

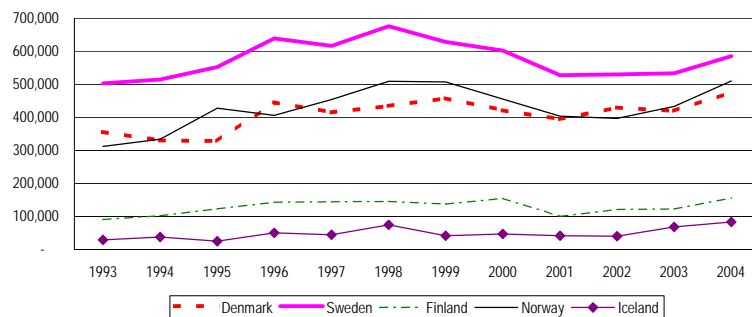
FORESIGHT is a monthly commentary on significant issues within the tourism sector. Each month "Market Focus" discusses economic, social and political factors that underlie demand for tourism now and in the future. In addition, a spotlight is focused on a significant tourism issue. This month Market Focus covers the Nordic region and Iceland. Issue of the Month takes a look ahead to consider the impact and significance of the next generation of aircraft that will soon be bringing inbound visitors to Britain.

### Market Focus – The Nordic region and Iceland

Early indications are that 2005 was a year of strong growth in the number of visits from Nordic countries to the UK, continuing the steady progress of recent years. In 2004 Britain welcomed a total of 1.8 million visitors from these five markets according to figures from the International Passenger Survey<sup>1</sup>, representing 6.5% of all inbound visits. However, with only Iceland generating an average spend per visit exceeding the global inbound average the markets accounted for just 5.5% of inbound visitor spend, or £722m.

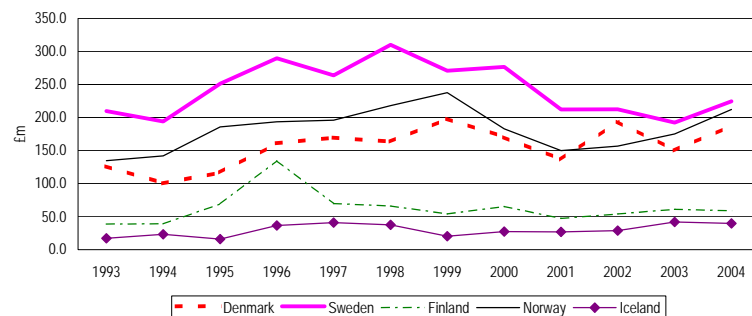
From the charts that follow we can get a deeper understanding of how the volume and value of visits originating in these markets has evolved over the past dozen years.

Trends in visits to the UK



First of all we can see that Sweden has generated the most visits and the highest value throughout the period. It is apparent that steady growth in the mid 1990s was replaced with a fall around the turn of the century, but with subsequent recovery in the past couple of years.

Trends in visitor spend in the UK



### Market Profiles

New VisitBritain 'Market Profiles' are now available for all markets in which VisitBritain operates, and these can be downloaded from [www.visitbritain.com/research](http://www.visitbritain.com/research). Below we provide a brief update on developments in the four major Nordic markets, but with more extensive discussion on Iceland, as this market is not covered by the 'Market Profile' series.

## **Norway**

There are strong indications that forthcoming two-year wage negotiations will lead to strong wage growth, especially in the services sector. Public-sector workers have also called for substantial increases indicating that inflationary pressure may increase in the coming months. Norway's balance of payments has received a boost from the higher price of oil, but nonetheless this is a further factor driving up prices and potentially wages.

British Airways recently announced the withdrawal of its service from Oslo to Manchester.

## **Sweden**

A General Election is due in September this year and the Economist Intelligence Unit is forecasting that this will result in a change of government. The economic outlook remains bullish, with economic growth in 2006 expected to be 3.2%.

Swedish firms and consumers remain in optimistic mood according to the latest surveys conducted by the National Institute of Economic Research. New orders in industry and construction have increased considerably, while consumer confidence in January was at its highest level for five years.

Despite having a population happy to adopt the latest communications technology Sweden is among the top consumers of newspapers in the world, with almost every household taking a daily paper.

The Swedish government has taken a strong stance on environmental matters, saying it believes it could develop enough alternatives to be able to stop using oil as a source of energy within fifteen years. Furthermore there are plans for a SK100 environmental tax on airline tickets from May 2006. The main Scandinavian airline, SAS, states that this could lead to a 6% drop in revenue.

## **Denmark**

Retail sales remain strong in Denmark, but the most recent survey of consumer confidence revealed a drop in sentiment after six straight months of improvement. It remains to be seen whether confidence will be further dented by either the furore over cartoons published in the press that offended Muslims, or by the confirmation that a buzzard found dead south of Copenhagen tested positive for the H5N1 strain of avian influenza.

London City has recently been added to the SAS network from Copenhagen with a double daily service targeting business travellers.

## **Finland**

At the start of 2006 the incumbent Finnish President narrowly secured a second six-year term of office. A study published in late February revealed that in 2004 some 12% of the Finnish population were below the EU poverty risk line. While economic policy has focused on economic and employment growth that increased Finnish welfare in general, it has apparently widened income disparities.

## Iceland

Iceland has a resident population of less than 300,000, similar to that of Shropshire, though the population is increasing at almost 1% per annum. For such a small population the nation has remarkably good air links with Britain. Iceland Air serves Heathrow up to twice a day from Reykjavik with Glasgow receiving four to five flights per week during the summer months and Manchester two flights per week. British Airways recently introduced a new summer service from Reykjavik to Gatwick operating five times a week.

Iceland's first low-cost airline, Iceland Express, started flying in February 2003 and now has daily service (increasing to eleven flights per week during the summer months) from Reykjavik to London Stansted. It is perhaps no coincidence then, as was shown in the earlier chart, that the number of visits from Iceland to Britain has been increasing sharply since 2003.

Figures from the United Nations World Tourism Organisation indicate high levels of outbound travel from Iceland, with an average of one outbound trip per year per person – similar to the propensity for outbound travel from Britain. The UNWTO estimate that the value of all this outbound travel was \$521m in 2003. During 2003 residents of Iceland spent an estimated £40m in the UK according to the IPS, which in US dollars equated to \$65m. So, the UK has a market share (in value terms) of almost 13% of the Icelandic outbound travel market.

## Economics

The Icelandic population has a high standard of living. Figures from the International Monetary Fund show that GDP per capita in purchasing power parity terms (that's taking account of different costs of living from one country to another) is expected to be \$37,913 in 2006 making Iceland the 6<sup>th</sup> richest country in the world on this measure.

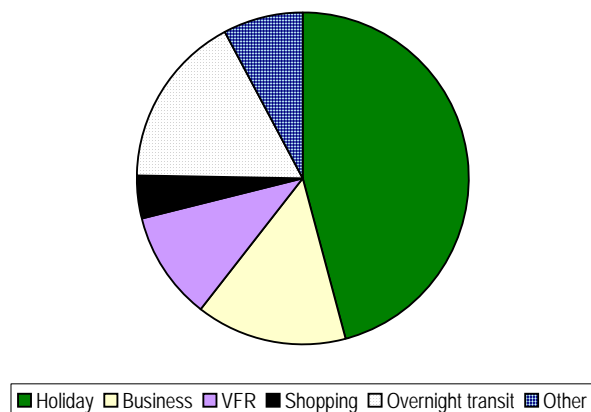
The fishing industry is still extremely important in Iceland, but it now accounts for less than 10% of GDP as tourism and the service sector have increased in importance. Unemployment is exceptionally low at less than 2% of the labour force, with inflation steady at between 3%-4% per annum.

As is the case across the Nordic region, Internet penetration is high; figures from the European Travel Commission 'New Media Review' show that 76% of the population had Internet access at the end of 2005.

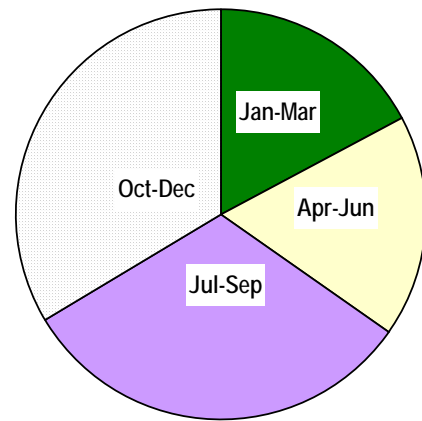
## Market characteristics

We can see from the chart that holiday trips account for the largest share of visits (and visitor spend) from Iceland. The share of visits that are overnight transit is higher for Iceland residents than many other markets but by contrast trips to visit friends and relatives are responsible for a relatively small slice of the pie.

Visits from Iceland in 2004

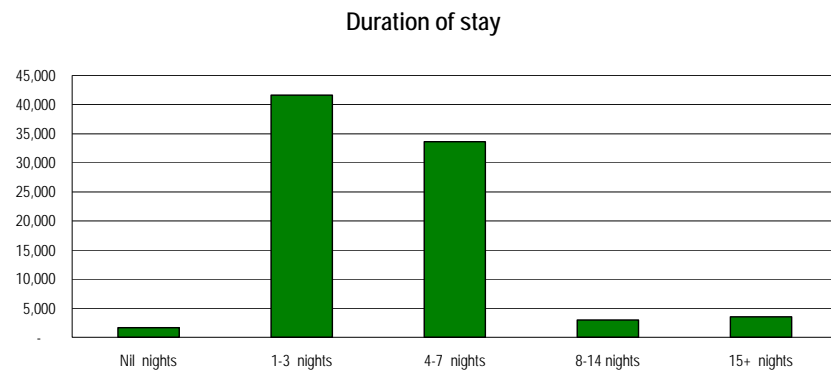


Considering the high proportion of visits with 'holiday' as the main motivator it is perhaps a little surprising to see just how important the October to December period is in terms of visits to the UK from Iceland.

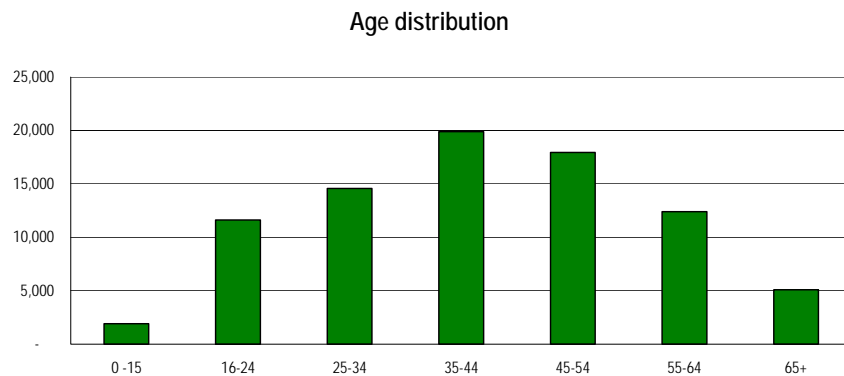


It is important to recognise, however, that the International Passenger Survey is a 'sample survey'. This means that analysis of markets with relatively few visits to Britain is purely indicative, as sample sizes are very small.

Looking at duration of visit we can observe that this is a 'short stay' market, a situation in part due to the significant number of overnight transit visits. Less than 1 in 12 visits lasts more than a week.



Finally taking a look at the age distribution of visitors from Iceland reveals very few visits by children but that all other age-bands are well represented, with those aged 35-44 making the most trips.



### A solid performance

It is probable that when full year figures become available for 2005 at least a couple of the Nordic markets will have set new records for the number of visits to Britain, and potentially for the amount of visitor spending too. Economic performance across the region remains encouraging, providing a promising backdrop for further increases in travel to Britain during the current year.

## **Issue of the Month – Next generation aircraft**

Change is very definitely 'in the air' over the months and years ahead. By the end of 2006 the Airbus A380 super-jumbo will be bringing visitors from Singapore to London's Heathrow Airport. The twin-deck aircraft is the world's largest passenger carrying jet, with a capacity far in excess of its nearest competitor, but the constructor of that competitor, Boeing, has new aircraft of its own that could be an equally important development for Britain's future long-haul inbound visitors. In 2004 30% of Britain's inbound visitors came from outside Europe. If this is not evidence enough of the importance of long-haul travel to the UK visitor economy then the fact that spending by visitors from outside Europe in 2004 reached £6.5bn, 50% of all inbound visitor spending, certainly is.

### **The 747 - a symbol of long-haul travel, but for how much longer?**

On 22<sup>nd</sup> January 1970 the first fare-paying passengers to travel to Britain onboard a Boeing 747 touched down at Heathrow Airport. Sceptics doubted whether the aircraft would be a success and whether the cost of changes needed at airports in order to cater for the 'jumbo' were worthwhile. Heathrow had undergone £11m (£121m in today's prices) worth of alterations, including the construction of the UK's first ever moving walkways in order to prepare for the arrival of the new plane.

The fact that three and a half decades later the 747 is still the workhorse of long-haul aviation, with over 1,400 having been built, tends to indicate that the sceptics misread the willingness of international travellers to embrace long-haul journeys as part of their travel habits. British Airways currently operates a fleet of 57 747-400s, but it is widely expected that the airline may make an announcement regarding future purchase of aircraft within the next couple of years.

### **The A380 is on its way**

Most discussions about the Airbus A380 involve analogies relating the plane's size to London buses or football pitches, but what is really important is whether or not the plane will unlock growth potential in long-haul inbound travel to Britain, most notably from emerging markets across Asia. Capable of carrying 555 passengers in a three-class configuration, and 850 passengers in an 'all economy' configuration the aircraft offers up the prospect of bringing 33% more passengers per touchdown to the UK than can be achieved by operating a typically configured 747.

Airbus believe that airspace will remain congested around the world's hub airports in the decades to come as passengers continue to demand flights to and from large metropolitan regions. Responding to this belief has led to the development of the A380 'super-jumbo'. The new twin-deck plane will burn 12% less fuel per seat than a 747 according to Airbus, and despite being much larger than its competitor it will be far quieter.

The Heathrow debut for the A380 may be as early as the end of April, but the first passenger carrying flight is likely to be towards the end of 2006 or early in 2007. The aircraft is set to be the star attraction at this year's Farnborough International Airshow (open to the public on 22-23 July). The last time the show was held in 2004 it attracted 133,000 trade visitors and 110,000 public visitors.

Heathrow currently handles some 66 million passengers annually and airport officials see the A380 as an opportunity to meet passenger growth without a tremendous increase in the number of flights. It is estimated that by 2016 one in every eight flights at Heathrow could be operated by an A380. This would equate to an estimated 60,000 A380 aircraft movements per year, allowing almost 10 million additional passengers to fly to or from Heathrow each year without an increase in the number of flights.

### Where will the A380 fly to Britain from?

Technical difficulties have resulted in a six month delay in delivery of A380s, meaning that it is going to be a number of years before there are more than a handful of daily take-offs or landings at UK airports. Nevertheless by late 2006 or early 2007 a Singapore Airlines A380 will land at Heathrow carrying fare-paying visitors to Britain.

It will be several more months before other airlines bringing visitors to Britain are able to operate A380s. So far Airbus has received orders for 159 planes from 16 airlines. The table lists airlines operating **long-haul** flights to the UK to have placed orders thus far. So it will predominantly be visitors from the Middle East, Asia and Australasia arriving in Britain onboard A380s for the foreseeable future.

| Airline                    | Date        | Markets                               |
|----------------------------|-------------|---------------------------------------|
| Emirates                   | 2009        | United Arab Emirates                  |
| Ethad                      | 2007        | United Arab Emirates                  |
| Korean Airlines            | 2008        | South Korea                           |
| Malaysia                   | 2007        | Malaysia and Australasia              |
| Qantas                     | 2007        | Australia                             |
| Qatar                      | 2009        | Qatar                                 |
| Singapore                  | 2006        | Singapore and Australasia             |
| Thai                       | 2009        | Thailand and Australasia              |
| Virgin Atlantic            | 2008        | USA, Japan, Hong Kong and Australia   |
| <i>China Southern</i>      | <i>2007</i> | <i>Not operating to UK at present</i> |
| <i>Kingfisher Airlines</i> | <i>2010</i> | <i>Not operating to UK at present</i> |

Virgin Atlantic is the only UK based operator to have placed an order for the planes, and will be the only airline bringing visitors from the US to Britain. Although not currently flying to the UK the table highlights the fact that China Southern and Kingfisher (an Indian based carrier) have each placed orders, offering the prospect that visitors from two of our inbound markets with the greatest growth potential may be using the plane with the highest capacity in the future.

### Ground requirements

The A380 will not be able to land at all airports, with Heathrow being ready to receive the plane in 2006, the year of the airport's sixtieth birthday, and Gatwick from 2007, though the A380 would be able to land safely at Gatwick if diverted before stands are reconfigured. Some 25 airports worldwide will be A380-ready by the end of 2006 and around 35 more by 2010. With appropriately designed stands and procedures the A380 can be loaded and off-loaded more quickly than a 747 despite the higher number of passengers.

Earlier reference was made to the cost of alterations needed at Heathrow before the Boeing 747 could use the airport. The pending arrival of A380s has resulted in the need for investment too, with BAA spending £105m on the new Pier 6 at Terminal 3 alone. An 80m wingspan means taxi-ways need to be widened, costing around £56m along with other alterations to the apron. Investment is needed to cater for the higher passenger volumes associated with A380s in baggage halls, gate rooms and check-in areas, along with developing stands at the new Terminal 5, equipment for fuelling, loading and off-loading cargo and baggage etc. This all means the cost of preparing Heathrow for the A380 will be £400m spread over five years.

It is perhaps these 'softer' factors that may be as influential in a visitor's overall satisfaction with a journey as the aircraft itself – if 850 passengers disembark from a single aircraft then the challenge is to ensure Immigration and baggage reclaim does not take excessive time or lead to overcrowded conditions inside the Terminal building.

A ramping up in the number of passengers arriving and departing at an airport has implications beyond the perimeter fence. Ground transportation infrastructure, including public transport, will need to respond accordingly to ensure that the ability of the airfield to deal with more passengers per take-off or landing does not result in increased congestion and delays on surrounding roads and public transport networks.

### The Boeing view of the future

Unlike Airbus, Boeing is bargaining on customers demanding more point-to-point routings rather than the traditional hub-and-spoke approach to long-haul travel in the future. This has resulted in the 787 'Dreamliner' being developed, which, according to Boeing, "will bring big-jet ranges to mid-size airplanes" with "unmatched fuel efficiency".

Essentially what this means is that an airline will not need to identify a large enough point-to-point long-haul market to fill 400 plus seat planes, as is often the case today, instead the 'Dreamliner' will seat between 210 and 250 passengers and be capable of flying up to 16,300 kilometres. Boeing estimate that the aircraft will enable **450 new 'city pairs'** to be linked by direct flights, thereby expanding the long-haul market without placing increased pressure on capacity pinch-points at the busiest hub airports.

Not only does a smaller plane mean that a route can be sustainable at lower patronage levels, but it means that smaller airports can be served than is the case for planes such as the 747 or A380. The first test flight is expected during 2007 with deliveries commencing in 2008. At present Boeing has confirmed orders for 291 'Dreamliner' planes. The table lists airlines currently operating **long-haul** flights to the UK that have placed orders for the new plane. There is, as yet, no certainty that the airlines set to operate 787s will use the 'Dreamliner' on routes to the UK.

| Airline         | Date | Markets                 |
|-----------------|------|-------------------------|
| ANA             | 2008 | Japan                   |
| Air New Zealand | 2010 | New Zealand/Los Angeles |
| Northwest       | 2008 | USA                     |
| Continental     | 2009 | USA                     |
| JAL             | 2008 | Japan                   |
| Air China       | 2008 | China                   |
| China Eastern   | 2008 | China                   |
| Korean Air      | 2010 | South Korea             |
| Air Canada      | 2010 | Canada                  |
| Air India       | 2008 | India                   |
| Qantas          | 2009 | Australia               |
| Kenya           | 2010 | Kenya                   |

### Cabin environment

Airlines in emerging markets such as China and India feature in the above table, as do some North American carriers. Not only will the 'Dreamliner' enable these operators to fly to less congested UK regional airports if they believe sufficient demand exists, but Boeing have made much of the fact that passengers will benefit from a much improved cabin environment, including higher humidity levels and windows that are 65% larger than in comparable aircraft.

The demands of air passengers relating to cabin environment are always evolving, with on the one hand short-haul passengers willing to trade lower legroom for budget fares and businesses being less willing to pay Business Class fares, and on the other hand the emergence of

'premium economy' as an option on an increasing number of long-haul carriers' fleets. It is interesting to note that figures from the International Passenger Survey reveal that back in 1993 19.8% of airborne inbound visitors to Britain travelled either First or Business Class, whereas in 2004 the figure stood at 13.8%.

### **The speed, distance, time equation**

With the demise of Concorde the maximum cruising speed across all long-haul jet types is around 0.85 Mach, or 903kph. This means that any journey from South East Asia to Britain is going to take around twelve hours non-stop, and a journey from Australasia to Britain will take the best part of twenty-four hours with a stop en route. People 'value' time, and the need to disembark and re-board an aircraft when travelling long-haul simply to allow for refuelling and cleaning acts as a weight, or 'penalty', on the value of time.

It is to minimise the 'inconvenience factor' that both Boeing and Airbus have invested in developing ultra long-range jets. The Boeing 777 Long Range jet is capable of flying 17,400km non-stop, and Airbus is developing the A350-800 capable of flying 16,300km non-stop with a full payload.

There have been several publicity stunts demonstrating how far a passenger jet can travel without stopping. In 1989 Qantas flew a 747 from Sydney to London non-stop, taking twenty hours and nine minutes, though with no freight or passengers onboard. More recently a new long-range Boeing 777-200 flew from Hong Kong to London "the wrong way round" – that is across the Pacific, North America and finally the Atlantic Ocean. The 21,601 kilometre long journey took 22 hours and 42 minutes, carrying both journalists and Boeing executives. According to Boeing the 777-200LR is capable of connecting just about any two cities around the globe non-stop. Pakistan International Airlines will be the first to fly the new plane.

However, do tomorrow's long-haul visitors want to be inside an aircraft cabin for this long, even if it can reduce overall journey time by three or more hours? Qantas recently took the decision that, given current technology and aircraft speeds, it remains impractical to operate routinely from Australia to Europe non-stop. A further consideration for airlines pondering the merits of ultra long-haul flights is growing consumer concern over the possible link between sustained periods without exercise onboard aircraft and an increased risk of deep vein thrombosis.

### **An eye for the competitors 'big idea'**

At first sight it looks as though Airbus believe fervently that "big is better", whereas Boeing believe equally strongly that "smaller is smarter" when second guessing the demands of future generations of long-haul leisure and business visitors. However, each has its own insurance policy just in case the other's view of the future proves to be the more accurate.

Airbus plans to compete against the 'Dreamliner' with its new A350 plane set to take to the skies from 2010 carrying around 250 passengers up to 16,300 kilometres. For its part Boeing has announced plans for a new generation of 'stretched' 747s, with the 747-8 capable of seating 450 passengers, some 34 more than the current 747-400. Being only slightly larger than its current equivalent Boeing note that the 747-8 will be able to fly into all 210 airports currently welcoming 747s compared to just a few dozen airports able to handle A380s. A 747-8 will burn 14% less fuel per passenger than the A380 according to the manufacturer. No airlines have as yet placed confirmed orders for the passenger version of the new plane.

The table provides a snapshot of key facts and figures relating to the new breeds of aircraft discussed here, including routes on which the aircraft may operate to the UK.

| Aircraft              | Typical 3-class passenger capacity | Maximum speed (Mach) | Range (kms) | Non stop to London from |
|-----------------------|------------------------------------|----------------------|-------------|-------------------------|
| 747-800               | 450                                | 0.855                | 14,815      | Singapore               |
| 777-200 LR Worldliner | 301                                | 0.840                | 17,446      | Perth                   |
| 787-8 Dreamliner      | 250                                | 0.850                | 15,700      | Beijing                 |
| A380                  | 555                                | 0.890                | 15,000      | Kuala Lumpur            |
| A350                  | 253                                | 0.860                | 16,300      | Tokyo                   |

## UK connectivity – a new dawn

The fact that Airbus and Boeing have adopted dichotomous approaches to supplying the aircraft of the future may result in a 'win win' situation for inbound tourism to the UK. Not only will the giant A380 enable congested hub airports in the London area handle more passengers per touchdown, but the 'Dreamliner' could enable UK regions to be served by direct flights from a plethora of emerging long-haul markets. Additionally the new generation of aircraft offer greater fuel and operating efficiency, thereby opening up the possibility of lower fares as well as cabin environments significantly more comfortable than today. If UK airports and their surrounding infrastructure receive sufficient investment to take full advantage of these new opportunities the UK's inbound visitor economy will benefit greatly from the next generation of long-haul aircraft.

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