cape (Eastern Cape Tourism, 2006), which include:

- an increase of the scale of the local tourism industry
- the creation of a positive image for the province to allow it to compete effectively with other regions of South Africa
- the creation of facilities and services that are complementary and cooperative rather than competitive
- the encouragement of community participation in tourism development.

Scheduled and chartered airline services in the Caribbean

Scheduled airlines frequently accuse charter airlines of flying only in the peak season and thus forgetting the need for tourism development all year long (Caribbean Tourism Organization, 2008). The problem is that scheduled airlines need to charge higher prices to cover the costs of providing year-round service. The USA–Trinidad and Tobago air services agreement allows designated carriers of Trinidad and Tobago to fly seasonally scheduled services to Orlando. British West Indian Airlines (BWIA) flew a seasonal scheduled service between St. Kitts and New York in the summer of 1999 (Caribbean Tourism Organization, 2008).

Scheduled and charter airlines assume different rules. Charter airline operations do not face the same risk during off-peak season times that scheduled airlines do, but they

Table 3: Sources of tourists to the Caribbean countries

Caribbean country visited	Source of tourists (%)			
	USA	Canada	Europe	Rest of the world
Antigua	41.5	9.3	48.5	0.7
Aruba	61.5	4.0	8.1	26.4
Bahamas	85.2	5.7	8.0	1.2
Barbados	25.2	9.0	45.0	23.0
Belize	60.0	7.1	14.5	19.0
Cayman Is	84.2	5.2	9.9	0.7
Cuba	4.0	18.3	37.2	30.6
Curacao	20.8	1.3	46.1	31.7
Dominican Republic	33.0	17.0	39.0	30.8
Grenada	21.0	7.2	32.0	1.1
Haiti	73.8	12.2	10.7	3.4
Jamaica	71.2	9.5	18.3	1.0
St. Kitts	63.3	12.1	24.1	0.5
St. Lucia	43.6	8.3	47.6	0.5
St. Maarten	50.9	6.6	33.6	9.0
Trinidad and Tobago	47.4	16.4	31.1	5.1
Total	42.5	8.4	36.4	12.7

Source: Caribbean Tourism Organization (2008:9) do often experience greater risk in 'add on' purchases, such as accommodation not being able to be resold to tourists (Caribbean Tourism Organization, 2008).

Up until the year 2000 the Caribbean aviation policy was conservative, with a focus mainly on services by traditional scheduled airlines, but since then civil aviation authorities have adopted a free-enterprise model that encourages competition. The aim of airline managements, as with any other business, has become the maximisation of profit through the achievement of competitive advantage (Tourism Industry Intelligence, 2003). The profit-maximisation goal leads to many scheduled airline companies reducing or removing services to destinations that do not yield high returns. Airline managements have focused on growth in profitability rather than growth in market share. As a result, there have often been shortages of seats to certain destinations.

The gap in the supply of seats created by the profit-maximising policies of scheduled airlines has been partially filled by charter airlines. The gap has not been fully filled because the charter airline industry in the Caribbean had suffered from an unfavourable image of providing poor-quality services to a budget-conscious market. However, after 2000, the situation started to change (Travel Trade Caribbean, 2004). The aircrafts being used by charter airlines were improved and the companies operating them placed greater emphasis on high-quality passenger services.

Dominican Republic charter airlines

Of all the Caribbean countries considered, the Dominican Republic is the most important for the purpose of the study because it attracts the largest numbers of tourists in the region. Most of these tourists come from European countries, namely the UK, Germany and Italy (Caribbean Tourism Organization, 2008).

Charter airline services have proven to be a catalyst for the tourism industry growth in the Caribbean. They have developed against a background of scheduled flight shortages between the Dominican Republic and European countries.

Table 4 compares the number of European tourists brought in by scheduled airlines to ones that fly charter airlines, for selected years and for three of the main airports in the Dominican Republic. Table 4 shows that the charter airlines gained market share, between 2006 and 2008, to the detriment of the scheduled airlines. It is deduced that these gains were the result of the inability of the scheduled airlines to adapt to rapid increases in the tourism demand and it shows the value of charter services in the development of tourism in the region.

Lessons learned from the Caribbean Tourism Organization report

A few lessons can be drawn from the Caribbean Tourism Organization report, which can be applied to the proposals of introducing charter flight operations between Europe and Port Elizabeth. Some of these lessons relate to the whole Caribbean region, while others relate only to the Dominican Republic.

Lessons derived from the entire Caribbean

Both the scheduled and the charter airlines in the Caribbean are placing increasing pressure on the destination countries to increase the size and effectiveness of their marketing expenditure and to ensure a sustainable and attractive year-round tourism product. From the perspective of the charter airlines, there is less pressure in the short-term in this regard since it can more effectively match schedules to demand. Considering the risk presented by the seasonal variations, the study reaches the conclusion that the destination country must present the tourism product in a way that stimulates year-round tourism. The recommendation also applies to the Eastern Cape tourism industry, which also suffers from large seasonality variations.

Another requirement for the successful operation of a charter business is the liberalisation of flying regulations. The example cited in the Caribbean report is that of the European Union where there is no longer a distinction made between charter and scheduled services (Caribbean Tourism Organization, 2008). Charter airlines are called holiday airlines and operate a mixture of both charter and scheduled services. These holiday airlines provide a significant portion of the airlift from Europe to the Caribbean countries (Caribbean Tourism

Table 4: Charter two-way passenger lift information for main airports in the Dominican Republic

Year	Airport	Scheduled services	Charter services	Total	Charter percentage of total (%)
	Las Americas	1 249 546	30 149	1 279 695	9
	Puerto Plata	725 874	663 542	1 389 416	54
2005	Punta Cana	379 109	558 700	937 809	63
	Total	2 354 529	1 252 391	3 606 920	35
	Type (%)	65	35		
	Las Americas	737 185	188 289	925 474	13
	Puerto Plata	797 412	932 462	1 729 874	54
2006	Punta Cana	474 336	835 371	1 309 707	64
	Total	2 008 933	1 956 122	3 965 055	49
	Type (%)	51	49		
	Las Americas	640 425	377 522	1 017 947	37
	Puerto Plata	681 753	474 468	1 156 221	41
2007	Punta Cana	596 458	1 160 766	1 757 224	65
	Total	1 918 636	2 012 756	3 979 582	53
	Type (%)	57	53		

Source: Caribbean Tourism Organization (2008:32)

Organization, 2008).

A third lesson is that the tourism industry in the Caribbean is more dependent on charter services to bring visitors out of Europe which has increased must faster when compared to other continents. The significant increase in tourist arrivals from Europe to the Caribbean can be attributed in part to an increase in flight opportunities, created by the expansion in charter airlines (holiday airlines) airlift services to the Caribbean.

Lessons learned specifically from the Dominican Republic

The popularity of the Dominican Republic among tourists can be attributed to four main factors. The first is the high development of charter airline services. Major investments from foreign Leisure Travel Group operators (LTGs) have significantly influenced the quality of tourism. In the case of the Dominican Republic, the LTGs have invested in hotels in the country, thus improving the tourism infrastructure in the country. European LTGs have propelled the Dominican Republic's rapid growth in tourism by promoting vertical integration of transport and accommodation services. More than 80 per cent of tourists visit the country on packages arranged by these LTGs (Caribbean Tourism Organization, 2008).

The second factor is the promotion of special interest products such as golf, convention and adventure tourism and, to a much smaller extent, cultural tourism. The profile of the industry has changed to encourage tourists to travel around the country instead of isolating themselves to specific resort enclaves.

The third factor is the recognition of the importance of easing accessibility to the country by foreign tourists, for instance, by encouraging investment into a number of airports nationwide. The major international airports in the Dominican Republic are in Santo Domingo (Las Americas), Puerto Plata and Punta Cana. Of these, Punta Cana seems to be the most successful. Figure 1 shows the arrival of tourists per airport in 2008. The arrivals include those from both scheduled and charter flights.

The fourth factor is the liberalisation of charter airline policy leading to a fast and simple process of approval for charter services (Caribbean Tourism Organization, 2008:30).

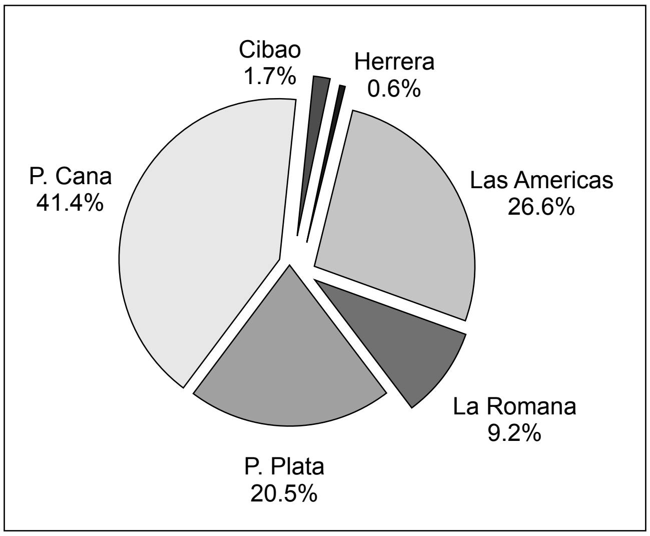

Figure 1: Percentage arrivals of non-residents by airport: January to November 2008 (after Smith 2008: 1)

Market failures and constraints for development of charter airlines in the Eastern Cape

From an economic perspective, the lack of currently operating charter businesses in the Eastern Cape could be attributed to three main market failures and constraints.

The main constraint to the operation of a long haul charter airline based in Port Elizabeth is the inadequate length of the airport runway and (until recently) the lack of a proper customs section. The latter limitation was addressed in 2003 when the Port Elizabeth airport received international status after the completion of its R30-million upgrade (Eastern Cape Tourism, 2004). However, despite the development of its terminals, the airport runway is not long enough to accommodate the landing of large long-haul aeroplanes. Currently it is impossible for a fully loaded Boeing 767–300 ER or Airbus A340–300 to land at the Port Elizabeth airport.

Secondly, although South Africa's aviation policy has undergone some degree of liberalisation, South African Airways remains largely under its protection. An example of this protection is the current bilateral agreement with the United Kingdom, which serves to restrict the demand for South African tourism products (Horwath Hotel, Tourism and Leisure Consulting, 2004). The effect of this agreement is that, despite the UK being one of the world's main suppliers of tourists, only three per cent of its long-haul passengers visit South Africa.

Thirdly, current law states that a locally based charter airlines can be closed down if there are objections to its operations from scheduled airlines. This law discourages locally based charter airlines from entering the market. However the current legislation is under review and further liberalisation of the aviation policy is expected in South Africa.

Conclusions

The Caribbean has a tourism industry that will continue for the foreseeable future to have at its core a 'sun, sea and sand' product that includes water sports, sun bathing and other activities associated with tropical islands. From this perspective, the Eastern Cape has a comparative advantage, as its tourism product is far more diverse than the Caribbean's. The Eastern Cape not only has coastal attractions but also diverse vegetation zones, topography and African game parks.

Charter airlines have been instrumental in the development of tourism in the Caribbean, especially in the Dominican Republic. They have contributed to the expansion of the tourism industry and the development of new markets. The main vehicles for the opening of new markets have been expanded airline services, advertising and tourist infrastructure development. While the Caribbean has scheduled airlines that fly internationally, there is no charter airline domiciled in the region capable of operating internationally. As a result, some income that could be retained in the region by a profitable charter service is lost to it.

In the Dominican Republic the role of the charter tour operator in facilitating tourism has been especially noticeable

(Caribbean Tourism Organization, 2008). The LTGs have invested in hotel capacity in the country thus improving its tourism infrastructure. There is reason to believe that the impact of LTGs has the same potential in the Port Elizabeth area.

Aggressive marketing strategies, along with a large degree of air transport liberalisation, have contributed to the success of the tourist industry during the last decade in the Caribbean (Caribbean Tourism Organization, 2008). Greater liberalisation of air transport provision would seem to have the same potential to stimulate tourism development in the Eastern Cape.

The case of the Dominican Republic shows that LTGs and local accommodation industry shareholders should not only be encouraged to invest in the establishment of a charter airline, but also in the development of transport and tourism infrastructure – so they are made partners in development. The construction of the Punta Cana airport for the main purpose of improving the accessibility to the region has proved very successful – it has become one of the busiest in the country. Ongoing analysis of infrastructure constraints in the Port Elizabeth area would clearly be a desirable strategy to promote tourism to the region.

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