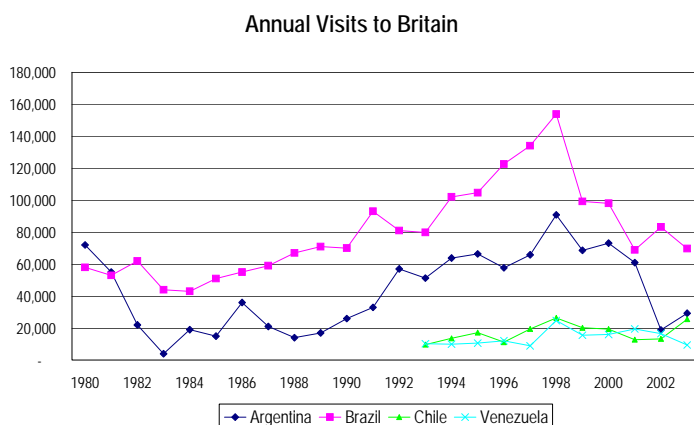


FORESIGHT is a monthly commentary on significant issues within the tourism sector. Each month, "Market Focus" discusses economic, social and political factors that underlie demand for tourism now and in the future. In addition, there will be a spotlight focused on significant tourism issues. This month the markets Brazil, Argentina, Chile and Venezuela are examined and we take a look at what climate change might mean for the tourism industry in Britain.

**Market Focus – Brazil, Argentina, Chile and Venezuela**

South America is a long way from Britain with relatively few direct flights compared with similarly distant long-haul destinations in Asia. The economic situation in the region has been highly volatile in recent years, most notably so in Argentina, which defaulted on its international debt in 2001 resulting in a deep economic crisis.

However, it is not all bad news, each of these countries is now benefiting from the general global economic upswing, with Venezuela in particular benefiting from high oil prices. The economic improvement fed through to stability in the number of visits to Britain in 2003, with 134,000 (0.5% of total) trips according to the International Passenger Survey, marginally up on the 132,000 seen in 2002. The average number of days spent in Britain by visitors from these four nations in 2003 was 21, nearly three times the average for all inbound visits. The value of the four markets was £162m, with an average spend per visit of £1,210, compared to the total inbound average of £475 per visit, emphasising the importance of these markets to Britain.



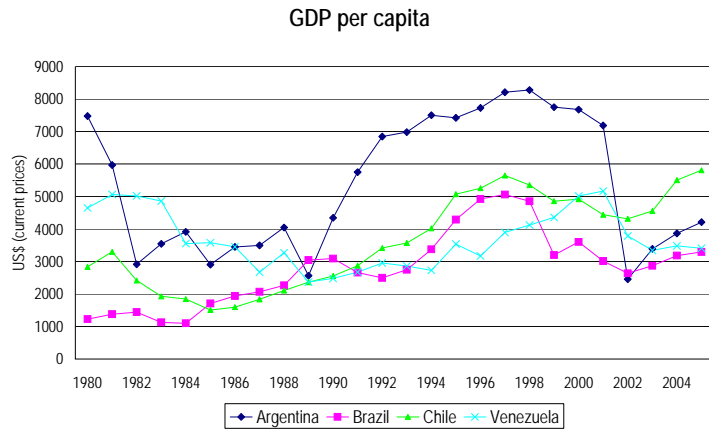
The undoubted potential of these four markets (most notably Brazil and Argentina) is apparent from the chart. Sustained growth during the early 1990s meant that total visits reached a peak of very nearly 300,000 in 1998.

Most South American currencies have depreciated in recent years, against Sterling, the Euro and the US Dollar. In the short term, this is likely to lead to the strongest potential for outbound growth being intra-regional, rather than inter-continental. The extent of change in the cost of Sterling over recent years can be seen from the following table.

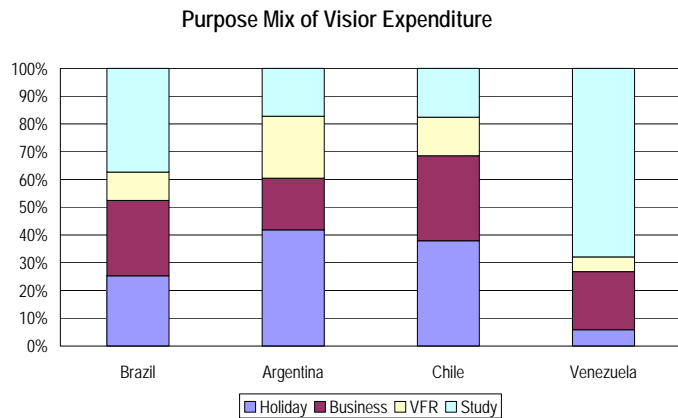
**Change in cost of Sterling against domestic currency 1997 to 2003**

Argentinean Peso	195%	Chilean Peso	64%
Brazilian Real	189%	Venezuelan Bolivar	254%

This chart starkly reveals the scale of change in the economic fortunes of each country. Argentina was the richest in terms of per capita income throughout the 1990s, but experienced economic turmoil in 2001 and 2002. Nevertheless, a steady recovery is now underway in Argentina.



A series of observations can be drawn from the chart showing how expenditure by visitors from these four markets breaks down across key purpose of visit categories. The importance of the study market from Brazil and Venezuela is especially noteworthy. A note of caution, however, these results are based on very small samples.



## Brazil

Brazil has an enormous population of 177 million people, but a third of the population of the two major cities, Sao Paulo and Rio de Janeiro live in slums. As was evident from the earlier chart, measured in terms of GDP per capita Brazil is the poorest of the four markets. The IMF forecast that Brazilian GDP per capita is expected to increase by 3.5% in both 2004 and 2005 – this on the back of a 0.2% decline in 2003. Evidence of an improving picture for the Brazilian economy comes in the form of falling unemployment, which stood at 11.2% in Brazil's six largest cities during July.

A healthy economy in Brazil is good news for Britain's business tourism industry, as Brazil is Britain's biggest trading partner in Latin America. A number of leading British businesses have operations in the country and it is perhaps not surprising, therefore, that one in four visits to Britain are business related, with each being worth more than £1,600 to the British economy.

Britain comes 8<sup>th</sup> in the league table of countries visited by Brazilian's. Argentina is the most popular destination for Brazilians, but a number of European destinations such as Italy, Portugal and Germany attract more outbound visitors from Brazil than Britain. Nearly one in ten visits to Britain from Brazil are by British nationals currently resident in Brazil.

## Argentina

As we have seen Argentinean GDP per capita fell off a cliff in 2002, but is now making a steady recovery. Even a year after the crisis the Argentinean government estimated that more than 50% of the country's 39 million population were living below the poverty line in early 2003. The economy is expected to grow by 5.5% in 2004 and 4.0% in 2005 according to the IMF, but the current unemployment rate remains at around 15%.

Extensive civil unrest swept Argentina at the end of December 2001, with several people dying and the country suffering extreme political upheaval, with no fewer than five Presidents in a month. The crisis was precipitated when Argentina officially defaulted on its external debt, estimated to be some US\$100 billion.

A major IMF rescue package was agreed in 2003, but deep concerns remain about whether the Argentinean Government will deliver on its promises regarding reforms and repayment schedules. A recent meeting between the IMF and key members of the Argentinean Government failed to make significant progress.

Spain and Italy are the only European destinations that attract more visitors from Argentina than Britain, with Britain being the 10<sup>th</sup> most visited country. The three most popular destinations for Argentineans are all within South America.

There is a large Argentine British community living in the country, along with a significant Welsh speaking Argentine-Welsh community in Patagonia. This offers unique marketing opportunities to the British tourism industry in spreading the benefits of inbound tourism from Argentina across the British regions.

## Chile

Chile is situated on the west coast of South America meaning it is a long way from Britain with no direct scheduled flights. LanChile, the national flag carrier, has suffered from financial difficulties in recent years, but has enjoyed record growth in passenger volume and revenue during 2004, with July international passenger volume 25% up on the same month of 2003. LanChile operates a daily flight to Madrid and Frankfurt from Santiago.

Half of the 25,000 visits to Britain from Chile in 2003 were classified as holiday trips. A similar proportion of visits lasted for between 1 and 3 nights. This suggests that Britain is visited in conjunction with other European destinations, and indeed IPS figures show that a third of visitors from Chile to Britain in 2003 travelled through the Channel Tunnel.

Chile has one of the strongest and most stable economies in South America, boosted by its proximity to China, Japan and South Korea. Unemployment stood at 9% in July, equivalent to the average rate in the Eurozone area.

In addition to the strong economy Chile enjoys a stable political environment, ensuring that the Chilean currency has been considerably more stable in recent years than is the case in many neighbouring countries.

## Venezuela

A referendum took place in August on whether President Chavez should be removed from office. This resulted in a narrow, and contested, vote in his favour. It is now likely that he will remain in power until at least 2007, during which time he plans to push ahead with a series of economic and land reforms.

The economic problems faced by Venezuela are currently masked by a healthy flow of oil revenue courtesy of the high price of oil. Oil accounts for 70% of the nation's exports and half of central Government revenue. Looking beyond this positive boost to the economy we find that inflation averaged 30% last year and figures from the Instituto Nacional de Estadística reveal that unemployment now stands at 15%.

More than a fifth of the 24 million population of Venezuela live in the capital, Caracas, which enjoys thrice weekly direct BA flights to London. Venezuela has a very young population, with 50% being aged under 24. It is fortunate, then, that Britain performs well in attracting study visits from Venezuela, these accounting for one-in-three visits from Venezuela in 2003. The population structure and importance of the study market results in a very skewed age distribution of visitors to Britain, with a third being aged between 16 and 24 and very nearly a further third being aged 25-34.

As study visits last far longer than visits for other journey purposes some 68% of spend by Venezuelan visitors to Britain is generated by this market segment – despite it only accounting for a third of visits.

## Future prospects

Fundamental problems remain in both the political and economic spheres in a number of these markets and volatility will remain the watchword in the next couple of years. A particular concern centres around hints that the US economy may be about to slow down as this could have a detrimental knock-on effect in Latin America. As we have noted, recent depreciation of South American currencies against the US\$, Euro, and Sterling is likely to lead to intra-regional travel expanding more rapidly than long-haul travel.

However, in recognition of the importance of South American inbound travel to Britain VisitBritain is organising a three-centre sales mission to Brazil and Argentina, visiting the cities of São Paulo, Rio de Janeiro and Buenos Aires in late October. UK partners will have the opportunity to meet with up to 1000 trade contacts through a series of trade workshops and the exhibition 'Feria Das Americas' in Rio de Janeiro. This will give the British travel trade a unique opportunity to make or renew contacts in these challenging but high-yield markets.

## **Issue of the Month – Climate change: what might it mean for tourism in Britain?**

If we accept that climate change will become a reality in Britain, which not everybody does, then we can paint two very different pictures of what tourism in Britain might look like half a century from now.

### **A gloomy outlook**

In this bleak projection of the future we would see seafront properties being uninsurable in parts of the country as sea levels rise, water shortages each summer would denude the attractiveness of Britain's gardens and parkland and the risk of skin cancer would keep people away from sun soaked beaches.

### **A sunny outlook**

On the other hand climate change might result in Mediterranean destinations being shunned by tourists due to excessive heat, with Britain's resorts taking on the mantle of the place to go for sun and beach holidays. In the countryside winery tours would become popular as some current crops are replaced in favour of vineyards.

### **Global evidence of climate change**

It is important to make clear the distinction between "climate" and "weather". Climate relates to the long-term prevalent weather conditions in an area, whereas weather relates to the day-to-day meteorological conditions in an area. So, when we are discussing climate change it is very much a phenomenon that will emerge over the course of decades, not in the space of two or three years. It is also important to accept that a changed climate is not one that will lose all of its day-to-day and year-to-year variation. Even if, on average, temperatures are higher and there is less rainfall in a climate, any given year may still be far colder and wetter than average.

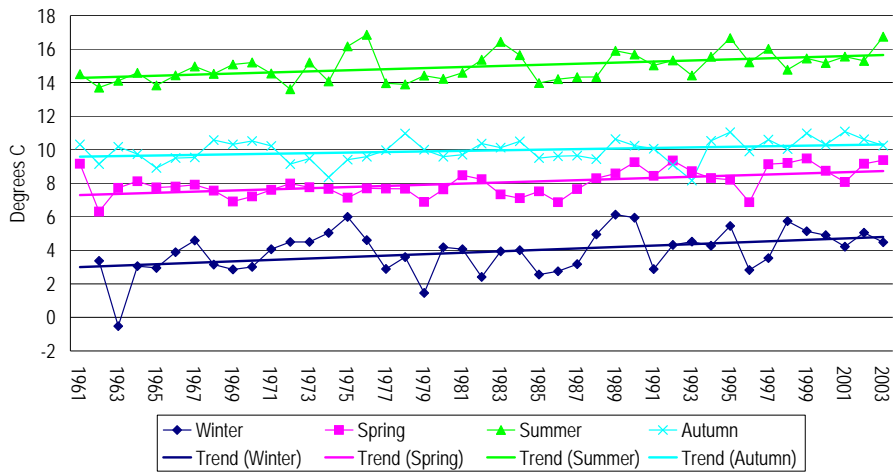
Global temperatures rose by an average of 0.6 °C during the 20<sup>th</sup> century, and 1998 was the warmest year since records began nearly a century and a half ago. The planet has experienced retreating glaciers, extended periods of above zero temperatures in high latitude areas, and more high intensity rainfall events over recent years – all of which are thought to be due to climate change. Indeed, in March this year the first ever recorded hurricane formed in the South Atlantic.

### **Evidence of climate change in Britain**

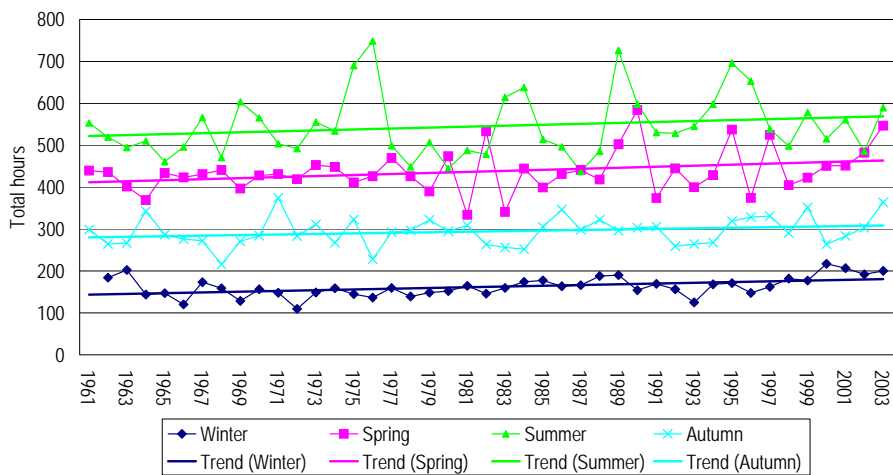
1999 was the warmest year on record in Britain, and the summer of 2003 was the warmest since the famous drought of 1976, with an all time record being set as the temperature reached 38.5 °C in Kent on August 10<sup>th</sup>. Looking at the longer term, temperatures in central England have increased by 1 °C over the last century and the 1990s were the warmest decade in central England since records began in the 1660s.

The following charts show three key series of data compiled by the Met Office for England and Wales. The average temperature, rainfall totals and hours of sunshine recorded in each season between 1961 and 2003 are plotted, along with a "trend line" for each series. The trend lines help us to see how each series is changing over time, and removes all the year-to-year volatility.

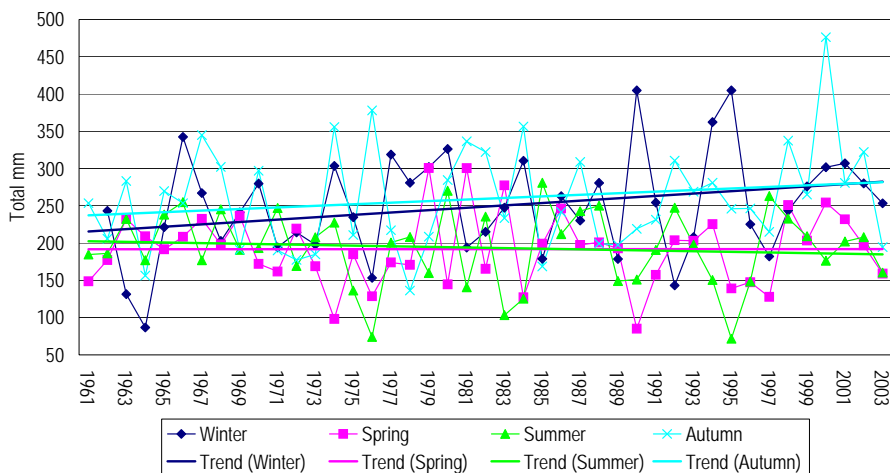
### Average Temperatures Across England and Wales



### Hours of Sunshine Across England and Wales



### Average Rainfall Across England and Wales



Starting with the temperature chart – we can see by looking at the trend lines that there is a slight, but nonetheless perceptible, increase in all four seasons over the past 42 years. The same conclusions can be drawn when studying the chart showing total hours of sunshine, the trend line in each of the four seasons is slightly positive.

The rainfall chart is a bit more complex, in part due to the volatility of each series from one year to the next. However, there is a definite upward trend apparent in the Autumn and Winter series along with a very slight decline in the Summer series.

### **What should Britain's tourism industry expect the climate to be like in the future?**

There are a number of organisations that have devoted time and resource to building complex models of climatic conditions in the future. Here we look at the results from models built by the UK Climate Impacts Programme (UKCIP). Established by the Government seven years ago UKCIP released the results of its latest analysis in April 2002, based on four scenarios for the future rate of emissions of greenhouse gases.

In summary, the UKCIP models predict that the average temperature in Britain will increase during the next century, there will be more very hot summer days, fewer very cold winters, sea temperatures will increase, there will be more rainfall in winter, but less snowfall.

#### **Detail**

The average temperature in Britain is predicted to increase by between 2°C and 3.5°C over the next eighty years, with temperatures in the south and east rising more quickly than in the north and west. Summer and Autumn temperatures will rise more than Winter and Spring temperatures, all of which can be considered good news for tourism in Britain.

More promising still is the prospect of less summer rainfall hampering outdoor leisure pursuits in the decades to come. The central UKCIP projections see annual rainfall declining by perhaps as much as 35%, but with very different changes across the seasons as summers become much drier than now, and winters possibly 20% wetter.

The opportunities that warmer and drier summers offer for British tourism needs to be balanced against other projected changes that could pose a threat. The warmer temperatures in winter could result in 60% less snowfall in Scotland according to UKCIP, a projection that would seriously effect the Scottish skiing industry by the second half of the century.

Sea levels around the British coast will change due to both land movements and the volume of water in the sea in the next eighty years. Britain is no stranger to changing sea levels, these having risen by between 10cm and 20cm over course of last century. By the 2080s the UKCIP models suggest that in western Scotland relative sea levels will be in a range of 2cm below to 58cm above their current level, whereas in southeast England they will be in a range of 26cm to 86cm above their current level. Extreme sea levels are predicted to become a more frequent occurrence, possibly 20% more frequent along parts of the East Coast by the 2080s.

Low-lying coastal areas, particularly along the East Coast, are therefore at increased risk of inundation from the sea. Tourism businesses in high-risk areas will be faced with increased insurance premiums in future decades if the frequency with which exceptionally high sea levels occur increases.

The gradual warming of the climate will be barely discernible in human terms, but have potentially enormous implications for the wider environment. We tend to remember extremes of weather, and would not realistically notice that "on average" the temperature has increased by 2 °C or so over the space of 80 years. The UKCIP models suggest that not only can we expect a gradual change in our climate, but additionally there will be more frequent extremes of weather.

How might these extremes manifest themselves? We have already mentioned the greater risk of exceptional sea levels, but this is not the only aspect of greater climate volatility. The increased winter rainfall is not predicted to be produced by more days of light drizzle during the winter, instead a greater proportion of winter rainfall will occur on "heavy rainfall" days, heightening the risk of flooding to areas close to watercourses.

As August demonstrated, extreme weather events are not confined to the future, flash flooding having struck Boscastle in north Cornwall. Such events are not new, indeed it was 52 years to the day that similar flash floods hit Lynton and Lynmouth in north Devon, claiming several dozen lives. What is projected to be different in the future is the frequency with which such freak weather events occur.

### **A colder scenario**

Britain can thank the Gulf Stream for its reasonably temperate winters, but some climate modelling suggests that over the coming decades the Gulf Stream may become disrupted. Were this to happen then Britain could get much colder rather than warmer during this century. However, there is a general consensus that the probability of this happening is extremely low, but it serves to demonstrate that predicting climate change is by no means an exact science.

### **Gaining at the expense of others?**

Michael Fish, the BBC weather forecaster, recently addressed an Institute of Travel and Tourism conference in Qatar on the potential implications of climate change. Looking thirty years ahead the outlook he presented for Britain was a good deal more positive than for many other destinations. In the worst case scenario the future could result in parts of the Everglades and some of the Maldives being submerged by rising sea levels, the Great Barrier Reef slowly dying, and insufficient snowfall to ensure the survival of many low altitude European ski resorts. No such dramatic changes are forecast for Britain.

Manufacturing industries, the insurance sector, agriculture, health, and land use planning are all areas that will be influenced by climate change over the coming decades – tourism by no means stands alone in facing the prospect of having to adapt to a changing environment. However, unlike other sectors, the British tourism industry may find that financially it is a net beneficiary of climate change, but these benefits are unlikely to be universally enjoyed across all regions and sectors within the industry. Change will evolve over decades, not years.

## Index to earlier Issues of Foresight

Issue 1	November 2003	<b>Market Focus</b>	<b>Issue of the Month</b>
Issue 2	December 2003	USA, Canada and Mexico	Implications of an ageing population in Britain
Issue 3	January 2004	France, Italy, Portugal and Spain	Airport capacity in Britain
Issue 4	February 2004	Poland, Russia, China and South Korea	Visits to Britain by British Nationals living overseas
Issue 5	March 2004	Britain	School holidays and their impact on seasonal spread
Issue 6	April 2004	Australia and New Zealand	West Nile Virus
Issue 7	May 2004	The EU Accession States	The Internet Part 1: Consumers
Issue 8	June 2004	South Africa, Nigeria, Kenya and Ghana	The Internet Part 2: Businesses
Issue 9	July 2004	India and Pakistan	Trends in Cross-Channel Travel Behaviour
Issue 10	August 2004	Belgium, Netherlands, Luxembourg and Ireland	Cost of visiting Britain compared with other destinations
		Japan, Hong Kong, Philippines and Taiwan	

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