FORESIGHT

Issue 6: April 2004

FORESIGHT is a monthly commentary on significant issues within the tourism sector. Each month, “Market Focus” discusses economic, social and political factors that underlie demand for tourism now and in the future. In addition, a spotlight is focused on significant tourism issues. This month Foresight is devoted to EU expansion set for 1st May, we profile the ten new member states and review the likely implications for inbound tourism.

Market Focus – The EU Accession States

The European Union will move from being a family of fifteen to one of twenty-five member states on 1st May this year. The new members are; Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia. An additional 75 million Europeans will become EU citizens enabling freer cross-border movement for the purposes of employment, business and leisure.

In 2002 Britain received 673,000 visits from the ten countries (3% of all inbound visits), placing the ten somewhere between Australia and Canada in volume terms. If we look at visitor nights we find that residents of the Accession States accounted for 8.5 million in 2002, with an average stay of 12.5 nights per visit (4% of total visitor nights). So in aggregate terms the Accession States sit between the Irish Republic and Canada in importance. Turning to visitor spend, in 2002 residents of the ten generated £296m (2.5% of total spend) for the British economy, with an average spend of £35 a night. This is below average, and means that the ten are worth about the same as Switzerland. Britain receives around 7% of all outbound visits from the Accession States, compared with a share of 4% of global outbound visits.

For tourism one of the biggest plusses of an expanding EU is that each of the Accession States has to abide by EU aviation competition rules. There are clear signs that this is leading to the birth of new, low-cost, airlines, and sharpening the competitive edge of existing national carriers. For example, Air Polonia now flies to London from a number of cities within Poland and airBaltic has commenced flying to Heathrow from Riga.

Many of the Accession States have, by European standards, young populations, keen to explore beyond their own borders. Although the current generation are economically better off than their parents, foreign travel to relatively “high cost” destinations such as Britain is still something of a luxury. The opening up of new air corridors to Britain, especially at the low-cost end of the market, will be crucial in building an interest in Britain as a short-break or holiday destination. However, it will be essential to drive home “value for money” messages when targeting the leisure traveller in these new markets.

Expansion will generate increased inward investment in the new member states, leading to growth in high-value business travel. The extent to which Britain invests in each of the member states will play a major role in determining the share of this market that can be captured. For example, the amount of bilateral trade between Britain and Slovenia, and the number of major British companies investing there is growing strongly at present, a key factor in explaining the fact that half of inbound visits to Britain from Slovenia are business related.

The Accession States – key facts, figures and insights

Poland

Travel to Britain in 2002

Visits (000s):	188		
Visitor nights (000s):	3,870		
Visitor spend (£m):	87		
Purpose of visit distribution:	Holiday 33%	Business 25%	Other 42%
Britain's market share of outbound visits:	5%		

Economics

GDP per capita in US$s in 2003:	5,300
Rank in world:	50th
IMF forecast for GDP growth in 2004:	4.1%
Latest unemployment rate:	19.1%
Exports to Britain in 2002 (£m):	1,320
Imports from Britain in 2002 (£m):	1,074

Demographics

Total population:	38.6m
Population aged 15-39:	38%
Population aged 60+:	17%
Population on-line:	17%

For a comprehensive **Market Focus** on Poland see **FORESIGHT Issue 3.**

Hungary

Travel to Britain in 2002

Visits (000s):	132		
Visitor nights (000s):	985		
Visitor spend (£m):	30		
Purpose of visit distribution:	Holiday 13%	Business 61%	Other 26%
Britain's market share of outbound visits:	8%		

Economics

GDP per capita in US$s in 2003:	8,400
Rank in world:	43rd
IMF forecast for GDP growth in 2004:	3.5%
Latest unemployment rate:	5.9%
Exports to Britain in 2002 (£m):	749
Imports from Britain in 2002 (£m):	797

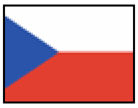
Demographics

Total population:	10.0m
Population aged 15-39:	36%
Population aged 60+:	20%
Population on-line:	12%

Insights

Hungary's population is ageing rapidly; this will place pressure on the economy as a greater proportion of the population become dependent on state pensions. The labour market is very healthy with unemployment around 6%. Hungary is the destination for a large percentage of direct foreign investment in the region, but with full EU membership its heavy industry will face the challenge of meeting EU pollution targets. The agricultural sector will face difficulties in conforming to EU rules on hygiene and animal welfare.

Czech Republic



Travel to Britain in 2002

Visits (000s):	124
Visitor nights (000s):	1,126
Visitor spend (£m):	33
Purpose of visit distribution:	Holiday 42% Business 41% Other 17%
Britain's market share of outbound visits:	5%

Economics

GDP per capita in US$s in 2003:	8,200
Rank in world:	44th
IMF forecast for GDP growth in 2004:	2.6%
Latest unemployment rate:	8.2%
Exports to Britain in 2002 (£m):	1,030
Imports from Britain in 2002 (£m):	1,070

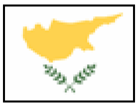
Demographics

Total population:	10.2m
Population aged 15-39:	37%
Population aged 60+:	19%
Population on-line:	26%

Insights

The Czech Republic is unusual among the ten in having a currency that has not depreciated in value against Sterling in recent times, at the end of 2003 £1 cost 48 Czech Koruna, whereas in 1998 it cost 53 Czech Korunas. This makes Britain an increasingly affordable destination as the population becomes better off. The Czech Government is promising to tackle its steep budget deficit by reducing social and welfare spending and increasing taxes. Czech Airlines now flies to London, Birmingham, Manchester and Edinburgh.

Cyprus



Travel to Britain in 2002

Visits (000s):	80
Visitor nights (000s):	1,275
Visitor spend (£m):	82
Purpose of visit distribution:	Holiday 24% Business 18% Other 58%
Britain's market share of outbound visits:	13%

Economics

GDP per capita in US$s in 2003:	19,200
Rank in world:	25th
IMF forecast for GDP growth in 2004:	3.8%
Latest unemployment rate:	4.8%
Exports to Britain in 2002 (£m):	272
Imports from Britain in 2002 (£m):	252

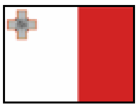
Demographics

Total population:	0.8m
Population aged 15-39:	36%
Population aged 60+:	15%
Population on-line:	16%

Insights

The UN is pushing hard to get an agreement on reunification between the Greek and Turkish sides of the island, with a referendum planned for late April. The Greek Cypriot part of the island will join the EU regardless of whether a reunification deal can be struck. There is a significant volume of travel to Britain from Cyprus by British nationals who live on the island. English is widely spoken in Cyprus.

Malta



Travel to Britain in 2002

Visits (000s):	36
Visitor nights (000s):	325
Visitor spend (£m):	22
Purpose of visit distribution:	Holiday 33% Business 18% Other 49%
Britain's market share of outbound visits:	18%

Economics

GDP per capita in US$s in 2003:	10,400
Rank in world:	39th

IMF forecast for GDP growth in 2004:	3.8%
Latest unemployment rate:	8.8%
Exports to Britain in 2002 (£m):	227
Imports from Britain in 2002 (£m):	172

Demographics

Total population:	0.4m
Population aged 15-39:	34%
Population aged 60+:	17%
Population on-line:	10%

Insights

Similarly to Cyprus, there is a high degree of travel to Britain from Malta accounted for by British ex-pats. English is widely spoken in Malta.

Lithuania

Travel to Britain in 2002

Visits (000s):	28		
Visitor nights (000s):	513		
Visitor spend (£m):	17		
Purpose of visit distribution:	Holiday 21%	Business 64%	Other 15%
Britain's market share of outbound visits:	1%		

Economics

GDP per capita in US$s in 2003:	5,100
Rank in world:	51st
IMF forecast for GDP growth in 2004:	6.2%
Latest unemployment rate:	11.6%
Exports to Britain in 2002 (£m):	150
Imports from Britain in 2002 (£m):	272

Demographics

Total population:	3.6m
Population aged 15-39:	37%
Population aged 60+:	19%
Population on-line:	8%

Insights

The EU will be providing large amounts of help to Lithuania's energy sector in coming years in order for it to close down its nuclear plant at Ignalina which is considered to be unsafe. The Lithuanian President was impeached earlier this month following charges that he helped arrange citizenship for a Russian businessman. Lithuania has the lowest level of Internet access among the Accession States.

Slovakia

Travel to Britain in 2002

Visits (000s):	26
Visitor nights (000s):	107
Visitor spend (£m):	6
Purpose of visit distribution:	Holiday 24% Business 49% Other 26%
Britain's market share of outbound visits:	7%

Economics

GDP per capita in US$s in 2003:	5,800
Rank in world:	49th
IMF forecast for GDP growth in 2004:	4.0%
Latest unemployment rate:	16.7%
Exports to Britain in 2002 (£m):	164
Imports from Britain in 2002 (£m):	179

Demographics

Total population:	5.4m
Population aged 15-39:	39%
Population aged 60+:	16%
Population on-line:	17%

Insights

The Slovak government has been forced to deploy soldiers in Roma areas to help quell social unrest that followed the implementation of welfare cuts. Many EU countries introduced visa requirements in the late 1990s in an attempt to contain the flow of Slovakian Romanies seeking asylum abroad. On accession to the EU these requirements will be lifted and there are concerns regarding possible large-scale "economic tourism" from Slovakia. Austrian Airlines will commence a daily direct flight from Bratislava to Gatwick from 1st May and SkyEurope currently fly to Stansted six times a week.

Slovenia

Travel to Britain in 2002

Visits (000s):	24		
Visitor nights (000s):	121		
Visitor spend (£m):	7		
Purpose of visit distribution:	Holiday 26%	Business 50%	Other 24%
Britain's market share of outbound visits:	n/a		

Economics

GDP per capita in US$s in 2003:	14,000
Rank in world:	33rd
IMF forecast for GDP growth in 2004:	3.0%
Latest unemployment rate:	6.4%
Exports to Britain in 2002 (£m):	166
Imports from Britain in 2002 (£m):	160

Demographics

Total population:	1.9m
Population aged 15-39:	37%
Population aged 60+:	20%
Population on-line:	31%

Insights

Slovenia is the wealthiest of the former Eastern bloc countries to be joining the EU, with a per capita income only a little behind that of Portugal and a high proportion of the population have Internet access. There is a general air of stability in both the political and economic spheres. Bilateral trade between Britain and Slovenia totalled £326m in 2002, an increase of 14% on the 2001. easyjet will start flying to Stansted from the Slovenian capital Ljubljana on 1st May.

Estonia

Travel to Britain in 2002

Visits (000s):	19		
Visitor nights (000s):	76		
Visitor spend (£m):	4		
Purpose of visit distribution:	Holiday 16%	Business 38%	Other 45%
Britain's market share of outbound visits:	n/a		

Economics

GDP per capita in US$s in 2003:	4,900
Rank in world:	54th
IMF forecast for GDP growth in 2004:	5.1%

Latest unemployment rate:	9.4%
Exports to Britain in 2002 (£m):	99
Imports from Britain in 2002 (£m):	335

Demographics

Total population:	1.4m
Population aged 15-39:	37%
Population aged 60+:	21%
Population on-line:	28%

Insights

Estonia constitutes a very small market, with a population no greater than that of Merseyside. Although Estonians voted two to one in favour of joining the EU many expect that it will be businesses rather than the average “man in the street” that will benefit. English is fairly widely spoken and there are high levels of Internet access.

Latvia

Travel to Britain in 2002

Visits (000s):	16
Visitor nights (000s):	93
Visitor spend (£m):	8
Purpose of visit distribution:	Holiday 40% Business 17% Other 43%
Britain’s market share of outbound visits:	1%

Economics

GDP per capita in US$s in 2003:	4,000
Rank in world:	62nd
IMF forecast for GDP growth in 2004:	6.0%
Latest unemployment rate:	10.6%
Exports to Britain in 2002 (£m):	86
Imports from Britain in 2002 (£m):	425

Demographics

Total population:	2.3m
Population aged 15-39:	36%
Population aged 60+:	22%
Population on-line:	13%

Insights

airBaltic introduced six weekly flights to Heathrow from the end of March. The coalition government of Latvia collapsed in early February leading to the resignation of the Prime Minister. Latvia has the lowest per capita income of the Accession States.

What happened to inbound tourism when the EU last expanded?

The last time the EU grew was on 1st January 1995 when Austria, Finland and Sweden became member states. At first glance an analysis of International Passenger Survey data would appear to indicate that we should be cautious about forecasting above average growth in inbound visits from the new member countries.

The number of visits from Austria, Finland and Sweden grew by a healthy 22% between 1994 (the year before membership) and 1996, but visits from the existing member states grew by 28% over the same period.

However, we should not read too much into this comparison. The mid 1990s were a boom time for inbound tourism to Britain, and we cannot realistically compare Austria, Finland and Sweden with states such as Lithuania and Hungary. There were strong pre-existing business links between Britain and the three who joined in 1995 and each had a highly developed market economy, and the citizens of each had long been able (politically and financially) to travel freely to Britain. Indeed, all three had been "virtual members" of the European Union since joining the European Economic Area (EEA) in May 1992.

In 1995 Austria enjoyed the 7th highest GDP per capita globally, Sweden the 8th and Finland the 13th highest. Contrast this with the situation in 2003 for the Accession States, where Cyprus is the top performer at 25th in the league table of GDP per head and Latvia, the poorest, a lowly 62nd. For residents of the Accession States, foreign travel has simply not been affordable, a situation that may change if membership delivers the economic gains that each are hoping for.

In 1986 Spain and Portugal became members of the EU and provide a fairer comparison with the 2004 Accession States in that Spain was ranked 31st in the world league-table of GDP per capita, and Portugal 44th. A year before joining the two nations generated 406,000 visits to Britain, but by 1988 this had grown to 597,000 an increase of 47%, or double the rate (23%) seen in visits from other exiting EU members over the same period.

The growth in visitor expenditure from Spain and Portugal was equally impressive. Between 1985 and 1988 total visitor expenditure in Britain by existing EU citizens increased by 42%, but from Spain and Portugal it increased by 78%.

In 2003 VisitBritain entered the Polish market and has identified both the Czech Republic and Hungary as key emerging market with strong growth potential. No decision has been taken on whether or not to enter these markets but analysis is being undertaken to help understand the potential costs and benefits of investing in these, and a number of other, emerging markets.

Conclusions

In a recent survey of its members the British Incoming Tour Operators Association (BITOA) found that more than 60% expected expansion of the EU to increase visitor numbers, with just 14% believing it would not.

Poland, the Czech Republic and Hungary offer the greatest potential for generating inbound visits to Britain. However, it should be noted that even if inbound visits from the Accession States to Britain was to grow at an annual rate of 10% (two to three times the rate forecast for inbound visits from other European countries) the additional visitor expenditure per annum would only amount to £30m.

Expansion of the EU presents the tourism industry in Britain with opportunities and threats:

Opportunities
- The liberalisation of the aviation sector will be of crucial importance, opening up new, low-cost, routes into Britain
- The large youth market in the Accession States offers a significant opportunity at the budget-conscious city-break end of the inbound market
- Increasing trade between Britain and the Accession States will generate additional high-value business visits

Threats
- The new low-cost airlines operating out the Accession States, and British based carriers, will be able to offer a wave of new low-cost destinations to the British outbound market
- Citizens of the Accession States may choose to travel to sunnier (and cheaper) “beach” destinations in Spain, Portugal, Greece etc, rather than visit Britain.

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Issue 5	March 2004	Australia and New Zealand	West Nile Virus

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