

BAILING OUT FROM THE PUBLIC PURSE:

The Case of LIAT (1974) Limited

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- Decision Criteria
- The Case of LIAT (1974) Limited
- Conclusion
- Way Forward



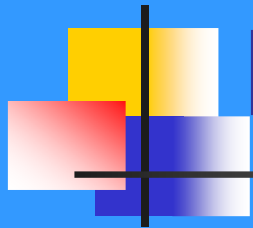
Introduction

- **Motivation,**

- Plethora of news articles on airlines' request for government assistance
- Policy harmonisation (re CSME)

- **Objectives,**

- To consider the economic cases for and against bailing out companies
- To develop a set of decision criteria for bailout requests



Literature Review

- **The effects of company failure**
 - Hague and Wilkinson (1983)
 - Reich (1985); Reich and Donahue (1985)
 - Rowthorn and Ward (1979)
 - Goudie and Meeks (1991) and (1998)

- **Airlines' contribution to social and economic development**
 - ICAO and WTO-OMT (2005)
 - MIT Int'l Center for Air Transportation (2005)



The Bailout Debate

- **For bailouts:**

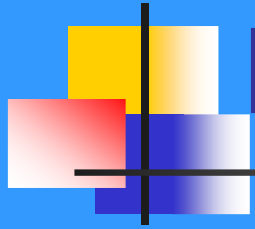
- The costs of failure are far-reaching:
- The imperfection of the 'invisible hand'
- Exogenous factors precipitate failure
 - *Goudie and Meeks (1991) and (1998)*
- Nationalism/regionalism
- Assurance of goods/services



The Bailout Debate (cont'd)

- **Against bailouts:**

- Company failure is an illustration of market discipline
- The problem of moral hazard follows successive and successful bailouts
 - *Chang (2000) rebuts this argument*
- Bailout implies government intervention, which should be discouraged at all costs



Decision Criteria

- Mismanagement
- Exogenous factors
- Social returns
- Opportunity costs



The Case of LIAT

I. History

- **1956:** LIAT established as a private company
- **1957:** BWIA became a majority shareholder (w/75% of its shares)
- **1971:** BWIA divested its shareholding to Courtline
- **1974:** Courtline became bankrupt; regional governments intervened



The Case of LIAT (cont'd)

I. History (cont'd)

- **1993:** CAE's lone takeover bid
- **1995:** Shareholder governments decided to privatise LIAT
- **2000:** Caribbean Star incorporated
- **2001:** 9-11; Restructuring commenced
- **2003:** Caribbean Int'l Airways (Holding) Co Ltd registered in T'dad and Tobago



The Case of LIAT (cont'd)

II. Contributions:

- Its air transportation service:
 - Regional integration (table 1)
 - Economic, social and political facets
 - Travel (visitor* and resident) for leisure, business, sports, festivals, education, health care (*table 2)
 - Foreign exchange earnings (table 3)
 - Manufacturing and trade facilitation (chart 1)
- Its impeccable safety record

Table 1
Caribbean Destinations Serviced by Regional Airlines

COUNTRIES	Air Jamaica	BWIA	C'bbean Star	LIAT
Anguilla			•	•
Antigua and Barbuda		•	•	•
Bahamas, The	•			
Barbados	•	•	•	•
Bonaire	•			
British Virgin Islands			•	•
Cayman Islands	•			
Cuba	•			
Curaçao	•		•	
Dominica			•	•
Grenada	•		•	•
Guadeloupe				•
Guyana		•	•	•
Jamaica	••	•		
Martinique				•
Montserrat				
Puerto Rico				•
Saint Lucia	•		•	•
Santo Domingo				•
St Kitts and Nevis			•	••
St Maarten		•	•	•
St Vincent and the Grenadines			•	•
Suriname				
Trinidad and Tobago		•	••	•
US Virgin Islands				••
TOTAL COUNTRIES	9	6	13	17
TOTAL DESTINATIONS	10	6	14	19

Source: Airline companies' reservation agents and/or managers

Table 2
2003 Tourist Air Arrivals to ECCU Destinations by Carrier

COUNTRIES	Total	Air Jamaica		BWIA		Caribbean Star		LIAT		Regional Airlines	
		#	%	#	%	#	%	#	%	#	%
Anguilla ¹	46,915	-	-	-	-	-	-	13,288	28.3	13,288	28.3
Antigua and Barbuda ²	239,185	6,164	2.6	40,495	16.9	39,713	16.6	99,099	41.4	185,471	77.5
Dominica	73,190	-	-	-	-	26,724	36.5	30,064	41.1	56,788	77.6
Grenada	133,724	1,608	1.2	8,122	6.1	15,355	11.5	20,654	15.4	45,739	34.2
Montserrat	8,414	-	-	-	-	-	-	-	-	-	-
Saint Lucia	276,948	32,971	11.9	9,854	3.6	27,727	10.0	36,042	13.0	106,594	38.5
St Kitts and Nevis ³	90,562	-	-	214	0.2	-	-	38,709	42.7	38,923	43.0
St Vincent and the Grenadines	78,535	-	-	-	-	25,894	33.0	33,925	43.2	59,819	76.2
ECCU	947,473	40,743	4.3	58,685	6.2	135,413	14.3	271,781	28.7	506,622	53.5

Source: 2003 Caribbean Tourism Statistical Report and Eastern Caribbean Central Bank

- No passenger arrivals or data unavailable

¹ 1998 data were used to estimate the classification by carrier

² 2002 data were used to estimate the classification by carrier

³ 2000 data were used to estimate the classification by carrier

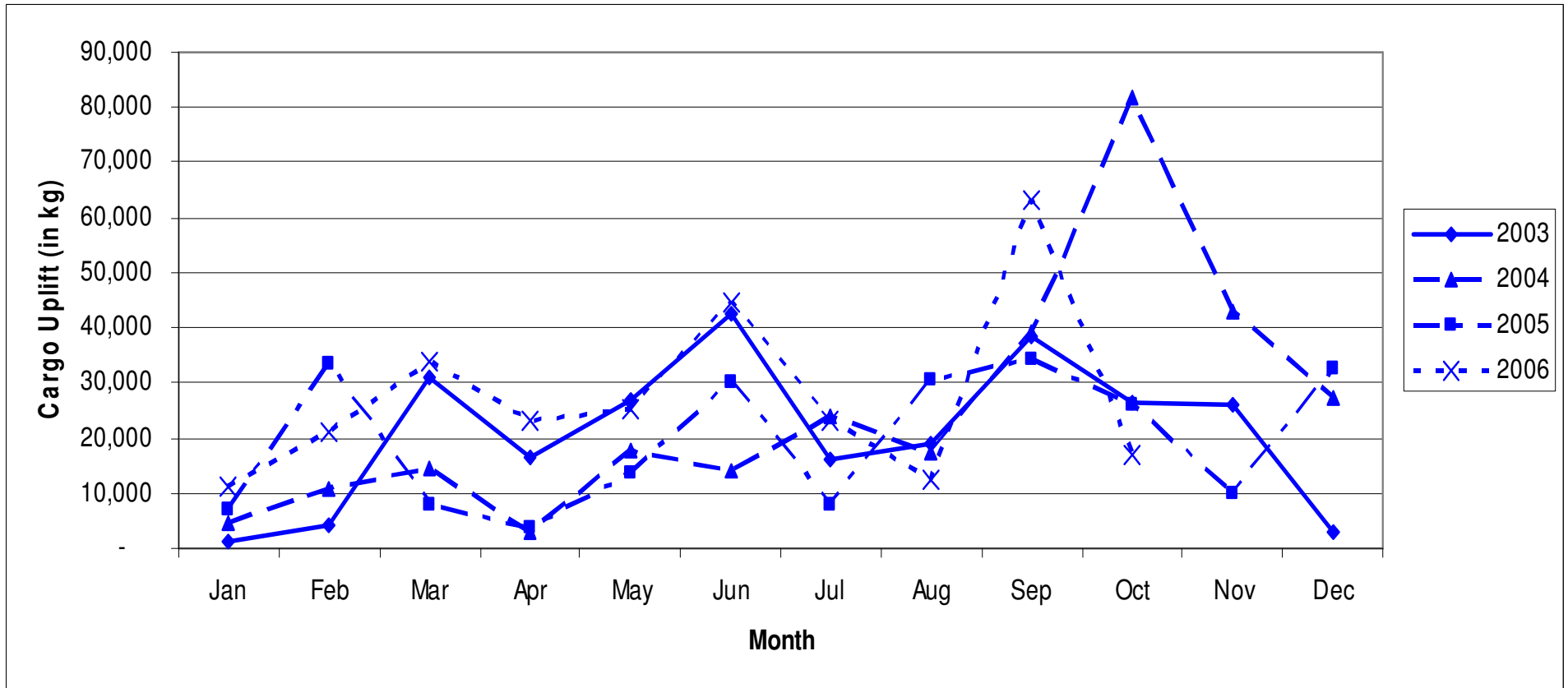
Table 3
Direct Contribution due to LIAT in St Vincent and the Grenadines

	2001	2002	2003	2004	2005
Tourist Air Arrivals	70,686	77,622	78,535	86,721	95,504
Tourist Air Arrivals, due to LIAT	33,680	31,603	33,925	35,529	38,014
(as a per cent of tourist air arrivals)	47.6	40.7	43.2	41.0	39.8
Tourist Expenditure (EC\$M)	132.09	144.04	145.62	154.99	177.91
Tourist Expenditure (EC\$M), due to LIAT	62.94	58.65	62.90	63.50	70.82

Source: Ministry of Tourism and Eastern Caribbean Central Bank

CHART 1

2003-2006 Monthly Cargo Uplift (from St Vincent and the Grenadines)



Source: LIAT (1974) Limited



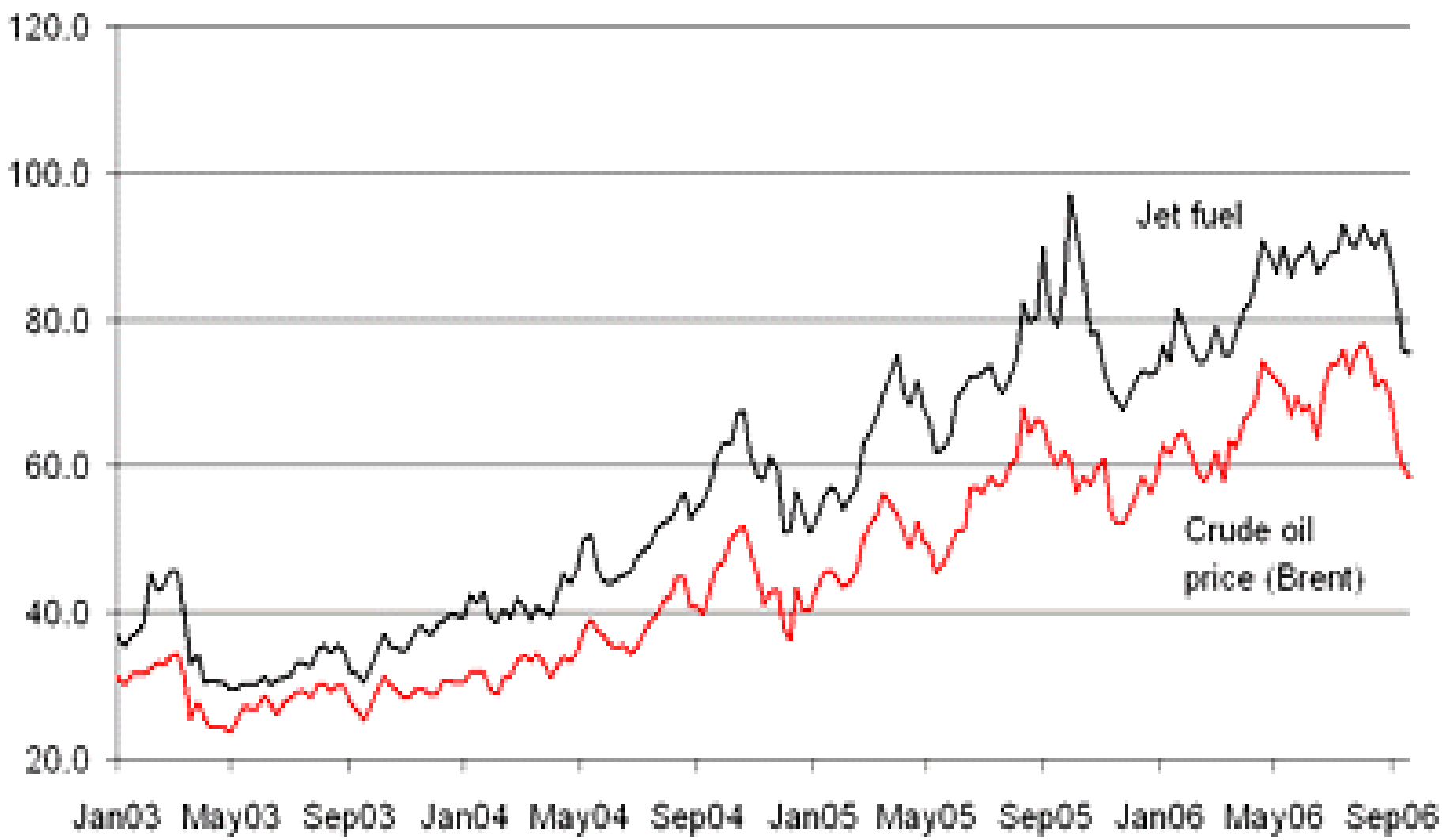
The Case of LIAT (cont'd)

III. Challenges:

- Undercapitalisation
- Debt burden
- Costs pressures
 - High fuel prices (chart 2)
- Rising international interest rates
- “Nature” of the business environment
 - Net losses (table 4)

CHART 2

Jet Fuel and Crude Oil Price (\$/barrel)



Source: Platts, RBS

Table 4
Net Losses (EC\$m) in the Airline Industry, 2005 and 2006^P

Industry/Airline	2005	2006 ^P	Nominal Change	Percent Change
Global Airline Industry [†]	16,200	5,940	(10,260)	(63.3)
US Airline Industry [†]	29,700	14,580	(15,120)	(50.9)
LIAT (1974) Limited*	22	61	39	177.3

Source: International Air Transport Association (IATA) and LIAT (1974) Limited

† Projected March 2006 (IATA)

* Projected July 2006 (LIAT)



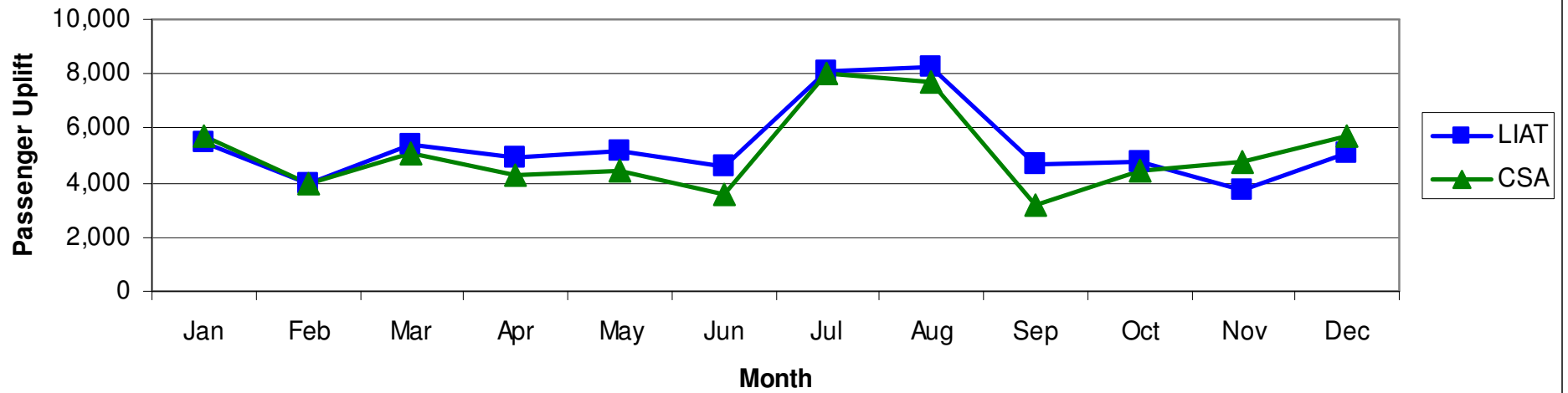
The Case of LIAT (cont'd)

III. Challenges (cont'd):

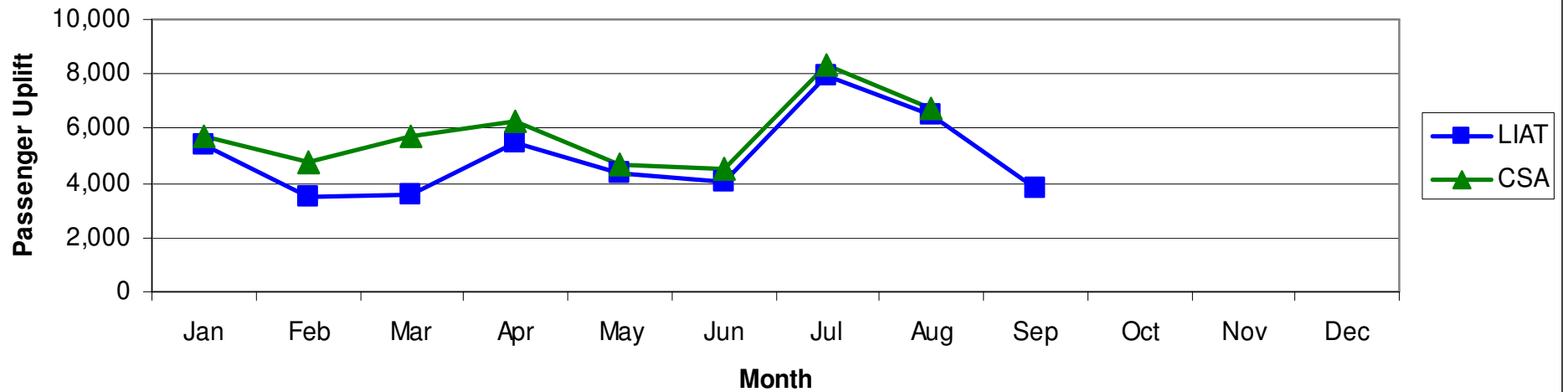
- Increasing competition, especially from Caribbean Star Airlines* (chart 3)
- Broken 'interline' arrangements
- Ageing fleet
- Geographical realities
- Cyclical and directional flow of cargo and passenger traffic

CHART 3

(a) 2005 Monthly Passenger Uplift (from St Vincent and the Grenadines)



(b) 2006 Monthly Passenger Uplift (from St Vincent and the Grenadines)



Source: Caribbean Star Airlines and LIAT (1974) Limited



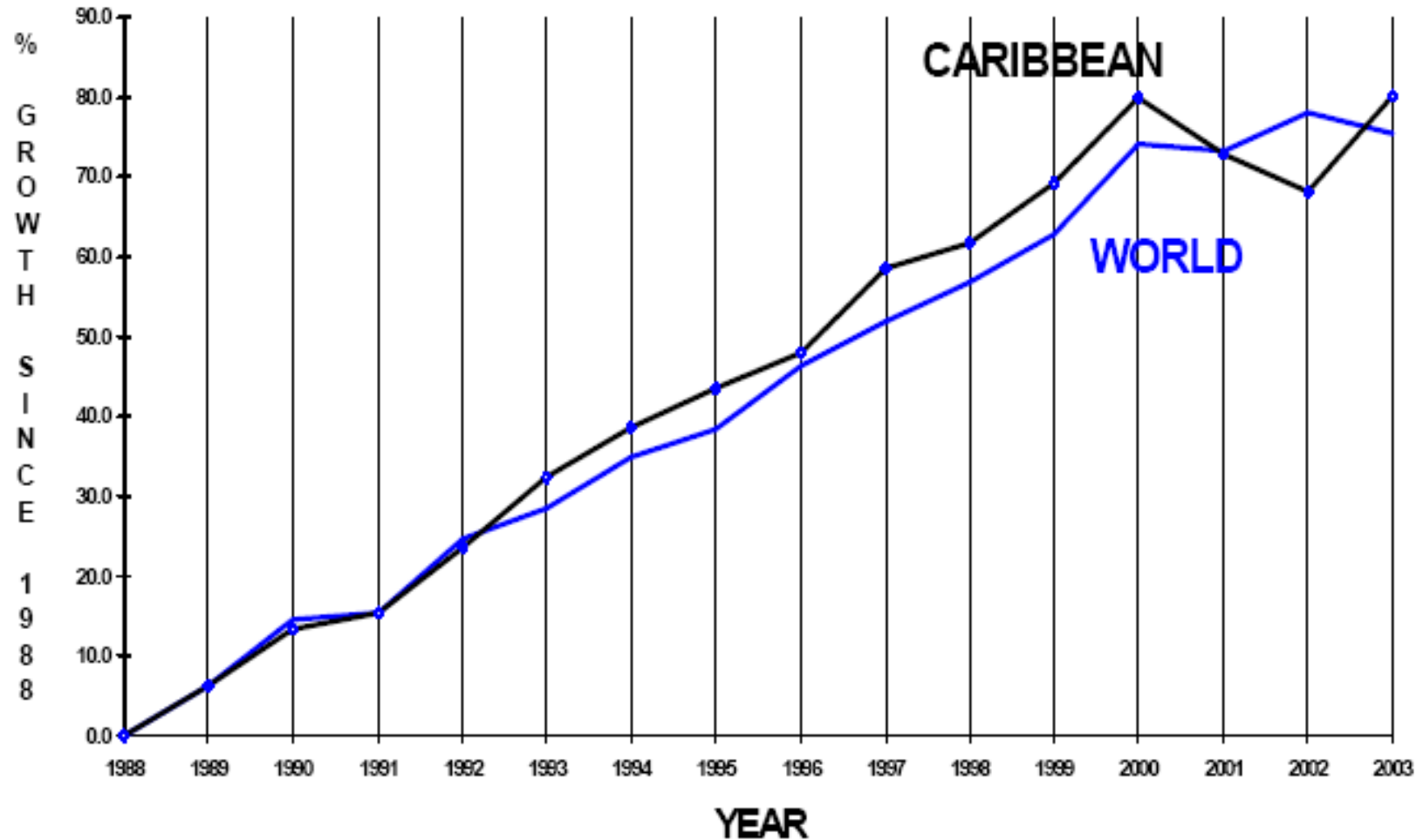
The Case of LIAT (cont'd)

IV. Opportunities:

- Tourism development (charts 4 and 5)
- CWC 2007
- CSME* (re Jamaica)
- Upgrade of ECCAA to Category 1 status
- Consolidation with Caribbean Star?

CHART 4

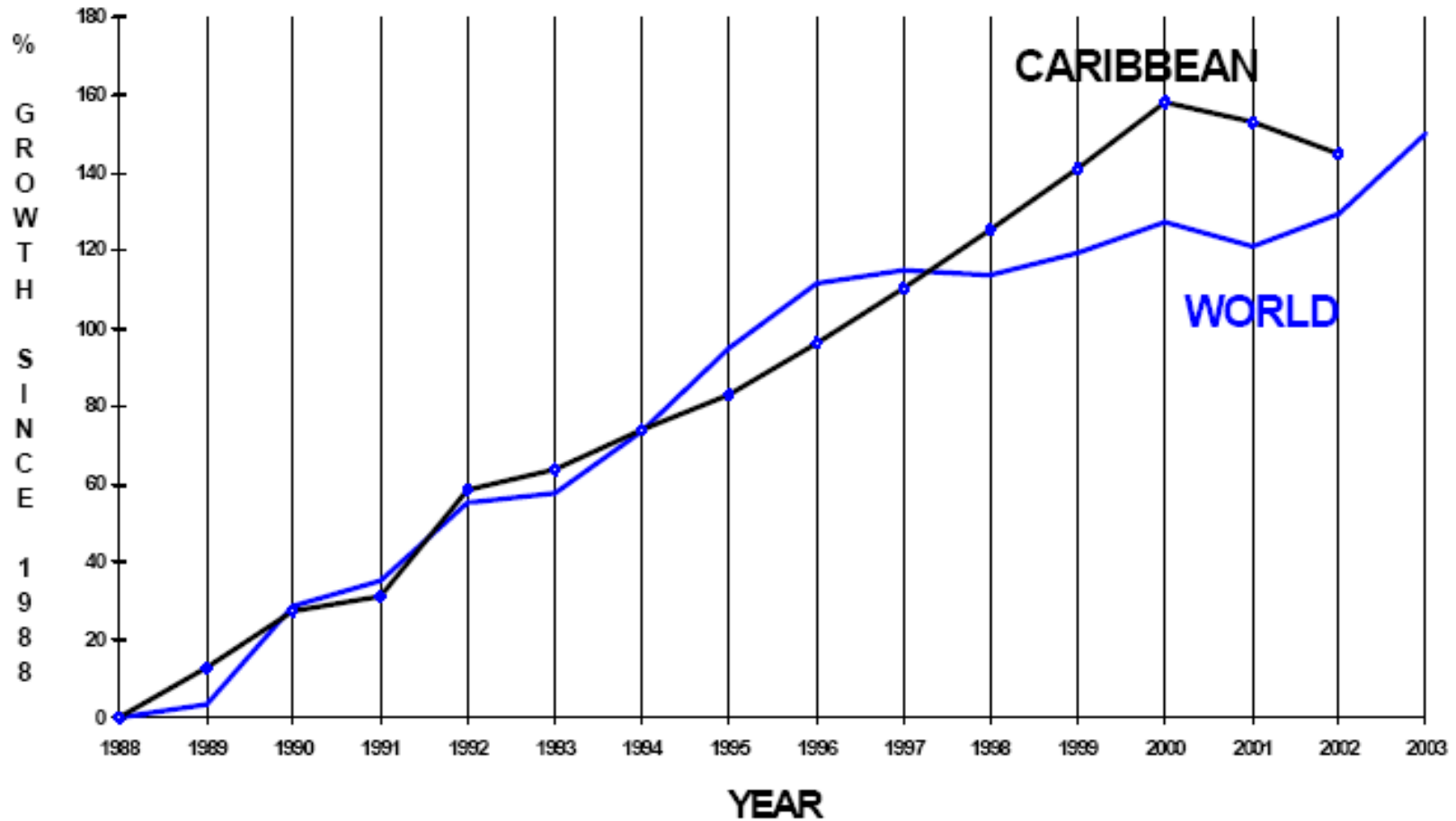
INTERNATIONAL & CARIBBEAN TOURIST ARRIVALS GROWTH PERFORMANCE 1988-2003



Source: 2003 Caribbean Tourism Statistical Report

CHART 5

INTERNATIONAL & CARIBBEAN TOURISM RECEIPTS GROWTH PERFORMANCE 1988- 2003



Source: 2003 Caribbean Tourism Statistical Report



Conclusion

- Decision criteria analysis
- Other considerations:
 - LIAT provides an essential service
 - Capital injections by shareholder gov'ts* have not exceeded LIAT's contribution to the region

**approximately EC\$40m over the last 3 years*

→ Hence, bailing out LIAT is justified



Way Forward

- Alternatives to bailouts (direct subsidies):
 - Indirect subsidisation?
 - Implicit subsidisation? (re route selection)
 - Restructuring?
 - Regulation?
- Conditionalities??

THE END

Thank You

