FORESIGHT

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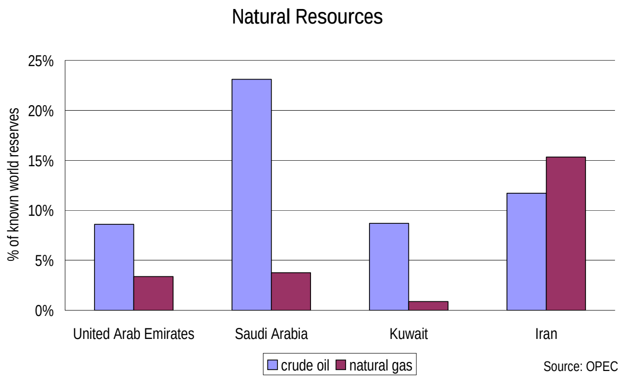
Marketing British Tourism

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, there will be a spotlight focused on significant tourism issues. This month Market Focus covers United Arab Emirates, Saudi Arabia, Kuwait and Iran and we consider the outlook for inbound tourism to Britain in 2005.

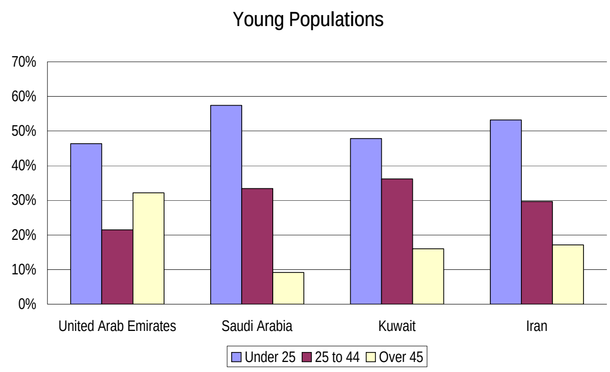
Market Focus – United Arab Emirates, Saudi Arabia, Kuwait and Iran

Taken together these four markets account for 1.0% of inbound visits to Britain (245,000 in 2003) but with a daily spend far higher than average the four account for 3.3% of inbound visitor spend (£389m in 2003). The average length of stay is high across all journey purposes, typically 19 days per visit, well over twice the global figure.



Two characteristics shared by all four markets are a heavy dependence on their natural resources (chiefly oil and gas) for economic prosperity and very "young" populations.

It can be seen from the chart that Saudi Arabia alone holds nearly ¼ of known crude oil reserves, and between them the four control more than half of global oil reserves and a quarter of all known natural gas reserves.



Over half of the population of Iran and Saudi Arabia are younger than 25. The only country with a sizeable "old" population is UAE, but even here less than a third of people are older than 45.

The average annual per capita income is around $20,000 in both the United Arab Emirates and Kuwait. In Saudi Arabia the equivalent figure is $10,000 according to the IMF, but in Iran it is less than $3,000.

Visitor Nationality

The Gulf States very definitely top the league table for Indians emigrating overseas in order to take up employment. According to NRI Worldwide, in 2003 the number of Indian residents moving to UAE was 144,000, with 121,000 moving to Saudi Arabia and a further 54,000 moving to Kuwait.

In the most recent Population Census the UAE government estimated that 75% of the population in 1997 were in fact foreigners, with some believing that this figure could now be as high as 90%. In Kuwait only 30% of the population are Kuwaitis, and in Saudi Arabia it is estimated that there are seven million foreign workers (30% of the population).

The message is that visitors from the three Gulf States discussed here will by no means all be Arabic – marketing needs to recognise and target a multinational, multicultural audience. According to the Foreign and Commonwealth Office, there are 100,000 Britons in UAE, 30,000 in Saudi Arabia and more than 5,000 in Kuwait. The size of the British population in UAE results in the British Embassy having to issue 5,000 British passports per annum.

Latest figures from the International Passenger Survey for inbound visits to Britain by country of origin and nationality in 2003 provide a useful insight here. As can be seen from the following table only one in seven visitors from UAE are UAE nationals, with nearly half being British nationals, and more than one in eight being Indian nationals.

The situation in Saudi Arabia is not quite as extreme, but nevertheless, two-fifths of visitors to Britain from here are British nationals, approximately the same proportion as who are Saudi nationals. A more modest 15% of visitors from Kuwait are British nationals, with the majority being Kuwaiti. Not surprisingly visitors from Iran are predominantly of Iranian nationality.

Visitor Nationality	Visits from Kuwait	Visitor Nationality	Visits from UAE
Kuwait	77%	United Kingdom	49%
United Kingdom	15%	United Arab Emirates	14%
Egypt	2%	India	13%

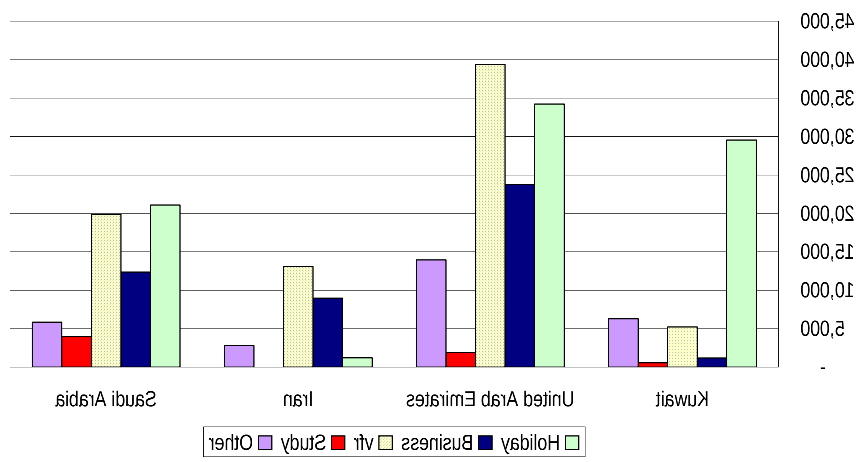
Visitor Nationality	Visits from Iran	Visitor Nationality	Visits from Saudi Arabia
Iran	90%	United Kingdom	39%
United Kingdom	9%	Saudi Arabia	38%
Nigeria	1%	United States of America	4%

High Spenders

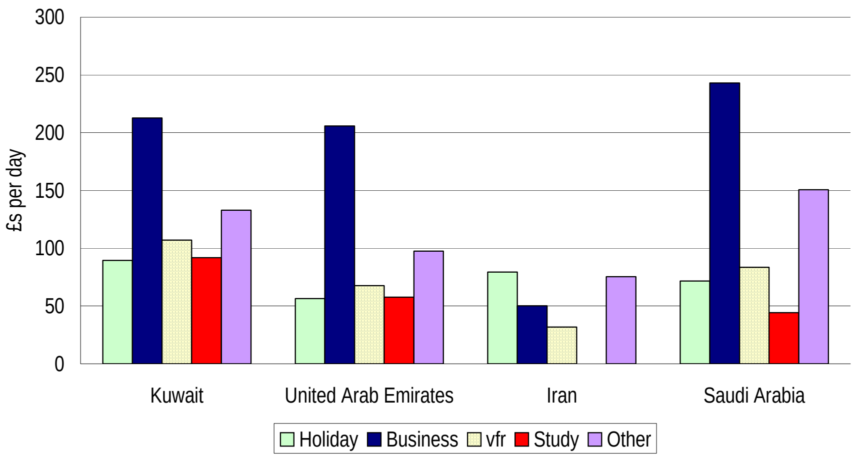
The two charts that follow cover the number of visits from each market by broad purpose, and the average daily spend by purpose. Holiday dominates the reason for visiting Britain from Kuwait, with remaining markets seeing a more even distribution across purposes. Visitors from Iran tend to be coming to Britain to visit friends and relatives or on business, whereas those from Saudi Arabia and UAE visit for either a holiday or to see friends and relatives. Study visits are most important for visitors from Saudi Arabia.

The second chart demonstrates the importance of spending by business visitors from Kuwait, UAE and Saudi Arabia, all reporting average daily spend in excess of £200. Even non-business Kuwaiti visitors spend in the region of £100 a day. The lower GDP per capita in Iran mentioned earlier feeds through to lower daily spend by Iranian visitors, but a small sample size means that these figures should be treated with extreme caution.

Journey Purpose of Visits to Britain in 2003



Spend per Day by Journey Purpose



Country by country insights

United Arab Emirates

Out of the four markets considered this month UAE is in a league of its own when it comes to the accessibility of Britain. Dubai, the primary hub airport in UAE, has frequent direct flights to London, Manchester, Glasgow and Birmingham; with Abu Dhabi enjoying an increasing number of direct airlinks to Britain.

Another area in which UAE is regionally distinct is in terms of its religious and political tolerance. As we have seen, a large proportion of the resident population of 2.5 million are not native to the UAE, with substantial Indian, Bangladeshi and British communities in addition to nationals from many other countries. Following the death of his father in early November, Sheikh Khalifa bin Zayed became President of the UAE in a well-ordered transition of power.

According to the European Travel Commission, 36% of the population have access to the Internet.

Saudi Arabia

There is considerable instability within Saudi society. Some analysts believe that there is a 20% chance that the House of Saud will be overthrown. The country has experienced increasing extremism in recent years, resulting in numerous bomb and gun attacks, primarily targeting the large community of foreign workers in the country – a tactic designed to undermine the economic wellbeing of the country.

In an attempt to stifle some of the dissent the first municipal elections since the 1960s are due to take place early next year, following prolonged pressure from both elements of the domestic population and the international community. However, women will not be permitted to vote. The population of 26 million faces many controls imposed by the Government, including sweeping restrictions on which websites Internet users are permitted to access.

Britain is the fourth largest investor in Saudi Arabia, helping to explain the importance of business visits to Britain from the country. VisitBritain has recently ceased its marketing activity in Saudi Arabia.

Kuwait

Kuwait has spent much of the past decade rebuilding its industrial infrastructure following the Iraqi invasion of 1990 and subsequent Gulf War. Kuwait is a small country, with a population of 2.3 million. The World Bank estimates that the adult literacy rate is currently 83%.

Kuwait enjoys strong educational and business ties with Britain, and the BBC World Service is widely available in Kuwait City.

Iran

Britain enjoys better relations with Iran than does the USA, but tensions over Iran's nuclear ambitions remain a thorny issue. The improved relations between London and Tehran were demonstrated by the assistance provided following the Bam earthquake in December 2003. The British Council re-entered Iran in 2001 after a lengthy absence.

Iran has by far the largest population in the region, with around 68 million residents, but as we have seen, by Middle Eastern standards the population is very poor, despite significant natural resources. The Iran Iraq War in the 1980s swallowed up enormous resources, acting as a brake on economic development. According to the British Council over one million young Iranians are enrolled in private English language schools.

Future prospects

Recent global events have undoubtedly dampened the enthusiasm of many in the Middle East for visiting Britain. If the situation in Iraq can be brought closer to normality and progress can be made more generally on lowering tensions within the region prospects should be bright for future growth in outbound travel to Britain. In conjunction with the British Council, VisitBritain will be opening a "Contact Britain Centre" in Dubai early in 2005, dealing with phone and email enquiries. Initially the service will be for UAE only, but within the next year those from other Gulf States will be able to obtain information and guidance from the Centre.

Issue of the Month – Outlook for inbound tourism to Britain in 2005

Setting the Scene

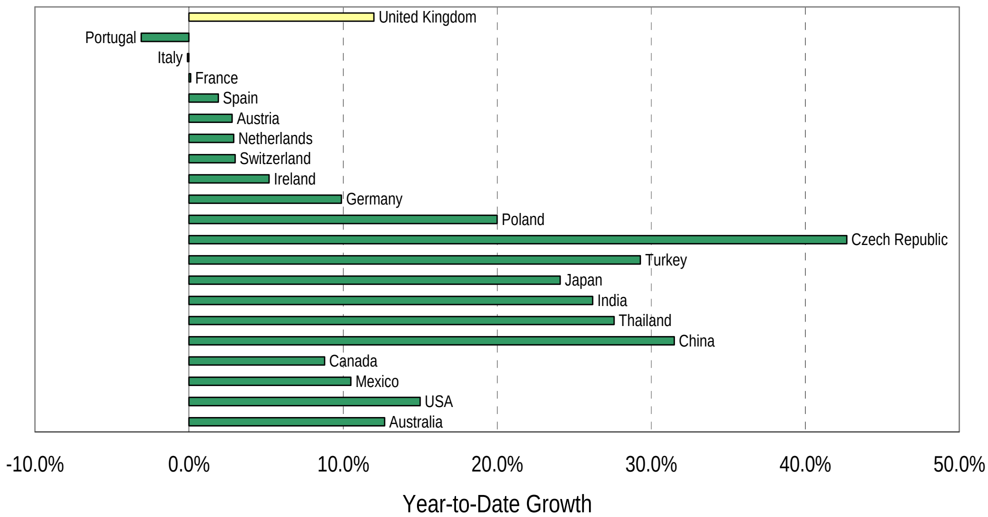
During 2004 the International Passenger Survey has recorded record numbers of inbound visits to Britain in nearly every month, but has reported more modest increases in the amount these visitors are estimated to have spent. Here we take a look at Britain's performance against a number of other destinations, and look ahead to the factors that might help shape prospects for inbound tourism to Britain during 2005.

The latest estimates from the IPS are that in the first ten months of 2004 the number of visits to Britain stood at 23.0m, 11% up on the same period of 2003. Inbound visitor spend was up 7% over the same time period.

The Global Picture

In its latest "Tourism Barometer" the World Tourism Organisation brought together figures relating to the performance of dozens of nations during 2004. The WTO highlighted Britain's strong performance, being well ahead of many other markets across Western Europe.

International Tourism Trends in 2004



However, the chart is a salient reminder that we should sit up and take notice of what is taking place in "emerging" destinations, not just Britain's "traditional" competitor markets.

Poor performers

Considering its low base in 2003, due to the impact of SARS, Canada is having a fairly lackluster year. Mediterranean countries are experiencing weak growth, notably France, Spain and Italy. A possible factor here is the memory of the exceptional heat of summer 2003 acting as a deterrent to some visitors in 2004.

It is noteworthy that Portugal does not seem to have benefited from hosting the Euro 2004 Football Championships. Unfortunately no inbound data for Greece is currently available, but looking at the number of international passenger movements through Athens International

Airport in the January to October period we see a modest annual increase of 8.4%, despite Athens having hosted the Olympic Games in August.

Top performers

Asian countries, notably India and Thailand, are benefiting from increased intra-regional travel and the emergence of low-cost airlines based in Asia offering affordable short-haul foreign travel to the burgeoning Asian outbound market.

Despite the Iraq War Turkey experienced robust growth in arrivals during 2003 and is performing very strongly in 2004, even though it experienced a number of terrorist incidents earlier in the year.

The USA is doing well considering the amount of negative publicity about the imposition of new entry arrangements, but any impact from the additional measures adopted in October will not yet appear in the statistics.

Within Europe it is clear that Czech Republic and Poland, both having become members of the European Union on 1st May, have enjoyed phenomenal growth in inbound tourism. A reawakening of interest in these destinations has been stimulated by their higher profile linked to EU membership, and equally important, the arrival of low-cost airlines in these markets – with the removal of a number of aviation restrictions that had previously existed.

Drivers of inbound tourism to Britain in 2005

As they reach their first birthday as members of the EU, the ten Accession States are set to see continued growth in air connections to Britain, and other short-haul destinations. It is estimated that by the summer Prague will be linked to Britain by 270 flights a week. This should help ensure 2005 sees strong growth in visits to Britain from Eastern Europe, but with Eurozone economies still faltering we can expect far more modest changes in the number of visits from markets such as Germany.

A significant development in the long-haul inbound market during 2005 will be the increased connectivity between India and Britain. By this time next year there should be 40 weekly flights, compared to 19 at the present time. Hopes exist that a similar in route frequency will be agreed for travel to Britain from South Africa in the near future.

The G8 summit is planned to take place in Gleneagles in July 2005. This offers up the potential for extensive coverage of Scotland in the lead up and during the three-day event. However, these summits have become the focus for widespread protests by those opposed to globalisation, environmentalists and many other pressure groups. A risk exists that media coverage may focus on protests, diluting the strength of more positive images of Scotland.

There is a raft of reasons why we should be cautious about prospects for the inbound market from the USA, but notwithstanding these risks we can look forward to steady growth in visits next year. Concerns centre on the “twin deficit” in the USA – with both the fiscal and current accounts being heavily in the red.

A future edition of Foresight will assess exchange rate expectations more fully, but there is a fear that 2005 will see the value of the US Dollar continue to slide, meaning that Britain will become an increasingly expensive destination. The US fiscal deficit is likely to result in increased taxes, reducing disposable income, and slowing the demand for outbound travel. Within the aviation sector a number of US based carriers remain in a perilous financial state, and we cannot rule out the possibility that the network coverage of the weakest companies being scaled back.

The British Government is still optimistic that an agreement will soon be signed signalling that Britain can join an increasingly lengthy list of nations enjoying Approved Destination Status in China. If final agreement is reached this will enable Britain to be marketed as a tourism destination to the Chinese. With huge growth potential it is imperative that ADS is granted sooner rather than later, with many of our key European competitors now having had a head start of well over a year.

Focussing on Asia, 2005 looks set to see rapid expansion in the number of low-cost airlines operating in the region, taking advantage of the rapid expansion of travel – indeed, domestic air travel in India increased at an annual rate of 26% in the period April to September. Long-haul destinations such as Britain run the risk of seeing an expanding outbound market from many Asian countries taking advantage of low-cost short-haul route networks at the expense of more distant, expensive, destinations.

The International Olympic Committee will make its decision on who will host the 2012 Summer Games in July, and whilst the decision itself will have little or no impact in 2005, it may be a major factor in shaping inbound tourism later in the decade.

The two great unknowns

The price of oil has been in the headlines for much of 2004 and despite some softening in the price during the last month it remains a threat to global economic wellbeing. It is not expected that the prices seen in the market during the summer could push the world into recession, but if these levels were sustained for a number of months, economic growth would decelerate, acting as a constraint on growth in international travel.

During 2004 a number of countries have been affected by international terrorism, including Spain, Turkey, Egypt and Saudi Arabia. A direct attack in Britain or on British interests in 2005 could significantly depress inbound visitor numbers from many key markets.

Inbound Forecast for 2005

There has been considerable speculation that what the WTO has termed "unprecedented" growth seen in many markets during 2004 can in part be accounted for by the release of pent-up demand, following many years of crises. Perhaps the most important determinant of prospects for 2005 relates to how much, if any, pent-up demand remains in the pipeline.

VisitBritain expect 2004 to be a record year for the number of inbound visits, but the value of these visits is forecast to remain below the record level achieved in 2000. For 2005 VisitBritain forecast a year of steady growth in the volume and value of inbound tourism, resulting in a record number of inbound visits, the value of which should challenge the previous best ever figure.

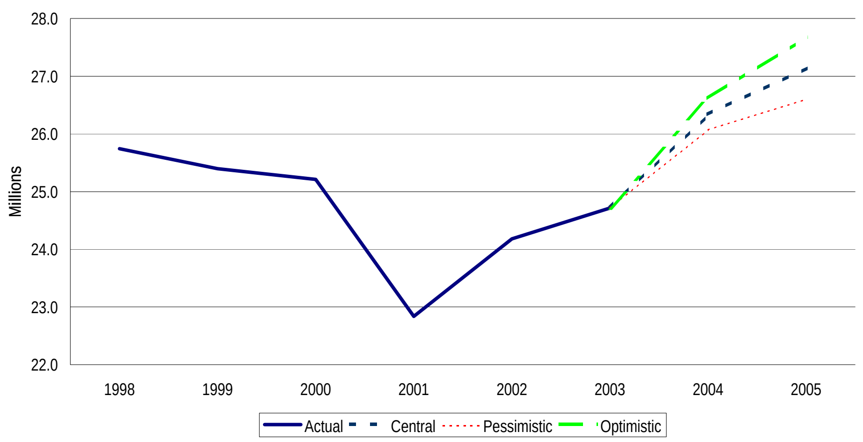
The following table summarises the forecasts:

	2005 Visits Forecast		2005 Spend Forecasts	
	Total (m)	Yr-on-Yr (%)	Total (£bn)	Yr-on-Yr (%)
Pessimistic	26.6	2.0	12.5	2.1
Central	27.1	3.0	12.7	3.2
Optimistic	27.7	4.0	13.0	4.3

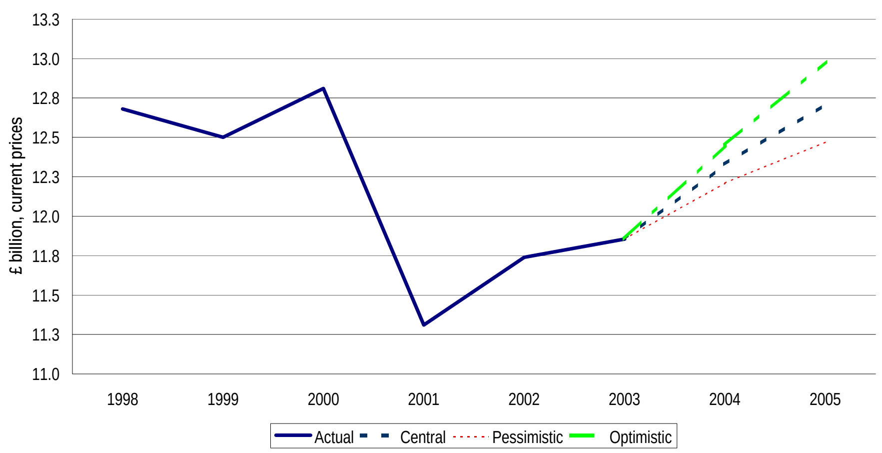
These forecasts are dependent on normal circumstances prevailing and do not factor in unexpected shocks caused by terrorism, health scares and other crises such as Foot and Mouth Disease.

The following charts help to place the forecasts in the context of recent trends.

Forecast for Inbound Visits to Britain 2004 and 2005



Forecast for Value of Inbound Visits 2004 and 2005



Undoubtedly 2005 will be peppered with events that have not been foreseen, but provided that these events are minor in their impact on inbound tourism to Britain a year of steady growth, leading to an all-time high in the number of inbound visits looks set to unfold.

Index to earlier Issues of Foresight

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