

## PART 5: ANNEXES

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# Annex I: Bibliography

## **Policy related documents**

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- Enhancing the Role of SMEs in Global Value Chains, OECD, 2009
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- European Tourism 2009 – trends & prospects, European Travel Commission, quarterly report Q1/2009

### **Survey reports**

- Questionnaire on employment & vocational training in travel agencies and tour operators, Group of National Travel Agents' and Tour Operators' Associations within the EU, 2007
- Enquête conjoncturelle dans le secteur des services occasionnels, Institut pour L'autocar et l'autobus, 2008
- Flash Eurobarometer: survey on the attitudes of Europeans towards tourism – analytical report, 2009

## Annex II: Overview of data sources

- Data bases
  - Eurostat – structural business statistics (SBS)
  - Eurostat – labour force survey (LFS)
  - Eurostat – tourism statistics
  - Eurostat – information society statistics (ISOC)
  - OECD – main economic indicators (MEI): labour force statistics
  
- Data reports
  - Panorama on tourism, Eurostat, 2006
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  - Statistics in Focus, Eurostat, 13/2009
  - Data in Focus, Eurostat, 24/2009
  - Tourism Highlights, UNWTO, 2008
  
- Survey data
  - SME Panel survey, 2009

## Annex III: Interview notes

In total 19 organisations/companies have been contacted and interviewed within the context of this study. Apart from the BTO interview, all minutes are included in this report. All minutes have been officially approved by the interviewees.

- Accor
- Association of Belgian Tour Operators
- Association of European Airlines
- Belgian Travel Organisation
- Confederation of National Hotel and Restaurant Associations in the EC and EEA
- EFCO&HPA Campsites and holiday parks
- European Federation of Trade Unions in Food, Agriculture and Tourism sector
- European Tour Operators Association
- European Travel & Tourism Action Group
- European Travel Agents' and Tour Operators' Associations
- European Travel Commission
- Exceltur
- Federation of Farm and Village Tourism
- Federturismo
- International Air Carrier Association
- International Association of Amusement Parks and Attractions, European Office
- International Road Transport Union
- TUI AG
- World Tourism Organisation

**Study on the competitiveness of the EU tourism-industry**  
**Phone interview**  
**Accor Group**  
**Brussels, 8 April 2009**

**Attendees:**

**Accor:** Daniel Paris

**Idea Consult-ECORYS group:** Raf Myncke and Cristina Nuñez

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With 4.000 hotels in the world (the half of this are located in Europe), Accor is the leader of the European accommodation market.

**Major challenges**

Accor identified from an industry point of view the main weaknesses of the European tourism industry. In this minutes those weaknesses will be presented as 5 major challenges which the tourism industry has to face in the light of the current economic situation:

1. Even if Europe still remains the first market in the world, one can notice that its market share has been decreasing largely due to the enhanced competition from other tourist destinations in the world. According to Accor the focus of the European Tourism Industry must not only lie on tourism within Europe but as well on inbound tourism from other regions in the world. At this moment the major tour operators operate for instance mainly in outgoing tourism rather than in incoming tourism. As such, there is a lack of big incoming tour operators in Europe compared to for instance Asian countries.
2. The weak competitive position of Europe as a tourist destination regarding to other regions in the world is also linked to the lack of a clear positioning of Europe as a tourist destination. European countries compete to each other rather than presenting a common offer *vis a vis* of the rest of the world. With regard to this weakness it's important to mention an initiative, which has recently been launched by France, Italy and Spain. These countries propose to have a common approach position of Europe as a tourist destination. There is a need to improve and concentrate efforts on coordination of a common position and joint promotion of Europe as a destination in order to capture emerging markets. One can notice the lack of this coordination as there is still a big difference between Member States in terms of investment on promotion in the emerging destinations. Furthermore, the figures confirm that the future outgoing tourist countries are China and India, which enhance the necessity to adapt the European tourism industry to host these cultures and, therefore, the need of innovation. According to Accor, the industry should invest more on generating new demand rather than focus on existing markets like USA and Japan, which are also important but more "mature".

3. Another element which has a negative impact on the competitiveness of the European tourism industry is the high rates of leisure air travel. European Airlines focus too much in business market and should invest more in the leisure market. Indeed, there is a need of improving connections to/from Europe and provide more attractive prices in order to attract tourists from outside Europe and convince them to stay in Europe (and not just crossing it as it is currently happening). Airlines should explore the possibility of launch low cost intercontinental.
4. EU immigration policy and visa. Even if one can notice the progress and improvements made at European level on visa deliver procedures, there are still situations which difficult and postpone obtaining a tourist visa. One example given is that the French embassy does not provide enough visa for Russian tourists.
5. Improving Airport infrastructures, facilitating the entrance to countries and improving airport/railway connections. According to Accor, most of the European airports, especially in France, even if one can notice that a considerable progress has been done, the infrastructures do not facilitate enough the entrance to the country and circulation of tourist (long waiting queues, policy controls, etc.). Tourists have to face too many barriers to leave the airport.

### **Cost structure and competition**

1. Labour: The group Accor encourages employees to pursue job opportunities in other countries. Employees' mobility is a rather common practice since Accor is an international group. Within Europe this doesn't lead necessarily to problems in communication and work ethic between management level and personnel on the floor. The differences in culture are definitely bigger outside Europe: that is the reason why a dedicated team in Paris Headquarters helps managers and local human resources teams to develop gateways between countries.
2. Training: The French government will probably implement measures for a reduced VAT rate applicable to restaurants. It is expected that, in exchange to this reduction, the industry will increase efforts to improve internal training on hospitality skills. Accor already provides internal training to its employees through the network of its 16 Académies located in the main regions of the world. Accor Académies mission is to ensure the professional and personal development of the Group's 150.000 employees in order to meet local training needs and to take account of cultural diversity.
3. Franchising: Accor's strategy is based on franchising and this will remain so towards to future. The core business is not to own the hotels but to run them. When entering new markets, the group invests firstly in building hotels (to gain market intelligence, to ensure to meet the quality standards, etc.) but after a while franchising becomes a possibility.

4. New skills: Accor is aware of the new skills which request the new demand and, particularly, the need to personalise tourist experiences. Accor's policy has been offering standardised hotels in terms of comfort level in order guarantee security and identity. In order to meet the expectations of the new demand Accor tries to adapt its offer to this new trend and advertise diversification through brands like Mercure.

### **Financial crisis**

Accor believes that the crisis will have a stronger impact on high standard hotels than in economic ones.

1. Accor's strengths to face the current economic and financial crisis compared to its competitors are:
  - Accor accommodation product is more diversified than other groups, many of which only offer business class accommodation. Indeed Accor offer 55 % of the rooms in economic hotels, and the rest in business class, which means that only the half of Accor's accommodation business is "suffering" to the full the effects of the crisis.
  - They run a diversified product which includes other services than accommodation, mainly company services. Since these services are not part of the tourism industry this part of the business is less affected by the crisis. Indeed they have a 40% of turnover profit, which proves that they are not suffering as much as their competitors even if they notice a general decrease of share's value for the last years.
  - Accor has been investing in emerging countries like China, Brazil and India, which allow them to position themselves strategically in the market. Diversifying activities between Services and Hospitality is an integral part of Accor strategy: In a first stage they launch the company services in the new countries where they are investing and once they have gained confidence and credibility in these markets, they invest in hotels, which require a heavier industry and bigger and more risky investment.
2. More general the effects / challenges of the economic crisis on the European accommodation industry are the following:
  - Access to finance has become an issue for Accor. The current instable situation within the banks reduce the confidence among the investors, which means that e.g. Accor is experiencing much more difficulties to sell the hotels to the investors than before.
  - Consumers' behaviour. Accor feel confident enough that people will continue travelling and they have good expectations on French consumers' behaviour in France in the long term. Indeed, one can notice that consumers prefer to save on food, fashion and other goods rather than in travel and holidays.



- Chain hotels will overcome better than small/independent hotels. In France there are approximately 20.000 hotels from which 10% might have to close down due to the crisis. It can be expected that especially the smaller and less professional managed hotels will close down first. This can be seen as an opportunity for chain hotels, as the demand will still exist but competition will decrease. It is to be expected that hotel chains will remain and even gain importance towards the future. More in particular a group like Accor intends to invest in Eastern countries (Poland, Czech Republic) and to strengthen their position in the UK, Italy and Spain in order to remain the leading hotel chain. In that sense can the crisis be seen as an opportunity for a group like Accor.
- Sustainability. Accor believes that improving competitiveness has to be achieved, firstly, by improving price/quality standards and, in a second stage, by implementing sustainable development process. If the Hotel industry, generally speaking, does not yet perceive sustainability as an element to improve the competitiveness, Accor itself is aware of the necessity to implement a sustainable development process and has been investing economic and human resources (there is a sustainability team within the group) through concrete actions.

**Study on the competitiveness of the EU tourism-industry**  
**Face to Face Interview**  
**Association of Belgian Tour Operators (ABTO)**  
**Zaventem, 8 April 2009**

**Attendees:**

**ABTO:** Claude Perignon

**Idea Consult-ECORYS group:** Isabelle De Voldere and Raf Myncke

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**Introduction and general background**

ABTO has been founded in 1973 and is representing through its members 3,7 million customers and a turnover of more than 2 billion Euro. ABTO is grouping mainly players active in outbound tourism towards both European and non-European destinations. Members are both major players (e.g. Jetair, Thomas Cook Belgium and Club Med) and smaller niche players (e.g. Best Tours and Wings 'n Wheels).

**Market structure**

- The sector has become strongly concentrated, with the major groups like Thomas Cook and Tui Travel<sup>1</sup> holding a significant share of the market. Even the traditional UK market is now dominated by Thomas Cook (after acquiring My Travel) and Tui Travel (after acquiring First Choice).
- Besides larger groups some actors survive by focussing on specific niches within the market (e.g. Antartica, Jungle Tours, etc). In many countries but for example not in Belgium internet players succesfully operate besides major groups due to lower cost structures (e.g. the Netherlands).
- Major players like Thomas Cook and Tui Travel are expanding their activities in emerging markets such as e.g. China, Russia and India. Developing a global strategy is driven by a strong need to reach larger volumes, so better deals with e.g. accommodation and airline companies can be negotiated.
- Concerning emerging European markets differences between NMS are to be detected. Poland for example is probably a largely growing market whereas Hungary is at this moment less interesting. Major western European players are definitely exploring opportunities in the NMS, but take so far a rather defensive 'wait and see' attitude.

**Cost structure and competition**

- Biggest risk for tour operator's activities lies in necessary capacity on flights<sup>2</sup>. Sector is trying to get a view on demand as early as possible by making

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<sup>1</sup> Biggest tour operator in Belgium obtained 200.000 customers in 1985 while anno 2008 Tui Belgium stands for approximately 1.800.000 customers.

<sup>2</sup> Generally bigger tour operators own a fleet capacity. This capacity can be based on average capacity in high season, mid season, or low season. In function of fluctuations in demand extra capacity is hired ad hoc.

customers book as early as possible using different techniques like reductions on early booking, turbo reductions, free child programmes, etc.

- Competitive position within sector of tour operators is mainly defined by price per type of product. Price is defined by operational costs. This cost is largely influenced by taxation (e.g. security charges, airport taxes, etc.) and regulation (e.g. consumer protection).
- Clear need for harmonisation of VAT regulation within EU. In Belgium e.g. VAT is applicable on travelling both within EU and out of EU. In Netherlands no VAT is applicable on travels. In France travelling within EU is taxed at 20,6% and 0% towards non-EU destinations.
- Tourism industry is requiring more or less same staff as employed in other parts of the economy (multilingual, creative brains, ...). In other sectors like banking, insurance, telecommunication, ... staff is earning substantial more money. How can attractiveness of tourism industry be enhanced?
- Professionalization of sector by e.g. higher education in tourism studies is leading to more theoretical knowledge. Big players however invest largely in educational programmes. Risk of under valued investment is rather high due to poor labour conditions.
- Possibility to define tourism as a ‘bottleneck profession’ (cfr. Belgium)? Labour cost easily accounts for 50% of operational costs of Tour Operators.

### **Productivity and profitability**

- Margins are very low in the TO business. Big volumes are needed to keep profitability at a certain level. This need for big volumes has driven the concentration wave in the industry.
- Quality of tourism experience is largely defined by quality of services delivered and therefore by quality of human resources. Quality of tourism experience is not necessarily better within EU compared to non-EU destinations.
- Improved productivity is mainly obtained by automation within industry. Tourism industry is however depending on personal interaction. Limits of automation reached?
- ICT have had huge impact on sector. Different players use different strategies when it comes to use of internet. Thomas Cook uses e.g. one international reservation system, Tui works with different systems per National State.
- Travel agents have to deliver different services. Focus will shift towards specific expertise. Different distribution channels will be/are being used to reach different groups of customers. Internet booking agents like booking.com or ryanair.com will be used to only book tickets, travel agents will need to provide added value.
- The TO business can be described as “an industrial kitchen with a small scale traditional dining room”: economies of scale can be realised in the tour organisation, but at the level of the travel agent it remains a people’s business (labour intensive, limited productivity gains possible).

## Innovation

- European destinations have been major tourist destinations, but at the moment they rest on one's laurels. There is a need for Masterplan focused on Innovation for EU Tourism Industry leading to new concepts, new products.
- Together with price and quality, innovation should become a major driver of EU tourism industry. Innovation is largely consumer driven. In non-EU tourism destinations a trend towards 'full all inclusive' can be detected. Not only drinks and buffet are included: all sports are included, activities for different age groups, different a la carte restaurants, etc. European industry should more pro-actively follow these trends.

## Regulation and Standards

- Governments misuse the tourism industry with an unacceptably high number of taxes E.g. airport taxes, parking taxes, fuel taxes, security taxes, etc<sup>3</sup>. Consumers are choosing for best price/quality proportion, leading to competitive disadvantage for European destinations vis-à-vis non-European competitors.
- ETS will cost sector large amount of money. This cost will be taken into account when setting price for final consumer. Unclear how far price elasticity can be taken and when consumer will stop travelling.
- Dysfunctional organisation of air traffic above EU makes carriers use up to 15% more fuel than theoretically needed. Creating a Single European Sky will lead automatically to less fuel, cheaper prices and quicker connections.
- Legislation protecting consumers is seen as a very positive evolution. Example of tsunami in South East Asia showed clearly impact of EU legislation in this matter. Clients of European TO were assisted by TO, while other customers were left alone. Risk however for overregulation.
- Quality labels for e.g. hotel accommodation differ between different Member States. It is unclear how consumer is supposed to understand the meaning of different labels and standards.
- Procedures to obtain visa are largely influencing opportunities from new emerging markets (e.g. Russian market).
- Need to shift from directives towards regulations at the EU level. Translation of a directive has led to different situations in different Member States.
  
- Air industry is still very much regulated by national legislations. E.g. Airline Operating Certificates. Pilots working for international groups can only fly with aircrafts listed on national register so possible synergies are lost in between different countries (despite same aircrafts and procedures).
- Stronger concentration is leading to more suspicion towards rules on competition.

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<sup>3</sup> Cyprus for example has raised their airport taxes with 30%.

## Sector development

### Economic and financial crisis

- Tour operators are not dramatically hit by financial and economical crisis. However booking patterns are changing. E.g. number of bookings for upcoming summer season is clearly smaller in March 09 compared to March 08, but number of passengers for realised travels is comparable this year versus last year.
- Last minute bookings are affecting whole chain of activities in the industry. Contracts between tour operators and carriers, hotels, ... are being renegotiated. Decreased demand is therefore not only problem for tour operators, but for every actor in whole tourism chain.
- Changes in behaviour are not necessarily there to stay. Comparison could be made with year 2007 when last minute market was resulting in disillusionment when favourite destination was no longer available. The year after the number of pre-sales had grown again.

### Mid and long term developments

- Overregulation and taxation are clearly identified as negative factors to enhance competitive position of EU tourism industry. Discrepancy between ambition to make tourism industry engine of economic growth and overregulation and taxation is big. Tourism industry is easily seen as money spinner<sup>4</sup>.
- Shifts are to be noticed towards non-EU destinations. On the one hand countries like Turkey, Egypt and Tunisia seem to take advantage, on the other hand more distant destinations like the Caribbean. Those countries offer a qualitative all inclusive programme for less money compared to Spain or Greece.
- EU lacks clearly incoming TO. Focus must shift from tourism within EU to tourism to EU. EU has unarguable a very competitive tourist product (history, culture, tradition, ...). Compared to outbound tourism inbound tourism acquires probably different business model<sup>5</sup>.
- Europe needs to be better promoted as an overall tourist destination ('Destination Europe'). Role of EC could be to facilitate Member States to find coherence between different Member States. EC can focus as well on single point of contacts in different regions in the world (cfr. VISIT USA).

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<sup>4</sup> Interesting to state that every country entering the EU seems to have become more expensive.

<sup>5</sup> Core activities for outbound tourism activity is filling planes, hotels, etc. Incoming tourism is different segment of market. Additional problem with traffic rights, charter rights and flying rights. Those latter refer to bilateral agreements.

**Study on the competitiveness of the EU tourism-industry**  
**Face to Face Interview**  
**Association of European Airlines (AEA)**  
**Brussels, 20 March 2009**

**Attendees:**

**AEA:** Ms. Susan Lockey (General Manager Market Research), Mr. Giorgi Komakhidze (Manager Strategy & Statistics)

**Idea Consult-ECORYS group:** Raf Myncke and Cristina Nuñez

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**Introduction and background**

AEA represents 35 European established service and scheduled network carriers. Together they carry 380 million passengers and 7 million tons of cargo each year, operating 2,660 aircrafts serving 615 destinations in 165 countries with 11,865 flights a day. They provide around 426,000 jobs directly, and generate a total turnover of EUR 79 billion.

**Key messages from AEA side:**

1. AEA represents established service and scheduled network carriers. Leisure travel is mainly covered by IACA (International Air Carriers Association).
2. Given the dramatic figures the main challenge of AEA and its members is to face the economic crisis: the RPK (revenue per kilometre) has dropped over last 2,5 months by 20% for cargo and 10% for passengers compared to same months last year.
3. Despite a tradition of gradual changes, the different members use in this situation more drastic interventions. Interventions are for example adjustment of capacities of aircrafts or eliminating routes.
4. Capacity however is not used efficiently as slots are crucial in the transport industry. Slots are attributed to carriers for winter and summer seasons. The right to use an allocated slot lapses when not used more than 80%. Device: use it or loose it. This means that carriers organise flights even when they are unprofitable, just to use the allocated slot. EC have installed an exemption using rule concerning those slots for summer of 2009. When the crisis lasts longer air carriers might be in difficulties again.
5. Consolidation and integration is clearly happening within the sector, resulting in 3 major alliances with a global coverage. Most carriers keep their identity, but ownership has changed.
  - a. National clause has been replaced by European clause so that the majority of an air carrier should be owned by European player. In times of a crisis this clause still limits possibility of finding needed funds elsewhere.
  - b. Bilateral traffic rights are being replaced at European level. An important step has been taken by the so called Open Sky Agreements.
  - c. Both changes have resulted in an enhanced number of competitors on the European market.

6. Competitive advantage of European airline industry can be described as unfavourable if compared to other regions in the world. Reasons are e.g.
  - d. Emission Trading Scheme: Additional cost for European airlines compared to non-EU airlines. ETS will be applicable from 2012 onwards. ETS policy might be an important cost for EU airlines, while the eventual cost for US carriers can be spread over a larger total number of flights.
  - e. Consumer protection: European legislation has regulated the consumer protection. Happy consumers will come back. The non-boarding compensation for circumstances out of the airline control (such as strike, meteorological conditions, etc) is currently being discussed at political level. Should this be approved the costs of compensation and the responsibility for the airlines will increase, leading to decreased competitiveness.
  - f. ATC: The European sky is very fragmented due to historical reasons in terms of Air Traffic Control zones. AEA is supporting the rationalisation of the sky also in order to have shorter routes and save fuel and weight.
  - g. Currency: Exchange rate between Euro and US Dollar has a huge impact on the competitiveness of Europe as a tourism destination.

The above mentioned measures / facts will lead to extra costs for airlines resulting in a decreased competitive position. As a result countries around European Union might win attractiveness (e.g. Morocco, Turkey). Will Switzerland adopt ETS?

7. Alliances have brought lots of positive effects for passengers, resulting all in an easier travel experience. Examples are tuning of used standards, agreements on treatment of luggage, possibility to interline, larger range of possible destinations, etc.
8. ICT has had major impact on sector. Information availability has improved a lot and passengers have opportunity to book online directly by airlines. This has led to e.g. cheaper flight tickets. Other examples: online check-in which is saving time and costs for consumers.
9. Members of AEA do have to compete with low cost carriers, but major differences have to be noted. Low cost carriers are using for example different airports and different routes. While traditional airlines are largely focused on feeding a hub, low cost carriers are departing from different airports all over Europe.
10. After 9/11 air companies hived off their non-core activities. From one day to the other the major players realised that when you loose traffic you immediately loose as well clients of hotels, catering, etc.
11. European airlines will experience serious competition from airlines based in the Middle East. Dubai and Abu Dhabi are developed with aid from local authorities. This fits well into diversifying their economy.
12. Links between Western and Eastern Europe have been established before the financial crisis started to kick in. Air connection is for the NMS a strategy to integrate within the EU and a tool for regional development. The crisis has drastically slowed down the building up of new connections. Unprofitable connections are the first to be eliminated when needed. Citizens of NMS have less capital, so they tend to suffer more from the current economic situation.
13. Air connections are market driven. A large community of Turkish people in Germany has led to frequent connections between Germany and Turkey.

14. Last decennium air traffic has increased with an average of 5% per year. Air industry is thus a mature market. The combination of 9/11, the Gulf War and SARS have caused a serious drop in amount of flights. The sector needed 4 years of recovery before getting back to previous level of transport.
15. Major trends positively affecting demand are to be detected within society. New technologies like video conference don't seem to replace face-to-face contact. Globalisation if the commerce is a solid ground for growth. Visiting friends and relatives are a major source of growth. In that sense it can be stated that 9% of European citizens don't live in their country of origin. City trips, week-ends away, wellness, events, and short travel are trends in favour of air transport.
16. Strategic Outlook for the near Future is not easy to make. People did travel in Christmas and Eastern but it is not yet clear what will happen with summer holidays. Market tends to become last minute market. Big differences to be identified between different segments of the market: leisure versus business.
17. Given the fact that innovation in air industry is taking a lot of time air carriers have two important strategies to face the crisis.
  - h. Changes in costs: using smaller aircrafts for example, trimming all possible costs in airplane (e.g. amount of water on board).
  - i. Operational issues: Flying at more optimal speed, continues decent towards airport of destination, etc.
  - j. Alternatives to fossil fuels (in function of Sustainability) and alternative aircrafts to save fuel need to be implemented. However, in the meantime SN Airlines has hired a person to trim all possible costs in an airplane
18. Single European Sky and Unified Transport System: Strategies which will have an impact on the cost structure on longer term.
19. On long run high speed trains might become competitive with air transport. But at actual speed of finishing projects it might take long. If the number of projects would be substantially higher high speed trains might become more competitive for travels less than 3 hours.



**Study on the competitiveness of the EU tourism-industry**  
**Face-to-face interview**  
**Hotels, Restaurants & Cafés in Europe (HOTREC)**  
**Brussels, 26 March 2009**

**Attendees:**

**HOTREC:** Ms. Marguerite Sequaris (Chief Executive Officer)

**Idea Consult-ECORYS group:** Isabelle De Voldere and Cristina Nuñez

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**Introduction and general background**

HOTREC is a confederation of national associations of hotels, restaurants, cafés and similar establishments in Europe. The objectives of HOTREC are to promote and defend the interests of the hotel, restaurant and café industry vis-à-vis the EU institutions and to enhance cooperation between national hospitality associations. HOTREC counts 40 national hospitality associations in 25 European countries. HOTREC represents some 1.6 million enterprises, employing some 9 million workers.

**Strengths of EU Tourism industry**

The main strengths of the EU tourism industry are:

1. Large diversity in the offer
2. Quality of the offer
3. Geographical diversity, rich culture, art and history

The hospitality services clearly contribute to the richness of the European tourism industry

- This industry is mature and professional,
- Diversified gastronomy is an important cultural asset
- The search for quality is an essential driver

Tourists are aware of the added value of the EU destinations. Nonetheless the EU is in loosing market share even though it is still the n° 1 tourism destination.

**Innovation and access to finance**

1. Innovation is key. The hospitality industry is constantly adjusting to new trends and looking for new niche markets. However, it is important to recall that 92% of hospitality enterprises employ less than 10 persons.
2. To apply for EU innovation programmes, regional development and social funds is quasi impossible for SMEs .They cannot afford to subcontract with experts to apply for these grants. Most companies innovate with own financial resources or with loans from banks and do not apply to EU financial instruments.

In relation to the loans at reduced interest rates by the EIB, unfortunately they are not evenly available within the European Union. In some countries, no bank has adhered to this “global” loans system.

3. Access to finance in the current economic situation is not considered more difficult for the hospitality sector than for other sectors.
4. The crisis does not only have negative effects. Interest rates have decreased significantly making loans cheaper, therefore facilitating investments (eg in Sweden).

## **Labour**

1. HOTREC has been involved in a social dialogue for over 20 years now and is currently working on a qualifications and skills passport for the European hospitality industry in close collaboration with EFFAT. This passport is intended to improve workers’ mobility.
2. The hospitality sector is characterised by a relatively high degree of cross-border mobility of workers, especially within the big hotel and restaurants chains. The major obstacle/barrier for cross-border mobility, however, remains languages.
3. The new trends in the industry, for example the increased interest in wellness spas or healthy eating, call for new qualifications and skills.
4. Notwithstanding the crisis, there is a shortage of personnel in many countries. In the UK a special programme has been set up to “recycle” people previously working in financial services into the hospitality industry.

## **Regulation and Standards**

1. HOTREC has recently addressed a letter to the European Commission, asking for a revision to the Commission working programme: HOTREC stigmatises overregulation, lack of proper business impact assessments and duplication of initiatives affecting the sector.
2. A key strength of the EU tourism industry is its wide diversity. Differentiation of products/services is crucial in the hospitality business. For this reason the industry does not in principle favour standardisation measures.
3. HOTREC believes that only safety aspects should be regulated and they are: fire safety as well as food safety are strictly regulated in all European countries. Standardisation should not be imposed upon the industry by standardisation bodies/certification bodies which are looking for new activities. The working methods of the standardisation bodies should be made more democratic. Accessibility improves the competitiveness of the industry, however the requirements in relation to accessibility should remain reasonable. For instance it might be very difficult to install an elevator in some historical buildings turned into hotels.
4. HOTREC is working very hard in relation to quality and classification. It has launched a European Hospitality Quality Scheme, under which national or regional quality schemes may be accredited. HOTREC is also working on bringing existing classification schemes closer together via a bottom-up approach.

HOTREC also recently initiated dialogue with hotel review sites, proposing 10 principles relating to their functioning<sup>6</sup>.

5. HOTREC does not favour the Eco-label scheme for accommodation launched by the Commission, as it would have preferred a “umbrella” scheme, recognising existing schemes at national or regional level.

### **Sector outlook**

1. According to HOTREC the main challenges which hamper the competitiveness of the EU industry at the moment are:
  - **Taxation**  
The VAT rate system is currently being revised to give the option to all Member States to apply reduced VAT rates to restaurant services. However, in this time of crisis, some countries unfortunately increased the VAT rate of hotel services (eg Lithuania from 5 to 19%). Currently out of the 27 EU countries, 20 apply reduced rates to hotel services and 11 to restaurant services.
  - **Labour costs**  
  
EU destinations have to compete with non-EU markets where the labour costs are much lower.
  - **Working time**  
The sector requires flexible working time arrangements, since the staff works when other people are on holidays or resting
2. Emerging markets (e.g. China, India) constitute new market opportunities for the tourism and hospitality sector. However, the current visa policies should be facilitated. Training is being organised to facilitate the hosting of these new guests with different cultures.
3. Tourism is a unique instrument of peace. Tourism contributes to a better understanding of different cultures. The hospitality establishments are the living rooms of society.

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<sup>6</sup> Successful dialogue between hotel review sites and the European hospitality industry  
[http://www.hotrec.eu/files/view/886-d-0309-104-dm-press\\_release-hotel\\_review\\_sites.pdf](http://www.hotrec.eu/files/view/886-d-0309-104-dm-press_release-hotel_review_sites.pdf)

**Study on the competitiveness of the EU tourism-industry**  
**Phone Interview**  
**European Federation of Campingsite Organisations and Holiday Park**  
**Associations (EFCO&HPA)**  
**Brussels, 16 April 2009**

**Attendees:**

**EFCO&HPA:** Mr. Den Bannister, Assistant to the Secretary-General

**Idea Consult-ECORYS group:** Isabelle De Voldere

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**Introduction and general background**

EFCO&HPA is the representative body of the camping and caravanning industry at the European level, including caravans, tents, motorhomes, chalets and all forms of self-catering accommodation in the park setting. Membership is made up of the national trade associations of 23 European countries.

EFCO&HPA's main objective is to promote and defend the interests of the industry through representation to the European Authorities (Council, Commission, and Parliament). Its aim is to ensure that the interests of the sector are understood and taken into account in the important European decision making process, enabling the continuing viable operation of the industry. In conjunction with this work, EFCO&HPA also ensures the exchange of expertise within the profession, facilitating operations in the Single Market.

**Market structure**

- The camping industry is very fragmented. Larger camping groups exist, but mainly at the national level. Few large international camping groups exist.
- Exact data on the number of camping and caravanning parks and all forms of self-catering accommodation are not available. Privately owned caravan holiday homes are not included in the official tourism data on accommodation. At this moment EFCO&HPA is working with Eurostat to try to correct this. It is estimated that camping and caravanning parks and all forms of self-catering accommodation account for approx. 25% of total accommodation.
- The camping industry is a mature, well established industry in most old Member States. These Member States are characterised by a wide spread of camping grounds (e.g. France, Italy, the Netherlands). This is in contrast with the situation in most new Member States, where camping is still a very young business. In Latvia or Lithuania e.g. less than 10 camping parks exist.
- Before 2007 consolidation of parks could be seen in the camping industry. The main drivers for this were decreasing overhead costs and improving profitability. However, this consolidation has largely come to an end.
- There is a good deal of cooperation between national camping associations. However, it is remarked that in accommodation in general, customers do look for quality and value for money.

### **Labour force and skills**

- Attracting and keeping good personnel is a challenge for many camping parks. Improving training – both specialised and management training – is needed to provide career opportunities for employees.

### **Innovation**

- ICT has undoubtedly had a significant impact on the business operations and product offer, and still does. Issues currently on the ‘innovation’ agenda of the industry are among others harmonisation of databases, the introduction of WiFi and introduction of more sophisticated booking systems. However, implementation of these new developments largely depends on the company size. As most camping parks are micro-enterprises, the penetration of new product developments often takes some time.
- In terms of new ‘concept developments’, a move can be seen towards building chalets and lodges. This helps camping sites to reduce the seasonality of their business.
- Another new development is the creation of specific camping sites and pitches to accommodate motorhomes. Over the last few years this type of accommodation has increased rapidly, especially in Germany. However, it should be remarked that in the different Member States different rules are in place concerning overnight parking on the roadside or at beauty spots, otherwise known as ‘wild camping’. This practice is detrimental to local communities, increasing waste, causing obstructions and creating security problems. It is still to be seen to what extent the camping industry will benefit from the increased popularity of this type of accommodation until this problem is dealt with effectively.

### **Regulation**

- The regulatory framework in which the camping sites operate differs across Member States. Both national and European legislation impacts heavily on businesses.
- Taxation has a major impact on businesses. Also here large differences exist across Member States.
- A real threat to the further development of the industry is the lack of willingness for regional planners to create the necessary framework to expand camping grounds. Currently, planning restrictions make it very hard for businesses to grow despite unprecedented demand.
- Over the years the sector has seen no simplification in regulation, although it is said to be high on the policy agenda. New legislation is being introduced too often and this is a real problem, especially for SMEs. The sheer amount of regulation and legislation makes it almost impossible for SMEs to be compliant with all regulations.
- At this moment, the Working Time Directive is under revision. An important issue is the proposal to consider “on-call time” as working time. If this new proposal would be approved, this would have a negative impact on the sector, as many parks use wardens that stay voluntarily on parks during the season, meanwhile keeping an eye on things and assisting tourists. If their time in the park would be 100% seen as “on call time”, this would have an impact on the cost and quality of service parks could offer.

### **Standards and quality labels**

- Concerning standards, it is very difficult to find common national regulatory frameworks across the EU-27 which makes proposals for European standards impractical. Moreover, standards are very costly to introduce, especially for SMEs. It is the industry's opinion that initiatives on standards should be led by the industry itself and not by standardisation bodies as is the case at the moment.
- The industry highly values and uses customer feedback to give indications of the quality of the accommodation and evaluate quality.
- Within the industry there is acute awareness of the environmental challenges ahead and the need to move to more sustainable tourism development. However, the EU eco-label scheme that has been launched is far too complex for SMEs to consider.

### **Impact of the current financial crisis**

- In the current economic situation, the camping sector is proving very attractive. However, there are clear differences between Member States, as travel habits have shifted from international travel to more domestic travel. In the UK the exchange rate between the British pound and the euro has seen a bumper year for park businesses. In Spain on the other hand, where camping parks are heavily dependent on foreign tourists, the situation is very different. Demand from foreign tourists has decreased, but Spanish campers do not compensate for the loss in foreign travellers.
- Despite the increasing demand, many camping sites cannot accommodate the extra flow of clients during the peak season as they have a loyal customer base and are traditionally fully booked.
- A direct problem related to the financial crisis, is the difficulty of access to finance. The manufacturing part of the industry has been badly affected and a number of major manufacturers have gone out of business.

**Study on the competitiveness of the EU tourism-industry**  
**Face to Face Interview**  
**European Federation of Food, Agriculture and Tourism Trade Unions**  
**(EFFAT)**  
**Brussels, 12 March 2009**

**Attendees:**

**EFFAT:** Ms. Kerstin Howald, Tourism Sector Secretary

**Idea Consult-ECORYS group:** Isabelle De Voldere and Cristina Nuñez

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**Introduction and general background**

**EFFAT** is the European Federation of Trade Unions in the Food, Agriculture and Tourism sectors resulting from the merger concluded between two European trade union federations, the ECF-IUF and EFA, on 11 December 2000. As a European Federation representing 120 national trade unions from 35 European countries, EFFAT defends the interests of the workers in the sectors and of more than 2.6 million trade union members towards the European Institutions, European employers' associations and enterprise managements. EFFAT is involved in social dialogue with sector associations such as HOTREC, FERCO, CEFS and GEOPA at European level. During the 20 years of social dialogue with HOTREC, they have been treating/raising issues such as mobility, training, CSR, health and safety, undeclared work, etc.

Apart from EFFAT, Ms. Howald also represents **ETLC** (European Trade Union Liaison Committee on Tourism). ETLC is a cooperation platform of the European Trade Union Federations and the Global Union Federations representing workers in the various tourism sub-sectors, such as hotels and restaurants, transport, travel agencies, tour operators, leisure parks, tourism offices, tourist guides. ETLC is a cooperation of EFFAT, ETF, UNI-Europa, IUF, ITF and UNI.

**Key messages from EFFAT**

1. Tourism is people's business. As competition in the industry increases, providing high quality services becomes an important element to differentiate. This quality largely depends on employees. In the hospitality sector employees are much more often the face of the company towards clients than in other sectors.
2. The quality of a service that an employee provides is strongly linked to his/her working conditions. Therefore, social dialogue is very important in this industry.
3. At management level companies start to become more aware of the importance of hospitality and the influence of employees on the hospitality concept, especially in the larger hotel chains. However, a trend in the industry is to sell the property and to run hotels and restaurants under management or franchise contracts. In many cases the management of the hotel directly influences the working conditions, but is - legally speaking - not the employer anymore. As such, workers are not treated as part of 'the company' and have no rights to e.g. participate in the European Council

Works. Workers are thus less represented and less informed and consulted. But the companies do expect that the workers act as truly dedicated employees.

4. The role of social dialogue to enhance competitiveness has not been recognised by all partners involved in the tourism industry. If there was more commitment and openness to dialogue from all sides at sectoral level, social dialogue could play a more important role to enhance competitiveness. In countries where the social dialogue in the industry is well organised, working conditions have been improving such that the industry was able to better attract workers.
5. At European level, the EC could be more supportive in promoting social dialogue. EFFAT does not agree with the general view of the EC that trade unions are part of civil society, and not of the industry. However, the Tourism Unit has been recognising EFFAT and the ETLC as stakeholders and they are represented in the TSG.
6. It is an intrinsic characteristic of the tourism industry that it is highly seasonal and cyclical, not only per year but even per day. Workers in the industry are aware of this and some even like this ‘abnormal’ working schedule. In many countries sectoral social partners concluded collective agreements anticipating the needs of the sector and giving companies the flexibility they need to accommodate periodic fluctuations in demand. To improve the working conditions however, more attention should go to better planning of working hours and fair remuneration. Making schedules easier to plan life would improve working conditions considerably.
7. In terms of working conditions, the industry has a bad image and this becomes a real problem for the industry. It is very difficult to find sufficiently qualified personnel and staff turnover is extremely high. In France e.g. there is a lack of restaurant employees. Moreover, in some countries students do not even want to start training or studies in the hospitality sector anymore. All stakeholders in the industry should jointly intensify efforts to improve the employment conditions and career perspectives and hence make the sector more attractive.
8. On the one hand employers look for skilled and multi-task employees but on the other hand, they do not value this human capital correctly (low employee participation, low salary ...). This is a structural problem in the industry, especially since knowledge and skills will become more important assets to remain competitive.
9. Cross-border mobility is very important in the industry. However, until now there is no transparent system to evaluate certifications and qualifications between different countries within Europe, and the education systems are faced with a lack of transparency and harmonisation. This makes workers’ mobility more difficult. EFFAT and HOTREC are actually working on a European Qualification and Skills’ Passport. This passport would provide employees with a useful and uniform tool to better document the qualifications they have (either through training or work experience) and employers with the necessary information about the skills. The Qualification and Skills’ Passport will first be tested in some countries. It will take some more years before it will be fully operational. EFFAT believes that the Commission should give more targeted support to the social partners working on qualification issues, especially DG EAC.



10. EFFAT and HOTREC believe in equal treatment and jointly agreed that the same regulations as laid down in law and/or collective agreements have to be applied to any worker at a given location, no matter his/her origin.
11. EFFAT believes that ecological and accessibility standardisation could be good for the industry.
12. There are at this moment no quality labels at European level. Labelling is very fragmented in Europe. EFFAT believes that having a comparative system available at EU level would be positive for the industry.
13. The sector is confronted with a significant quantity of undeclared work. This black economy is causing unfair competition and social dumping, and it is an obstacle for companies who want to operate correctly. This has become a major issue on the social partners' agenda in Europe, in many countries social partners cooperate with the authorities at national level.
14. EFFAT supports the request of reducing VAT as a way to improve the competitiveness and fight against undeclared work. Nevertheless, the sector has to comply with the commitments made and fulfil the promises given, e.g. to improve investments, working conditions, salaries, etc. in the sector, and these issues should be subject to collective bargaining and social dialogue.
15. In terms of competitiveness, the industry is confronted with a very negative situation: since customers are told that goods and services are available at ever lower prices (e.g. low cost companies and last minute promotions), the principle of paying for quality is strongly decreasing. This makes that margins are very low and that the industry has increasingly difficulties to pay appropriate salaries and to provide decent working conditions. Consequently, they do not find enough qualified workers and the industry is confronted with a bad image as employer.
16. New emerging economies (e.g. BRIC countries) could create new opportunities for the European tourism industry, but employees have to be trained to these new cultures (e.g. Indian and Chinese). Initiatives are already being taken, but no structural approach yet.
17. Impact of the financial crisis on the industry: the impact seems to be very different for different segments and in different Member States. For instance, while business travel in the UK is decreasing, hotels in Austria were fully booked during winter sports. In general, short distance travel will increase, which can be very positive for sustainability. This is not the first crisis that the sector has faced and tourism will recover. However, many companies seem to use the situation to downsize more than they should, which will decrease the chances to find employees once the crisis is over. Companies should be flexible and keep as many employees as possible (e.g. by better planning or reducing working hours). It is crucial that social partners sit together and find flexible solutions that are beneficial for both the employers and employees.

**Study on the competitiveness of the EU tourism-industry**  
**Phone Interview**  
**European Tour Operators Association (ETOA)**  
**Brussels, 15 April 2009**

**Attendees:**

**ETOA:** Mr. Tom Jenkins, Executive Director

**Idea Consult-ECORYS group:** Isabelle De Voldere

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**Introduction and general background**

ETOA is the trade association offering European level representation for the interests of inbound and intra-European tour operators, wholesalers and their European suppliers. Today, ETOA is the voice of European Inbound Travel, with over 400 Members. The full members include leading International Tour Operators, Online Travel Agents and Wholesalers whose business is to bring passengers into Europe. In 2006 ETOA full members brought € 8.1 of revenue to Europe. ETOA also has a strong membership of leading European suppliers (Associate Members) including individual hotels, hotel groups, tourist attractions, ground handlers, technology systems and services, transport providers, tourist boards and other tourism services.

**Market structure**

1. A very different market structure can be seen in the international tour operators segment versus the online travel agents segment. The first group has seen a large wave of mergers and acquisitions over the years, resulting in a highly concentrated market. The online travel business on the other hand is still very young and new players can easily enter the market. Only a few larger players exist (e.g. Expedia). But although it is still a very fragmented market, also here successful companies are being taken over by larger ones (e.g. Tripadvisor recently taken over by Expedia).
2. The internet is a very successful distribution channel for the travel business in many countries, allowing to easily reach inbound tourists from all over the world.
3. Online travel businesses are truly “footloose” companies. They do not have to be located in the EU to do business and thus do not have to comply with EU regulation. This gives them a strong competitive advantage over tour operators that are located within the EU and have to comply with all EU regulations.

## **Regulation and taxation**

The EU tourism industry faces two major problems when we talk about competitiveness.

1. Regulation is very strict and “business unfriendly”:
  - a. EU consumer protection is very strong (“every euro that a customer spends on travel is secured”). This seems good, but the bonding authorities are not European, but national. This results in a very fragmented EU travel market.
  - b. The Package Travel Directive has increased the financial burden on tourism companies enormously (necessary insurances are very expensive).

Despite the fact that so many measures have been put in place to protect consumers, it is to be remarked that all growth over the last few years in the industry has come from internet bookings. Internet booking means self-packaging and no consumer protection... When the consumer has the choice, he apparently goes for the easiest and cheapest alternative. Consumer protection does not seem to be a major concern from the consumer side.

2. Taxation: the TOMS in the EU excessively taxes firms with high distribution costs. This makes that TOs based in Europe cannot offer travel tours at competitive prices (compared to non-EU TO) to inbound tourists. As a result, any organisation who sells European travel tours outside of Europe has relocated outside of Europe.

Next to these two issues, visa regimes should be revised urgently if one wants to remain attractive for inbound tourists. The current visa policy is bad for EU tourism.

## **Future developments in inbound tourism**

1. The North-American region will remain by far the most important region for inbound tourism into Europe. A recent study has shown that Canada and the US still are the n° 1 and 2 for returns on investment in inbound tourism. Japan completes the top 3.
2. Looking at emerging markets, Russia and Brazil are considered to be interesting markets with good growth potential. India has some interesting potential. The potential of China as sourcing country on the other hand is very limited and it is not expected that this will change in the near future. Although Chinese “outbound” tourism has increased significantly, it mainly involves intra-Asia travel.

**Study on the competitiveness of the EU tourism-industry**  
**Face to Face Interview**  
**The European Travel and Tourism Action Group (ETAG)**  
**Leuven, 23 April 2009**

**Attendees:**

**ETAG:** Mr. Gareth James (secretary)

**Idea Consult-ECORYS group:** Isabelle De Voldere

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**Introduction and background**

ETAG aims to provide a forum for all the key interests concerned with the provision of visitor services and facilities in Europe. It was established in 1981 and seeks to identify and promote the common interests in tourism development which links all the sectors together.

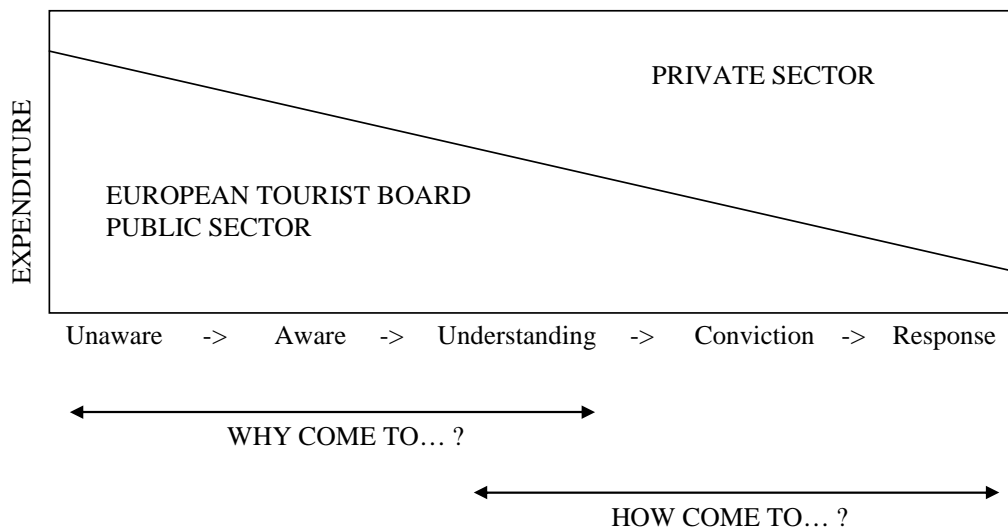
The principal objectives are:

- to encourage effective technical liaison and co-operation between governments, national tourism agencies and the tourism operating interests in the public and private sectors
- to promote the development of Europe's Tourism
- to help remove constraints on the growth of travel

**Key messages from ETAG interview**

1. Tourism can only flourish when the private and public sector work closer together. The problem is that there is a major lack of understanding with government about the functioning of the tourism industry (e.g. problem of seasonality, role of SMEs,...) and reversely, a major lack of understanding with the industry about the role of government.
2. An important role that governments now play in tourism, is that of marketer through e.g. the national tourist offices. However, the role that tourist boards play in the market is not always clear and the activities they focus on often overlap with activities that the industry easily could do itself.

In any buying process, customer need to go through different phases before they actually buy the product (see figure below). Through different levels of communication customers need to be led from the 'unaware' stage to the 'response' stage (taking action: either buying or not); this is called the 'Communication Life Cycle'. This is no different for the marketing of tourism products, only that in the marketing of tourism products both public and private sector are involved. The role of each of these two in the communication life cycle is not always clear. National tourist offices and other tourist boards should primarily focus on the "why come to..." question and not on the "how come to..." question. But in reality they focus too much on the last question and too little on the first. As a consequence often a crucial part in the marketing story of a tourism destination is lacking in Europe, nl. making potential visitors in the first place aware of the destination



3. Non-European visitors should be first made aware of 'Europe' as tourism destination, in a later stage they should be made aware of destinations within Europe. Now, 'Europe' is not efficiently marketed as tourism destination outside of Europe due to a lack of co-ordination among European, national and regional initiatives. Now competition among Europe and the different EU-destinations comes too early in the marketing story.
4. Marketing 'Europe' is very difficult, due to the very diverse region. The only element that connects all regions in Europe is cultural heritage. This should be an important element in any marketing campaign.
5. When we talk about the competitiveness of the European tourism industry, there certainly is a 'perceived' problem of competitiveness. Europe is seen as an expensive destination, due to its huge social welfare programmes, as well as seen as an old tourism destination with correspondingly old tourism infrastructure. The question is to what extent there is also an actual problem of competitiveness. One cannot deny that travelling to/in Europe is not cheap, but one should focus on what travel experience you get in return. Do you get the right 'value-for-money'? This can certainly improve.
6. Regulations per definition cost money to business and thus lower the competitiveness. But one should not forget what there is in return: e.g. a safer destination where coach drivers do not fall asleep,... The great difficulty is to find a good balance between under-regulation and over-regulation. E.g. Due to many security regulations, safety checks in airports cost a lot of money (to business) and time, leading to a lot of hassle for customers. This discourages people to travel by plane and thus lowers the competitiveness of the industry. And the critical question is whether all these regulations and measures are necessary to guarantee the safety.
7. Seasonality is a major problem for the competitiveness of the European tourism industry. Due to the seasonal nature of European tourism, infrastructure is not efficiently used and labour conditions are negatively influenced. At this moment, several initiatives have already been taken by different governmental organisations. The problem with all these initiatives is that they are too scattered to have any significant impact. A more co-ordinated approach is very much needed to have any effect.

8. Not only at governmental level co-ordinated initiatives should be taken to lower seasonality of European tourism, also the industry itself should be much more innovative in that sense. At this moment there is way too little innovation in targeting different segments in the market. By approaching different client groups in a more targeted way, seasonality could be lowered significantly, e.g. attracting Australians in the ‘shoulder seasons’ (just outside the European top summer season), focusing on the retirement segment that travels all year round, stimulating social tourism.
9. Lowering seasonality of business can mean a structural solution for the often bad labour conditions in the market. These bad labour conditions have an important impact on the ‘travel experience’ in Europe. Due to the low payments in the industry, there is a large problem of motivation and retaining of good, experienced people. This leads to bad services (because of lack of motivation or because of lack of experience and training) and thus to a negative travel experience.
10. SMEs play a crucial role in the European tourism industry. This is very often forgotten by governments. The reason is that this group of enterprises is not well represented. There is a strong need for a better interface between SMEs and government to raise understanding at both sides.
11. Among the SMEs there is a large group of ‘amateurs’, people that have started a business in the tourism industry but that do not understand the industry, the customers or the market, nor have good knowledge about doing business. There is a real need for very simple basic trainings that target SMEs that want to do business in this industry. The question is how this should best be organised and at whose initiative. There is certainly a role for EU government to already identify the gaps that exist at this moment in terms of the provision of education and training towards this group of enterprises.
12. The current financial crisis clearly means a downturn in the tourism business, but with some losers and some winners. The biggest loser is certainly the business segment, that has been hit hard. This has implications on several sectors in the tourism industry: airlines, hotels,... that focus on this segment. On the other hand, winners are those that focus on domestic travel, smaller scale businesses that offer good quality at good prices (‘value-for-money’).
13. As a consequence of the current crisis, only the good companies will survive. This is not bad for the industry. This process will lead to more professionalism in the industry. Only those that are able to offer value-for-money will survive, the others will have a very tough time.

**Study on the competitiveness of the EU tourism-industry**  
**Face to face interview**  
**European Travel Agents and Tour Operators Associations (ECTAA)**  
**Brussels, 23 March 2009**

**Attendees:**

**ECTAA:** Mr. Michel De Blust (Secretary General)

**Idea Consult-ECORYS group:** Isabelle De Voldere and Raf Myncke

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**Introduction and general background**

ECTAA is the voice of European travel agents and tour operators. It aims to monitor all relevant legislative and non-legislative initiatives, inform and consult its Members and represent their interests vis-à-vis European Union institutions and international organizations. ECTAA was founded in 1961 and grew with the successive enlargements of the EU. Today ECTAA counts travel agents' and tour operators' associations of 26 EU Member States, of two EU candidate countries, as well as Switzerland and Norway. ECTAA represents some 75.000 enterprises and over 300 billion EUR in turnover (20% online).

**Market structure**

1. 20/80 rule applies in the industry: 20% of the enterprises represent app. 80% of total turnover. There is an increasing degree of concentration, both in the subsector of tour operators and travel agents.
2. Very diverse company profiles can be found in both subsectors: very large (integrated) players (e.g. Thomas Cook, TUI, Amex, BCD, Carlson Wagonlit, etc.) as well as small niche players. As an example, in a recent presentation TUI mentioned that it achieved 14 billion turnover in 2008, with 25 million customers and 63 000 employees worldwide.
3. Geographical differences in market structure: concentration is high in Northern Europe and “Old” Member States, compared to Southern Europe and New Member States.
4. Huge differences in travel habits between different European countries exist. The tourist product is not yet a commodity. German tourists will pay more, look more for comfort and prefer other destinations than for example British tourists. Tourists in southern countries travel more independently, while Scandinavian tourists largely travel via organised packages. These differences are translated into the product range being offered by tour operators and travel agents in different countries, as well as into the market structure of the sector itself. In opposition to Nordic countries the Tour Operators in countries like Spain, France and Italy are not among the larger players. Although more or less equal in number of inhabitants, tour operators in the UK may sell more than 40 million packages, while in France the local TOs production does not exceed 8 million packages.



5. The most important elements influencing the industry's structure over the last 20 years have been the achievement of the Single market, the liberalisation of Air transport with the rise of low cost carriers<sup>7</sup> and internet. Suddenly consumers were able to buy a flight at the same price as a tour operator. This has had a major impact on the business structure of the sector. As a reaction tour operators (TOs) have developed new marketing strategies, including the concept of 'dynamic packaging': consumers can put together their own holiday. This concept is especially used in the more mature markets (Northern and Western European markets). The structure of the Eastern European market is at this moment still what it has been in Western Europe before the rise of low cost carriers and internet, although rapid changes are observed in these markets as well.
6. Important changes in market structure to be noticed. Both horizontal and vertical integration are strategies to be found within the sector.
  - k. Horizontal integration: In a first stage one enterprise takes over another one and will become a major player within one country. In a second stage this enterprise might become a target for integration within a larger European player. This is a typical strategy for Central European players anno 2009.
  - l. Vertical integration: A tour operator expands its main focus to different activities, e.g. retail (travel agent), hotel, airline and DMC. This has been a leading and successful strategy in the nineties (until 2001) for Western European players, to enlarge margin on activities undertaken. After 2001 TOs experienced losses on their non-core activities, leading to the divestment of some activities<sup>8</sup>.
7. The economic and financial crisis will speed up the transition in New Member States. Horizontal integration will most probably accelerate after 2009.

### **Cost structure and competition**

1. Labour costs account for at least 50% of the total cost of businesses. Compared to other areas in the world this share is extremely high. In addition, social costs add substantially to pure labour costs.
2. In all European countries indirect taxation (VAT) exceeds 15% not taking into account local taxes and charges. In a research undertaken in 2006, ECTAA has demonstrated that 30% of the total price of a tour to three European Countries purchased by a Chinese Tourist, constitute taxes, fees and charges. This is a major hindrance for the EU Incoming Tourism which is competing with other World Regions.
3. Taxation is however not a European competence. Every single Member State can decide the level of taxation autonomously (within the limits set by the VAT directives). Even worse, local communities use taxation on tourism as a strategy to earn additional income without affecting the purse of local voters.

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<sup>7</sup> Low cost carriers are focussing on a different market compared to charters and classical airlines. While tourism is a very seasonal activity visiting friends and relatives over Europe is a more stable basis for business.

<sup>8</sup> Before 2001 large vertically integrated tour operators disposed of a flight or hotel capacity to cover the high season peak. After 2001 they sometime reduced their maximum capacity to 70% or 80% of their maximum capacity needed. High peaks in demand were countered with additional capacity from elsewhere. This results in competitors sharing flights, hotels, etc. Prices don't differ more than 5%, for similar products.



4. Visa regulation is another major problem for incoming tourism to the European Union. After September 2001 every foreign visitor has been looked at as a “potential terrorist”. Unfortunately more stringent visa rules will not combat terrorism but will constitute a major threat for tourism to Europe. A council Regulation of May 2006 has nearly doubled the cost of a Schengen visa for third countries visitors. Today a family of four has to spend 240 EUR in visa fees to travel to Europe. A proposal for a new EU regulation on Visas is likely to increase the administrative burden for foreign visitors when applying for a Schengen visa.
5. Tourism is by definition a seasonal activity. This is especially the case for destination markets in Europe.
6. Access to finance is a serious problem, especially in the current economic situation. The financial structure of TOs’ and TAs’ balance sheets do not facilitate their access to finance. In addition tourism is seen as a cyclical and more vulnerable industry. Within the industry some players are adding difficulties to the existing ones. For example, in recent months IATA has raised the financial criteria and bonding requirements for the IATA accredited agents. As a consequence an increased number of SME retail agents may simply be excluded from the specific air ticketing activity.
7. ETS will have without doubt a significant price impact on demand for air transport in particular for leisure travel, and thus on TOs and TAs. As flight prices with low cost carriers are lower, it is expected that the impact of ETS will be higher for this segment.

### **Productivity and profitability**

1. ICT has been a major development in the sector. As online booking systems developed, the role of travel agents had to change drastically. Focus of activities has shifted gradually from reservations and ticket issuance towards added value services. From just selling tickets an evolution towards “travel consultants” is to be noticed. This has resulted in and will result in a major reorganisation of the sector with an increased concentration<sup>9</sup>.
2. Travel consultants will need to work much more according to a “AAA-model”: Advice before the trip, Assistance during trip and After sale service. Many travel agents however have not made this transition yet. This is a major challenge for the coming years, and it will require significant changes in the way of conducting business by Travel Agents. The consumer’s wishes and needs become central, and added value needs to be found in selling services.
3. Trend towards the constitution of networks/consortia whereby different travel agents are pulling together purchase and other services which are shared (e.a. management tools, staff training, seminars, visa services etc)
4. The average profit margins are low within the Industry. This leaves little room for high wages, leading to a high turnover of employees. Finding and retaining good and qualified staff is a major challenge in the sector. Especially in light of the changing customer approach explained earlier, (tacit) knowledge and experienced staff become even more important.

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<sup>9</sup> Twelve years ago there were around 70.000 enterprises in 12 Member States. Today we count 80.000 enterprises in 30 Member States. In countries like UK and Germany around 10-15% of IATA licences has been lost over the last year

5. On the one hand the sector is evolving towards a high service economy, on the other hand, the margins to invest in labour and knowledge are limited. This is a real structural problem.
6. European and National trade Organisations do organise trainings, seminars, colloquia, etc. focusing on the changing approach. Also tourism educational programmes need to adapt and adequately educate future tourism employees according to the changing patterns within the Industry. In tourism tertiary education changes are already taking place.

### **Regulation and Standards**

1. The access to the professional activities as a TO or TA, a licence is required in 15 Member States while at the same time no sector specific authorization is needed in 12 other Member States. Major differences exist between different Member States. This leads to additional administrative burden and costs in certain countries.
2. As from December 2009, the new Directive on Services will be applicable. However large differences will remain in the time needed to set up a new business. In Sweden for example it needs not more than 2 weeks to start a new business in the industry while in France for example it can take up to 6 months to get a new licence from the local authorities.
3. European Consumer legislation (Package Travel Directive, financial guarantees, consumer protection, etc.) and labour costs affect the competitiveness of European tourism enterprises vis-à-vis enterprises from other world regions. Europe is often perceived in third countries as an “expensive destination”.

### **Sector development**

1. The Tourism Industry in general has always been cyclical. Business went well between 2004 and August 2008. Since the Autumn 2008 the impact of the financial and economical crisis has hit the sector unexpectedly. Based on the most recent information from the Industry, Europeans tend to continue to travel. Leisure travel has been good during the Christmas holiday, Spring half-break and Easter. It is still very much uncertain how the summer holidays will be. What is however certain is that travel markets have become ‘last minute’ markets. Moreover, changes include a shift from long haul towards short haul, changes in mode of transport, changes between individual destinations, etc.
2. Business travel has been more significantly affected by the crisis so far. Many corporate businesses have reduced their travel budgets for 2009 and travel management Companies are observing decreases in turnover up to 20-25 % for the first quarter of 2009. Such trends are also confirmed by the airlines’ industry, which observe a significant decrease of premium passengers and more generally a decrease in absolute number of passengers.
3. The MICE sector is equally affected by the current crisis and MICE companies report similar decreases.
4. Financial crisis may lead to a higher rate of bankruptcies, reorganising and further concentration. It is to be expected that the sector will continue to consolidate, resulting in less but stronger players.

5. In general tourism will continue to grow. Europe will however lose market share in the worldwide context.

**Study on the competitiveness of the EU tourism-industry**  
**Face to Face Interview**  
**The European Travel Commission (ETC)**  
**Brussels, 9 June 2009**

**Attendees:**

**ETC:** Mr. Rob Franklin (executive director)

**Idea Consult-ECORYS group:** Isabelle De Voldere

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**Introduction and background**

The European Travel Commission (ETC) is a non-profit making organisation with its headquarters in Brussels. Its members are the 39 National Tourism Organisations (NTOs) of Europe<sup>10</sup>.

The main objectives of the European Travel Commission are to:

- Promote Europe as an attractive tourist destination;
- Assist member NTOs to exchange knowledge and work collaboratively;
- Provide industry partners and other interested parties with easy access to material & statistics regarding inbound tourism to Europe.

**Key messages from ETC interview**

*Marketing Europe as a tourism destination*

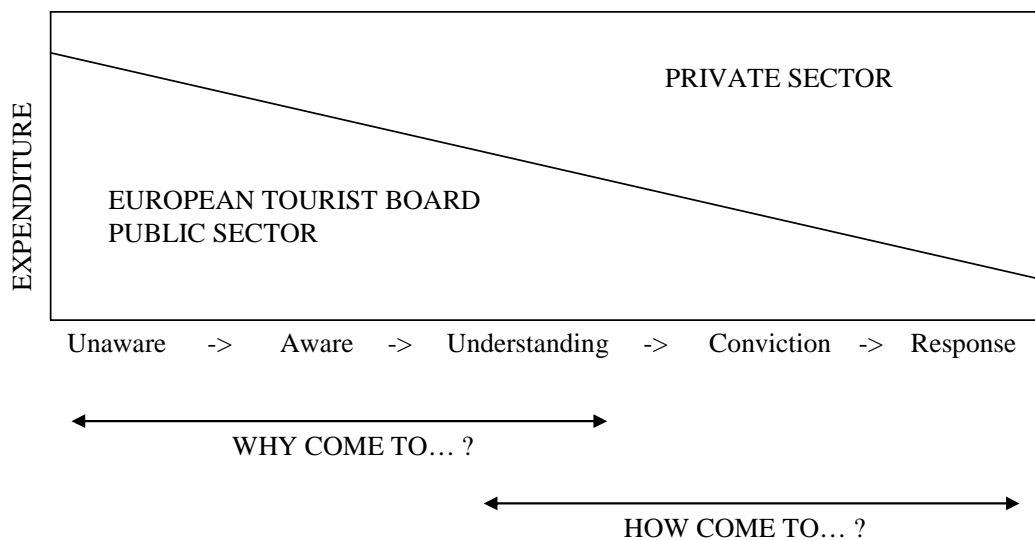
1. The marketing of a tourism destination as diverse as Europe is a complex matter. Although an effective marketing strategy may well benefit the whole tourism industry, the very fragmented nature of the industry (involvement of accommodation businesses, airlines, transportation companies including rail, bus & car hire, tour operators, attractions,... as well as the public sector at various levels – European, national, regional) makes it unlikely that there will be a co-ordinated approach with regard to the marketing of the destination.  
But such co-ordinated action is necessary to successfully market a tourism destination, as the ‘production’ versus the ‘marketing’ of the tourism product depends on many different players. For example, a national tourist board can launch a very good marketing campaign to promote tourism in a specific region in winter time. But if none of the attractions or accommodations is open in winter time, such a campaign is useless.
2. In the communication life cycle of tourism destinations (see figure below), the public sector should mainly focus on the first stages of the cycle (‘create awareness’). In these first stages, different ‘levels’ of promotion need to be undertaken to create awareness about Europe as a destination. The first step is to create awareness about

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<sup>10</sup> Austria Belgium (Flanders) Belgium (Wallonie-Bruxelles) Bulgaria Croatia Cyprus Czech Republic Denmark Estonia Finland France F.Y.R.Macedonia Georgia Germany Greece Holland Hungary Iceland Ireland Italy Latvia Lithuania Luxembourg Malta Monaco Montenegro Norway Poland Portugal Romania San Marino Serbia Slovak Republic Slovenia Spain Sweden Switzerland Turkey Ukraine United Kingdom

Europe as a whole. Only in a later stage can awareness be created about specific member states, regions, cities,... as tourism destinations. For this latter, clearly NTOs are the main players. The question arises as to who should be responsible and willing to take care of the very first step. At present, Europe as a whole is lacking the necessary actors and sufficient funds to provide adequate marketing and promotional campaigns in this first crucial step of the marketing process - especially to attract non-EU tourists.

Figure: The communication life cycle



3. We need to know our markets, and we need to get to know our customers better. It's all about market segmentation, and having up to date market intelligence. Over time, the demand of customers has become more complex. Travellers look for a high quality experience at a good 'value for money' price. Moreover, they want a personalised service, even when they travel as part of a group. As a result, both the tourism product and the provision of information have become more complex. The importance of social networks (Facebook, Twitter,...) has grown exponentially over the last few years. To better capture the potential of these social networks, the visiteurope.com portal of ETC will further incorporate these social recommendation tools in the future.
4. Successfully selling a holiday package is not the same as selling a tangible product, like a coffee machine or a car. When selling a holiday package, you sell an 'experience' – where different products and services are combined. It is the right combination of those different products and services that makes a travel experience successful. The 'right' combination strongly depends on the customer. For some customers this 'right' combination looks like X, while for another customer this might look like Y. And even for the same customers this 'right' combination can look quite different from one holiday to another. Therefore, when designing new tourism products (being a combination of products and services), the customer is absolutely key. However in Europe some tourism businesses still think in terms of 'product' first, and 'customer' second. If we want to remain competitive, this has to change.
5. By becoming more customer-oriented, firms will be better able to provide "value-for-money", something that is becoming increasingly more important to customers when evaluating their travel experience. In Europe, we do have excellent products available

that will help provide good “value-for-money”. But we are often unaware of how we can actually create this “value-for-money”. For this, the concept of offering good service is crucial (e.g. a friendly waiter and a ‘free’ raki after dinner offered by a Crete restaurant gives a very different experience when compared to an unfriendly waiter and no raki, even if the food is excellent in both situations). At times, we are not the best at providing good service in Europe. And good service is a critical element if you want to offer “value-for-money” and an excellent travel experience.

#### *Important framework conditions for a competitive EU tourism industry*

6. To improve the provision of service as well as customer-oriented thinking by employers and employees in the EU tourism industry, training is vital. Much more attention should go to understanding what the industry is lacking in terms of skills and to developing adequate training programmes. However, at present there is not enough interest or leadership in designing good training in tourism.
7. An adequate system to provide customers with ‘guaranteed’ information about the quality of tourism products and services is lacking in Europe. Numerous ‘quality label’ systems (mostly voluntary industry initiatives) exist alongside each other, but they offer no real guarantee to customers. Moreover, no European independent controlling body exists to check whether companies that carry a label, really fulfil all requirements. In the accommodation business no compulsory registration system exists. Anyone who wants to start an accommodation business, can do so and there is no system in place to force accommodation business to fulfil a certain set of minimum requirements.
8. In the EU tourism industry there is no central system where people can complain about ‘bad’ practices. Nevertheless, people should be allowed to complain and their complaints should be treated properly and with respect. A complaint is a gift! The European Commission could take a leading role in setting up the necessary instruments to be able to receive and treat complaints in a structured manner.

#### *The potential of non-EU source markets*

9. THE major strength of Europe as a tourism destination is its reputation as the cradle of many cultural and historical events and developments over time. Europe is the original! All over the world, travelling to/in Europe is seen as a very interesting and enriching experience. Moreover, Europe is seen as a ‘fun’ place to go: very easy to get around, politically stable region, great diversity of attractions,... There is something in Europe for everybody.
10. Non-EU tourists offer great opportunities for the European tourism industry. Many large emerging economies (e.g. Russia, China, India, Brazil) show high growth rates in tourism activity. At present the travel interests of these ‘new’ tourists might still be mainly focused on tourism activity in their domestic or regional markets, but over time the interest for long haul travel will undoubtedly increase. These customers will by then have already gone through the awareness phase of what Europe might mean to them in terms of tourism destination. Therefore, promoting Europe as a tourism destination now is very important to maximally capture the potential (future) opportunities of these emerging markets. Unless we promote Europe well in these regions, other (competitor) regions will gain market share and Europe will not remain

competitive. The major problem in Europe is that there is no money available to do this in a structured and effective manner.

11. Despite the high growth figures of a number of emerging markets, we should not forget our largest inbound markets (e.g. US, Canada) and we must remain active in these markets to market Europe effectively, if we want to retain (and indeed increase) our market share. Over the last few years, the promotional efforts in these markets have clearly decreased. Other regions have taken a more prominent role - e.g. when you open a lifestyle travel magazine in the US, these days you rarely see promotional ads for Europe, although you do find plenty of promotional ads for competitor destinations such as Asia, the Caribbean and cruises.
12. Non-EU tourists can also help the EU tourism industry to improve the seasonal pattern of business. Europe as a destination is not only attractive in the summer season (moreover, it is crowded and expensive at that time of the year), but has such a diverse tourism offer, that it can be attractive to tourists all year round. This does demand a creative approach in terms of marketing – both from the private and public sectors. One might think of e.g. providing incentives to non-EU travellers to come to Europe in the low season (e.g. charge 0% VAT). Promoting ‘affinity’ travel offers great potential, i.e. working around specific themes at specific times of the year e.g. winter time -> the perfect time to enjoy the Christmas period in a ‘real’ winter landscape, rather than lounging on a beach with 40°C temperatures which is normal at that time of year in places like Australia. The European winter season also offers wonderful opportunities for shopping, theatre and nightlife trips as well.
13. Both in the developed and emerging tourism source markets, we have not reached the full potential for EU tourism yet. The non-EU markets really offer great opportunities for the EU tourism industry now and in the future to come.

**Study on the competitiveness of the EU tourism-industry**  
**Telephone Interview**  
**EXCELTUR**  
**Brussels, 6 April 2009**

**Attendees:**

**Exceltur:** José-Luis Zoreda, Oscar Perelli and Adela Moreda

**Idea Consult-ECORYS group:** Isabelle De Voldere and Cristina Nuñez

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**Introduction and general background**

EXCELTUR is a non-profit organisation composed of 27 of the most relevant Spanish tourism groups from the following subsectors: air/road/railway/sea transport, accommodation, travel agencies and tour operators, payment systems, car rental, leisure, attraction parks, booking centres, timesharing, etc.

EXCELTUR was founded in 2002 as a forum for open dialogue with a significant number of industry leaders, to evaluate the present and the future of the Spanish tourism industry and the main challenges. The organisation is committed to two main objectives:

- To improve the recognition of the social-economic dimension of tourism as a main sector of the Spanish economy
- To improve the competitiveness in order to ensure the tourism industry's sustainability in Spain in light of the main upcoming challenges for the industry in the medium-long term.

EXCELTUR member's turnover at the end of 2007 exceeded 25.000€ millions, including investments in more than 40 countries and more than 200.000 direct employees and commercial activities in 175 countries.

**Main challenges for Spain as a mature tourism destination**

The balance of the closing year 2008 shows that the Spanish tourism sector has been more intensively affected by the economic crisis than the whole of the Spanish economy<sup>11</sup>.

The experts confirm that the situation of the tourism sector in Spain is critical and identify 4 main elements, which have a major impact on the future of the industry and which justify its renovation, especially on the coast, based on “sun and beach” product:

- Increase of international competitors (Turkey is much more competitive in terms of price)
- Excess of tourism bedrooms in certain destinations

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<sup>11</sup> [http://www.exceltur.org/excel01/contenido/portal/files/Informe\\_Perspectivas\\_Turisticas\\_N27.pdf](http://www.exceltur.org/excel01/contenido/portal/files/Informe_Perspectivas_Turisticas_N27.pdf)



- Limited diversification of tourism supply (strong focus on 'beach and sun', 75% of tourism in Spain concentrated at coast)
- Downgrading of public spaces and private infrastructures

For the last 7 years the tourism contribution to GDP has decreased from 11.6% to 10.8%. The growth of the tourism activity in Spain (1.6% in average) is lower than the whole Spanish economy (3.4%), which reflects the structural competitiveness problems of mature 'sun and beach' destinations. Indeed, there is a strong need to rethink the "mass tourism"-model developed in the 60's (low prices, large volume, no differentiation) and create new experiences in order to meet the new consumer's expectations.

Furthermore, the rate of expenditure per tourist measured in real terms in Spain has also been decreasing. This again confirms the need for differentiation and diversification of the tourism product, as for any other industry, as well as the need for coordination between the public administration and the private sector in order to improve tourism competitiveness.

This coordination is of paramount importance for the tourism value chain, in which any decision concerns the following link. For instance, the carbon tax on airlines foreseen at the EU level might have some negative impacts on air accessibility towards certain mature Mediterranean destinations. Stakeholder involvement and coordination are essential to ensure an adequate management of public and private expectations and the delivery of information with enough time to develop the best options to meet future needs

### **Labour and Education**

EXCELTUR has recently published a White Paper about tourism human resources in Spain. In this document human resources are a main asset to increase tourism experiences<sup>12</sup> differentiation and to improve competitiveness.

Indeed, one can notice the importance of intangible elements in the product. The differentiation can be achieved by an excellent client service and personalisation. As such, human resources management has become a key policy within the tourism enterprise.

Through its White Paper, EXCELTUR addresses a number of recommendations to the industry in order to build up these 'tourism experiences' and renew 'sun and beach' mature destinations into new travel experiences.

The main issues identified as necessary to improve the skills and conditions required to create a qualitative 'hospitality culture' are:

- Public-Private partnership
- Legal-Labour framework: Over-regulation and lack of flexibility has a negative impact on competitiveness (black economy, contract conditions, working hours, collective negotiation, immigrants and youth employees)

<sup>12</sup> [http://www.exceltur.org/excel01/contenido/portal/files/LIBRO\\_BLANCO\\_RRHH.pdf](http://www.exceltur.org/excel01/contenido/portal/files/LIBRO_BLANCO_RRHH.pdf)

- Reinforce the image of the industry as a job creation actor
- Leadership capacity for the professionals of the sector
- Improving training
- Role of Human Resources' position

### *Education*

Regarding **education** EXCELTUR identifies two levels:

1. Technical positions in the tourism sector: cooks, pilots, etc.
2. Managerial occupations

For the education of technical skills specific to the industry, Spain has some renowned schools. However, the problem in education is situated in the managerial skills. The tourism industry in Spain has a major shortage of good managers.

The question is where these managers need to be trained. Is a specific management training geared towards the tourism industry needed? The tourism industry considers itself as unique, which would justify its own business schools. EXCELTUR agrees that for the first level of education (the technical one), specific training towards the industry is needed. However, they consider that, since the industry is too diverse and too specific at the same time, there is no need for an MBA in tourism, as there is also no MBA for the automobile industry. Moreover, receiving a managerial training in a business school where many different backgrounds are combined, provides scholars with creative and innovative new insights that are much needed in the Spanish tourism industry to evolve to the new tourism model.

According to EXCELTUR Education has to provide skills to:

- Ensure that the industry meets consumer's needs
- Managerial capacity: Design, promote and sell a tourism product, as it is done for any other industry. EXCELTUR identifies a need for innovation, which can only come from other sectors and disagrees with the current practice, which consists of having as a unique source the previous experience in the tourism industry.

It is noticed that the new generation of managers in the tourism industry is more open to innovation and aware of the need to rethink the traditional 'sun & beach' model.

### *Labour conditions and image*

The tourism industry is known for its rather weak labour conditions: irregular working hours, low financial compensation, etc. The status of a job in the tourism industry is low: the sector does not have an image of prestige and economic development. One can notice that the students refuse to invest their careers in the industry because of the difficult labour conditions (family owned business, not flexible working hours, etc.). The tourism industry therefore is confronted with a structural problem of attracting and keeping the right skilled people (both low and high skilled). There is a need to recruit employees by adding value.

EXCELTUR undertakes actions to create awareness of what needs to be improved in the labour market. EXCELTUR provides updated information on what tourism represents to job creation, sustainable development, economy growth and social values in order to improve the perception that the society has of that industry.

### **Role of government**

There is a clear need for more coherence between the regions and the different levels of governance. There is also a need for more coordinated public policies addressed to tourism businesses in order to provide them with an updated state-of-the-art on main market trends, weaknesses and strengths of tourism supply, and best options to face current and future challenges. Spanish tourism needs to be conducted by the leadership of Central Government in coordination with the Regions, in order to define and apply and strategic approach for the next decade.

EXCELTUR's message is to promote leadership and coordination rather than regulation. Indeed, since the main competences have been decentralised in Spain, there are currently 19 different regulations in Spain for the different tourism sub-sectors.

### **The current economic crisis**

According to EXCELTUR, the current economic situation may be an opportunity to generate new strategies for tourism development and to boost a renewed tourism model, based on differentiation and added value. Government should exercise a leadership role in the transformation process.

### **Climate change and challenges for the Tourism industry**

EXCELTUR is aware of the strong need for attention to this matter in Spain and has been carrying out studies and reports about current public/private best practices, identifying the possible gaps and the potential support from this organisation.

The recent environmental seaside Law has been achieved without the participation of the tourism authorities and many of its stipulations are negatively affecting tourism businesses. For instance, according to the above mentioned Law, the "chiringuitos" (or typical Spanish beach bars) have to disappear, which means to accelerate the rate of employment destruction in a critical moment for the tourism industry. Thus, the main challenge identified is the need to integrate tourism priorities into the environmental policy.

On the other hand, tourism industry is currently focussed on promotion rather than on environmental friendly solutions. Environmental regulation is predominantly seen as a burden in the tourism industry. This should change. The public administration has a crucial role in defining better initiatives/actions for the tourism sector in the framework of the environment and climate change.

## **Sector development**

EXCELTUR's opinion about the current economic situation is cautious. The organisation believes that Spain will recover from this crisis, as it has done in the past. However, this moment is crucial to create the necessary conditions which will allow the sector to reinvent its strategies and to become more competitive in the future.

As such, EXCELTUR recommends the public administrations to use this moment as an opportunity to change the conditions, to invest in renovation and consolidation of existing destinations and to promote a new tourism model.

**Study on the competitiveness of the EU tourism-industry**  
**Face to Face Interview**  
**Federation of Farm and Village Tourism (Eurogites)**  
**Brussels, 13 March 2009**

**Attendees:**

**Eurogites:** Mr. Klaus Ehrlich, President

**Idea Consult-ECORYS group:** Raf Myncke and Cristina Nuñez

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**Introduction and background**

The European Federation of Farm and Village Tourism (Eurogites) is formed by 30 professional and trade organisations from 25 European countries. It represents the rural accommodation sector in Europe, with an overall estimate of 400.000 establishments and about 3.6 million bed places. An estimate of economic importance goes up to creation of 900.000 direct or indirect jobs and over 150.000 million euro income in rural areas. Eurogites is representing both rural bed and breakfast, self-catering in private homes or farms, up to small family-run rural hotels and guesthouses.

**Market structure**

1. Rural tourism is largely defined by needs and desires of customers. The supply needs to match the demand. Rural tourism is not just referring to single services, but should be considered as a tourist product as it contains accommodation, activities, gastronomy, etc.
2. Diversity within the sector is huge. Going from very small enterprises up to guesthouses or hotels with 40 bed places. Of all the bed capacity in Europe, 80% is self catering and 20% rooms in private houses, but the variation between countries is huge – for example in Rumania, the relation is just opposite. Important to notice that this type of accommodation is not always included in official statistics (also the case for e.g. second homes).
3. Figures are not easy to compare due to the different regulations existing in different Member States. Countries as Austria and Germany have very detailed data while e.g. in Spain this might not be the case.
4. One can notice that in countries where there is no specific regulation that requires to set up a formal business for offering small-scale accommodation, like in Austria, Germany, or UK there is almost no black market, whereas in other countries where there is a strict or complex regulation, especially in Mediterranean countries like Spain, the black market might be considerably higher / may triple official figures. The same phenomena are also appearing recently in countries like UK when cost or complexity of official grading schemes gets too high.
5. There is a huge difference in (support) policies between the different Member States. This difference is partly due to the market history and tradition.
  - a. In the OMS, rural tourism already appeared in the 60's as a new activity to diversify rural economy. In France, Germany and Austria, rural

- tourism is part of the tradition and has always been supported. In UK there is little direct support, but a favorable regulation and tax treatment.
- b. The sector is rather new in countries like Spain and Portugal. This might also be true in the NMS where traditionally this segment hasn't been controlled by the central government<sup>13</sup>.
  - c. In the Nordic countries like Sweden, Norway and Finland the share of self catering is high (farms and cottages).
  - d. In the Middle-East European countries (Poland, Slovakia, Hungary, Croatia and Romania) beside the altering agriculture rural tourism means complementary earnings, and provides supplies in higher standard.
6. For the sector the internal market is pretty important in number of guests (usually >85%). Besides the internal market also neighbouring countries (often with a similar cultural background) are important.
  7. In France for instance the sector has organized itself into a big network (Gîtes de France) representing more than 55.000 bed places.
  8. In Eastern European countries, apart from the service of private accommodations, rural gastronomy is very important, principally the self made dishes.
  9. Regarding the guest's demands, local folk, gastronomy, ethnographical, handicraft, architectural and cultural values, heritage play an important part.
  10. Demand is very seasonal, depending on the region occupancy rates may be below 20% p.a. or services only open through 4-5 month per year.

### **Cost structure and competition**

1. A strong weakness is the lack of organization from a commercial or sales point of view. Generally the quality of the product exceeds the idea people have about this type of accommodation and related services. Visibility of these standards is not adequate.
2. The sector itself often doesn't see itself as part of the tourism industry. For many providers, a bed and breakfast is still just an additional source of revenue besides a job as a teacher or a farmer, but not considered as a professional tourism activity. This lack of commercial feeling, on the other hand, is an important positive element in the overall product image.
3. According to the President of Eurogites the rural tourism is complementary to the hotel industry. He is aware of the reproaches that B&B doesn't pay that many taxes, have fewer regulations, can obtain more subsidies, can offer better prices, etc. These reproaches, nevertheless, are frequently unfounded or would be difficult to sustain if serious comparative analysis was done. According to the president both segments of accommodation are adding to each other and focus on different target groups.
4. Access to finance is not a big issue in the sense that investments are rather small compared to other industries. As rural tourism refers to a family business access to finance correlates with the access to finance of average households. If done with serious approach, the activity frequently generates a similar level of income, in these cases it develops into full business.

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<sup>13</sup> As in the OMS rural tourism is seen as a strategy to develop the rural areas within a country. Certain countries have more than others a tradition of spending holidays in the countryside. In e.g. Germany there is a big tradition to go on holidays on the campsite.

## **Productivity and profitability**

1. The size of the average enterprise is a barrier to professionalism. Selling a small capacity on a growing market often doesn't need more than mouth-to-mouth marketing. Additional expenses are judged as not necessary. The owners see promotion as an unnecessary risk and sometimes refuse to invest in fees for cooperation networks or associations.
2. One can notice that individual owners start using ICT tools: websites where they inform about their services and also about the region/destination. These individual websites can be better targeted and due to the actual ranking criteria of search engines, frequently reach much more demand than umbrella ones and are much more efficient. National or regional DMS systems are not built for micro-business use, are of little use, and are unfriendly and cumbersome.
3. Useful tools to be developed to further enhance the success of the rural tourism are for example:
  - a. Easy manageable online booking systems adapted to small capacities. The offer which is available nowadays is for big hotels, expensive and difficult to understand.
  - b. Tools to manage one single availability calendar, as open as possible to different suppliers and systems for external requests.
  - c. Online transparency of standards or equipments between services, even between different countries (benchmarking)
4. Human contact will remain very important within rural tourism. The quality of the experience is largely influenced by the quality of the personalized service delivered. Guests are no anonymous clients.
5. Concerning networking it has been stated that it is always good to know more, but not seen as a prime necessity by the individual supplier. Representing the sector at different political and business levels is however very useful.
6. The sector is largely dominated by family businesses. Training and education might be seen as an added value (e.g. courses about how to receive a tourist), but must be prepared by and for the focus group of rural providers, based on their needs, availability, and schedule (e.g. a course about serving breakfast cannot start at 9 am when potential participants precisely have to do this in their businesses: serve breakfast to their guests).
7. Intermediate support structures such as professional or marketing organisations / associations are important as they externalize complex activities from the provider's direct responsibility and thus improve his competitiveness. Special training for staff of such intermediate structures and their political representatives should also be envisaged.

## **Regulation and standards**

1. Overregulation might be the case in both Mediterranean and Eastern European countries. Especially in Mediterranean countries, as a result rules are not always complied and an important black market exists. Depending on the country, other specific red tape regulations force properties out of business (e.g fire regulations in the UK).

2. Federal countries have transferred the competence to the autonomic regions. Where this goes along with strong regulations like in Spain or more recently, Italy, the different legal frameworks, names, and even fees within one country are leading to confusion at the consumer side.
3. Overregulation in countries like Spain or Greece has been imposed without taking into account the customer's needs. On the contrary, in countries like Austria the supply side easily meets demand because of the holiday's culture and tradition.
4. Home made food is especially critical if public establishment / restaurant standards are required: this goes directly against the preservation of culinary popular heritage in rural areas, the defense of which has led to the slogan *“Don't kill Grandma's pancake!”*
5. Is a common European certification possible? It would definitely be a powerful instrument towards consumer, but should clearly be lead by the industry, not imposed by regulation or para-regulation via standardization of ISO type. Such a system should be based on client's needs, preferences, and feedback as well as on objective criteria. In that context it was explained that most classification and certification systems actually in use in European rural tourism are defined and run by the industry itself, with unquestionable acceptance and trust by the market (such as the “Ears” in France, or “Flowers” in Germany or Romania).
6. Eurogites as a fully private initiative<sup>14</sup> intends to generate transparency amongst existing schemes through a limited set of minimum criteria for all members, but does not consider realistic to establish a specific, complete and detailed European classification scheme.

## Sector development

1. Stronger focus on themes like wellness and health are important opportunities for rural tourism. Rural tourism refers as well to key values which are gaining importance in our society today: landscape, non massification, natural resources, authenticity, etc.
2. Future outlook for the sector is very difficult to make. Importance of local market might increase, while areas with attractive resources as above will also be able to attract more foreign visitors. Will shift towards shorter trips be positive for sector?
3. Family business will slowly professionalize as it will be taken over by a next generation. From an extra activity to raise the income, it will become the core source of income for a smaller group of entrepreneurs. Number of enterprises will drop but professionalism will rise.
4. Standards will be co-imposed by social networks and virtual communities - discerning customers already check widely this source of information such as TripAdvisor, existing grading schemes will need to integrate this consumer feedback into their final evaluation. Sub-standard accommodation and services will be driven out through market force

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<sup>14</sup> Eurogites has started a quality assessment standard identifying five blocks, which summarises the common minimum elements of the different quality systems existing within the federation. This has been elaborated taking into account the customer perspective.



5. Micro enterprises will survive crisis largely because of the low cost structures. Most vulnerable are probably the medium sized hotels. Big chains can fall back on their brand value.
6. Cooperation between hosts and local producers (farm, service, gastronomy, ... ) is very important in product development, marketing, program organization, and representation of their legal rights. Be active members in Tourism Destination Management. Such pro active groups make for success regions.
7. Essential the realization of continuous qualification, training in every country even if providers do not initially see the sense or need, in fields such as standards, security, language, and transcultural capacities.

**Study on the competitiveness of the EU tourism-industry**  
**Face to face Interview**  
**Federturismo**  
**Brussels, 5 May 2009**

**Attendees:**

**Federturismo:** Antonio Barreca, Head of Federturismo - European Affairs Office (Brussels)

**Idea Consult-ECORYS group:** Raf Myncke and Cristina Nuñez

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**Introduction and general background**

Federturismo is the Italian Federation of Tourism and Travel Industry. Federturismo counts approx. 91 members; 25 trade unions, 9 enterprises and 57 territorial associations. As such, Federturismo represents a majority of the enterprises operating in the tourism value chain in Italy, including transport, accommodation and attractions.

Italy has always been a major tourist destination in the world. Especially during the 60's many small businesses were founded as tourists started to come to Italy to enjoy climate, culture and food. Italy may have less international tourist arrivals compared to France, but the tourist expenditures lie clearly higher in the first.

Tourism sector refers both to social (the consumer) and economic (the industry) dimension. Within the EU the social dimension has largely been covered. Recently, the programme Calypso has just been launched for three years. It might however be clear that the tourism industry itself is facing a certain number of challenges.

**Challenges that the industry is facing:**

It must be clear that Europe as a region and Italy as a destination are facing increased competition from other regions in the world. More particular Asia has been identified as an example. This increased competition is underlying some weaknesses of the tourism industry in Europe, which will be discussed in different points below.

**1. Quality**

As the tourism industry in Asia has only started to develop recently, most tourist infrastructure here is relatively new. The tourist product is therefore often of a higher quality and more in line with the needs of a tourist nowadays. A high end hotel in Asia offers for example almost by definition a spa, golf course and tennis courts. This observation confronts strongly with countries like Italy and Spain where the infrastructure is in general older. As such, in some extreme cases the European tourism supply needs to be renovated and restructured in order to meet new consumers' expectations. Europe needs to focus more on quality and innovation. A good example for what a government could do, can be found in Italy: the Italian government has approved (in the light of the

economic crisis) a measure so that tourist enterprises can ask for a re-evaluation of the value of the building in order to invest in quality and innovation.

## **2. Price**

In e.g. Italy – but also in other European tourist destinations – prices are sometimes excessively high for the quality of the product offered. This is especially the case in Italian cities like Rome, Venice or Florence. By asking exuberant high prices enterprises in those cities are competing themselves out of the market. Concurrent destinations like Croatia or Slovenia offer probably the same quality for less money. Within Italy Federturismo is trying to come to a more harmonised pricing policy to avoid the existing gaps between different regions within the country. The idea behind this initiative is that Italian entrepreneurs need to standardise prices more with a possibility to raise them in top seasons.

Directly connected to price and quality comes the issue of standardisation. On the long term a three star hotel should be the same in Italy and in France. In this matter Federturismo is working at the same time on three different levels:

- 1) UNI: The Italian standardisation body, which provides a standardisation system for the accommodation subsector in all the Italian regions.
- 2) CEN: The European Committee for Standardisation, which offers a terminology but is not working on accommodation business.
- 3) ISO International Standardisation Organisation. Within the specific working groups in the different subsectors of tourism and leisure there are specific rules for accommodation.

When working on an international classification one should keep in mind that a uniform system in Europe may not lead to a lost in investment for the individual owner of an enterprise. It might however be clear that standards in Europe are significantly higher compared to e.g. Asia.

## **3. Labour market**

Labour market becomes an issue in EU destinations due to the strict rules in this respect and especially when they need to compete with non EU destinations, where labour market prices are lower and trade unions influence is almost insignificant. It needs to be clear that Federturismo is not acting against the taken measures to improve working conditions on the labour market. We just need to observe that those measures are not taken in other regions in the world, so that Europe is dealing with a competitive disadvantage to e.g. Asia. The challenge Europe should work on is to create similar working conditions (health, insurance, etc) elsewhere in the world.

Aspects on labour market needs to include both initiatives for better education and to reduce seasonality.

- 1) Education: Especially the number of managers at middle level has increased enormously<sup>15</sup>. They do play an important role in training the ground personnel in skills like e.g. hospitality. The ground personnel needs to be better trained in different aspects of hospitality: languages, friendliness, etc. It is clear that new skills are emerging (e.g. knowledge of Chinese). Two different approaches needs to be combined: life long learning programmes in combination with specific training for specific needs. Special attention needs to go to SMEs. Often they don't see the need for change so that investment in education and training is not accepted.
- 2) Seasonality: In addition to this, one of the main barriers in terms of labour competitiveness is the seasonality. Workers know that they will loose the job after the season so they are not necessarily interested in be trained and employers don't perceive the need to train them. Some measures to reduce seasonality it could be: a/ To split the summer holidays in order to give families the choice of when they want to travel. This measure could apply to student's and workers holidays as well. b/ Facilitate travelling for older tourist. According to WTTC older travellers represent 30 million people and constitute the new social tourism model based on the social tourism initiatives *Insero* (senior travelling out of season) and ANCV 'Association National pour les Chèques-Vacances' (financing holidays for people and families facing social difficulties). Indeed, this target group has special needs and the staff dealing with them needs to be trained accordingly.

#### **4. Innovation barriers, access to finance**

In Italy – as well in almost every other Member State – one of the main challenges the tourism industry is facing is the access to finance. When applying for finance, the enterprises are confronted with the vulnerable and seasonal nature of tourism demand as well as with the more intangible aspects of the tourism products. Reference has to be made towards the example of re-evaluating the value of existing buildings. Such a re-evaluation might make it possible for enterprises to access the necessary funds to invest in the tourist product. Federturismo is trying to negotiate with financial institutes to become a higher flexibility for tourism enterprises.

#### **5. Promotion**

Despite the financial and economic crisis tourism can be looked at as resilient. People went to travel and will keep on travelling. Long haul travel is largely influenced by the price of oil. The uncertainty about the evolution in price of transport (and exchange rates) is a difficult factor to work on a strategic outlook for the European tourism industry.

Europe is whatever way you look at it a top tourist destination in the world. What Europe has to offer to his tourists is impossible to experience elsewhere in the world. But a strong weakness of Europe as a tourist destination is to be connected to the lack of coordination to promote Europe as a tourist destination. We may not forget that the competences of tourism are often transferred to a regional level, what complicates the story a lot. E.g. coordination between different regions in Spain to create label Espana versus regional

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<sup>15</sup> Mr. Barreca refers e.g. to 'Manuale del Facilitazione' (Leonardo Programme): Training the hotel managers to train the employees. Project by Federturismo

approach in Italy. The lack of coordination is leading in a lost in efficiency in promotion. There has been recently an agreement between national tourism agencies from Italy, Spain and France to promote these three countries abroad in a coordinated way.

## **6. Regulation**

Federturismo is – together with other similar organisations – pleading for a simplification of the existing rules in order to make the industry more competitive and flexible. In recent years Europe has done great work in different fields like consumer protection and sustainability. Towards future other policy areas will gain importance: innovation, education, new technologies, access to finance, harmonisation of VAT rules, etc. An important initiative is the revision of the proposal for harmonisation of the different schemes of VAT for travel agencies.

Another initiative could be to set up a European Agency for tourism. The European Commission tourism unit does not have the capacity for following up all the work of the DG's which are involved. As such, the solution could be to reinforce the tourism unit and/or create a European Tourism Agency. This new body could deal with a transversal approach for all the issues related to the industry:

## **7. Future outlook**

2009 will be a difficult year for the economy in general and the tourism industry in particular. The industry has experienced two big crises before and has recovered well in short time, which gives positive expectations. Consumers save money for their holidays. Furthermore, the possibility of available grants to finance holidays could be a new instrument to generate interests for the banks and reactivate the economy.

The decrease in long haul travellers is partly compensated by local tourists. What is definitely true is that in times of crisis also expenditures will decrease so there is still a lost in the market. Hoping for a quick recover ...

**Study on the competitiveness of the EU tourism-industry**  
**Face to Face Interview**  
**International Air Carrier Association (IACA)**  
**Brussels, 22 April 2009**

**Attendees:**

**IACA:** Ms. Sylviane Lust (Director General), Mr. Koen Vermeir (Director Aeropolitical & Industry Affairs)

**Idea Consult-ECORYS group:** Isabelle De Voldere

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**Introduction and background**

IACA has been established in 1971 as a not for profit organisation to represent airline companies whose customer base is significantly or predominantly the leisure traveller (95% of IACA members' passengers are tourists). The organisation represents 34 airlines operating over 750 aircrafts and directly employing more than 50,000 people. Each year IACA members transport over 100 million passengers to 650 holiday destinations worldwide. 80% of passenger transports are intra-European.

**Market structure and dynamics**

1. Two types of leisure carriers can be distinguished:
  - a. Carriers that are linked to tour operators e.g. Jetairfly, Thomas Cook Airlines UK
  - b. Independent carriers e.g. Air Berlin, Finnair

Whereas the first group of carriers still predominantly receives customers via the tour operator selling travel packages, the second group targets customers directly via online booking systems and its core business is/has been selling seats only. Next to the online sales of flight tickets to customers, this last group also sells flight capacity to tour operators that do not dispose of own aircrafts or to tour operators that do have own aircrafts but look for additional flight capacity e.g. in peak periods or to cover specific destinations.

2. Over the years there has been a trend for carriers linked to tour operators to also sell seats only, next to the travel packages that have become much more dynamic packages themselves. Reversely, the independent carriers have started to 1) act as an intermediary between customers and other tourism service providers (e.g. adding links to accommodation, rental cars,... on their website) and 2) even to offer travel packages themselves.
3. In both segments an increased clustering among carriers can be seen:
  - As a result of the consolidation wave in the tour operator business, also the carriers linked to them show a higher level of concentration. E.g. in the UK Thomas Cook has taken over My Travel, leading to the incorporation of the My Travel carrier into the Thomas Cook Airlines group.

- In the group of independent carriers, Air Berlin has in 2004 joint forces with NIKI and in 2006 took over LTU to enlarge the network of destinations they can offer to clients.
4. Compared to traditional airline companies, leisure carriers operate more efficiently and have lower costs. As such they can offer flight tickets at competitive prices. This is needed in the leisure segment, where customers are much more price sensitive than customers in other segments (e.g. business travel).
  5. Leisure carriers have played/play an important role in opening up a lot of regional tourism destinations to tourists. They fly to many more different destinations than the traditional airline companies, making use of smaller regional airports next to the large main airports.

### **Competitive position of EU airline companies**

1. EU airline companies clearly operate with a competitive disadvantage vis-à-vis non-EU airline companies. Three elements strongly influence the competitive position of EU airline companies:
  - Social costs of employment are much higher compared to other regions
  - EU legislation (see further) heavily weighs on the carrier business.
  - Due to the monopolistic market structure of several service providers (aircraft manufacturers, airport authorities, air navigation companies...), carriers are confronted with monopolistic price setting by their service providers.
2. It is the industry's perception that at the EU level the competitiveness of the carrier industry is largely ignored. The airline market has been liberalised, which led to a strong increase in competition and high pressure on prices. But at the same time nothing is done about the monopolistic position of many service providers.

### **Regulation and standards**

1. The airline business is heavily regulated. Airline companies are confronted with numerous legislations and regulations that influence their business and negatively affect their competitiveness: legislation protecting passenger rights, safety regulations, flight time limitations, environmental legislation,... Once the Emissions Trading Scheme (ETS) will be in place for carriers, this will also have a large negative influence on the business.
2. Only one positive initiative has been taken recently at the EU level to enhance the competitiveness: the US-EU Open Skies Agreement. This agreement opens up more markets for EU airline companies. However, it also implies an increase of competition from non-EU airline companies.
3. There is a feeling that governments have gone too far in trying to protect passengers. Although a certain level of regulation is needed, for many things the market dynamics could as easily guarantee that passengers are being taken care of without confronting companies with unnecessary costs and administrative burden caused by regulation.

Given the highly competitive market and ever more critical customers, carriers are obliged by the market to take care of passengers. If they would not do so, customers would not return and the brand name of the company would soon be affected by negative comments.

4. Despite a single European market, lack of harmonisation of regulation and certificates, as well as language barriers still lead to a lot of unnecessary red tape for businesses. E.g. at this moment each airline company wanting to fly in Europe needs an Air Operator's Certificate (AOC). These AOC's are at this moment granted by national safety regulators, after very strong control and high safety requirements. A licence cannot be granted unless the carrier is registered in the related member state and controlled by community nationals. This leads to a lot of inefficiencies especially for international carrier groups. EASA (European Aviation Safety Agency) should take over this role from the national organisations, but this does not happen.
5. Safety aspects are absolutely key in the industry. The development of standards related to safety is therefore seen as a good thing. However, only standards that effectively improve safety and benefit the industry should come in place. Now there are standards being developed and put in place unnecessarily. The costs of these standards to the industry are very high, but the benefits to both industry and passengers low. More rigorous cost-benefit analyses should be done and actions should be taken accordingly.

### **Labour**

1. Before the economic downturn the industry was confronted with a shortage of workers with specific skills e.g. pilots. However, the current financial crisis has changed this situation. At this moment there is no real shortage of skilled labour.

### **Innovation**

1. Since the liberalisation of the air travel market, a lot of new players have entered the market and many new concepts have been introduced. E.g. Ticketless travel, ... Due to the increased competition and the low margins, airline companies are obliged to innovate. The main driver for innovation is the need to become more efficient so that operational costs can be lowered.
2. There is a lack of finance to effectively implement large research projects that could be beneficial to the industry. One example is the SESAR research programme. SESAR is a large supranational technological project, aiming to eliminate the fragmented approach to European Air Traffic Management (EATM) and replace the totally outdated current air traffic management system. SESAR will re-engineer the European ATM network to achieve environmental sustainability, efficiency, full integration and cost-efficiency, resulting in maximum safety. Until now the definition phase is done and the development phase is currently running. As of 2014 the implementation of this research programme should start. However, it is foreseen that this implementation must be 100% financed by the industry (the airline companies). The investment amounts to approximately € 25 billion. This amount is unaffordable



for the industry, thus jeopardising the deployment of the whole project. Moreover, the airline companies – being users of the system, not being the manufacturers – feel that they have already paid for this system through the prices that have been charged by the ATM providers in the past. Part of this money should have been/be invested in innovations like this.

### **Current financial crisis**

1. A direct consequence of the current economic situation is the fact that companies hardly get the necessary loans to e.g. purchase new aircrafts. This does not only apply to smaller carriers, but also to the large carriers.
2. The uncertainty in the market also puts a barrier to innovation. On the one hand, companies are reluctant to invest. On the other hand, companies that do want to invest do not find the necessary funds because of the lack of confidence in the market that the banks have.

**Study on the competitiveness of the EU tourism-industry**  
**Telephone Interview**  
**International Association of Amusement Parks and Attractions, European**  
**Office (IAAPA)**  
**Brussels, 15 April 2009**

**Attendees:**

**IAAPA:** Andreas Veilstrup Andersen

**Idea Consult-ECORYS group:** Raf Myncke

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**Introduction and general background**

The International Association of Amusement Parks and Attractions (IAAPA) is the largest international trade association for permanently situated amusement facilities worldwide and is dedicated to the preservation and prosperity of the amusement industry. IAAPA represents more than 4,500 facility, supplier, and individual members from more than 90 countries. Member facilities include amusement parks, theme parks, waterparks, family entertainment centers, zoos, aquariums, museums, science centers, resorts, and casinos.

**Market structure**

- IAAPA is representing approx. 1/3 of total number of commercial attractions in Europe and approx. 70 to 80% of turnover within the sector. Sector is therefore characterised by a few larger players. Family owned business are still dominant, but represent a smaller share of the market.
- Demand is growing at a rate between 3 and 5 percent a year. External causes like financial and economic crisis are interrupting this scenario of growth at least temporally. Sector is major driver for growth of European tourism industry.
- Sector is consolidating in large extent. In Europe 5 or 6 major players have a large share of market. Degree of consolidation seems to be larger within EU compared to USA. Corporate chains have origins mainly in Spain, UK and France. Major players are e.g. Parques Reunidos (Spain), Compagnie des Alpes (France), Aspro Ocio (Spain) and Merlin Entertainments (UK).
- Sector is been characterised by vertical integration within other industries. Larger attraction parks are integrating hotels, resorts or campsites in their parks. A good example here are Disneyland, Tivoli, Efteling and Europapark. What is happening within the sector is probably only just a start.
- Operating attraction parks is done by specialised groups. Good examples here are Merlin Entertainments, Compagnie des Alpes, Parques Reunidos and Aspro Ocio. The ownership is linked to larger capital funds. Good examples here are Blackstone and Candover. Those groups operate transnational, e.g. Compagnie des Alpes is largely dominating French, Belgian and Dutch market.
- Scandinavia, the Netherlands and UK (group 1) can be seen as mature markets. Sector is not yet that much developed in Germany or in France, Italy and Spain (group 2). Reason might be a large tradition of travelling fair markets. Poland,

Romany, Portugal and Greece (group 3) are characterised by few commercial attractions. Reason might be the poor economical development within those countries.

- Besides some major attraction parks like Disneyland most attraction parks are depending largely on local / regional market. Even parks like Disneyland, Tivoli or Porte Aventura are receiving approx. 2% of intercontinental visitors. Demand is thus largely dominated by European market.

### **Cost structure and competition**

- Labour cost is representing a major cost factor for the industry like the service sector in general.
  - Regular full time employed staff are paid probably same as in other parts of the tourism industry.
  - Labour conditions of seasonal front line staff are probably a lot worse. In Tivoli number of employees can vary between 250 in winter to 2500 in summer season.

### **Productivity and profitability**

- Profit margins are largely put under pressure to major factors influencing price (VAT, competing with subsidised attractions and large share of labour costs) on one hand and high taxation on the other hand.

### **Innovation**

- Innovation is an essential part of this industry. Innovation is part of the core business of the industry. To keep attractiveness in a local / regional market innovation is the key to success. Innovation is the instrument to generate repeat visiting.
- Innovation is implemented in all different parts of the industry: in entertainment programmes, market approach, product development, etc. Attraction parks are reinventing themselves all the time. Attraction parks have to invest around 10% of annual turnover in innovation just to keep market share.
- Innovation is probably a competitive advantage of the EU part of the industry, compared to earlier where most new developments initiated in USA.

### **Regulation and Standards**

- Safety regulations are still largely dealt with at a national level resulting in differences between different Member States. EU could work on harmonisation and standardisation of safety legislation.
- Legislation is not enough focused on tourism industry as a whole. Tourism might be a major driver for obtaining Lisbon Treaty the industry is still threatened with too little respect. Tourism is in the meantime one of the largest industries in Europe. IAAPA is missing an ambition within tourism policy on EU level.
- MS have possibility to lower VAT taxation but only few do actually use this opportunity to support the industry in these difficult times. Differences between

different VAT lead to competitive disadvantage on certain markets compared to others.

- EU legislation has lead to acceptable social standards (e.g. minimum age, minimum pay, etc.). Working Time Directive is however causing problems when it comes to activities of a seasonal tourism company. Is more flexibility not more desirable?
- Sector is characterised as a resource and energy intensive sector. Are problems to be expected with new legislation?

### **Sector development**

- Will financial and economic crisis bring attraction parks back to their core business? What is clear already today is that investors are getting rare. Main challenges for this sector of European tourism industry are threefold:
  - Attraction parks are depending largely on tourism development in general. When tourism demand is decreasing number of visitors within parks will drop as well.
  - Economic crisis might lead to regionalisation in demand. Shift towards regional / local market allows keeping volume even while profitability drops dramatically. Success of attraction parks will largely depend on capacity to shift focus towards more local markets.
  - Price elasticity might become a serious issue in the near future. Competition within different Member States is not equal due to big differences in VAT taxation. Commercial attraction parks are competing with (semi) subsidised attractions for limited free time of consumers. Labour is representing a major cost factor for the industry like the service sector in general.
- In a capital-intensive industry like the attractions industry, access to finances will become an issue in the coming year, if situation is not changing.

### **REMARK:**

In May a report will be ready about the economical impact of the sector as a whole. It might be interesting to include the results of this study in the final report.

**Study on the competitiveness of the EU tourism-industry**  
**Face to face interview**  
**International Road Transport Union (IRU)**  
**Brussels, 6 April 2009**

**Attendees:**

**IRU:** Yves Mannaerts (Vice President)

**Idea Consult-ECORYS group:** Raf Myncke

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**Introduction and general background**

The IRU, founded in Geneva on 23 March 1948, has local and global reach through its 179 members in 74 different countries. The IRU, through its national associations, represents the entire road transport industry world-wide. It speaks for the operators of coaches, taxis and trucks, from large transport fleets to driver-owners. When talking about tourism of course the operators of coaches are the most important. Activities range from organising coach tours to just bringing people from point A to B.

**Market structure**

- Average size of enterprises within this segment of the tourism industry is significant smaller compared to e.g. tour operators. Segment is still largely characterised by family owned businesses. Language is often barrier to further internalisation.
- In e.g. UK and the Netherlands segment is characterised by larger companies. In the Netherlands De Jong and OAD are serving approx. 2/3 of local market. De Jong has lost market share in last couple of years due to lack of innovation and adaptation to new demands. Belgium and Germany on the other hand are characterised by larger number of players.
- Sector has been characterised by process of concentration. Number of companies has dropped in Belgium in 30 years from 850 to 500. The capacity of the fleet has dropped with just 10% resulting in fewer but bigger players. Main reasons are professionalization of industry and growth of regulation.
- Actual growth strategy is diversifying activities. A good example is Sunair in Belgium and OAD in the Netherlands. Another example is Jetair that is part of the Tui group. OAD is for example not only the largest touring car company in the Netherlands, it is active as well as tour operator and travel agent.
- Distinction has to be made between sending and receiving countries. In source countries activities are focused around organisation of trips while in destinations it is more about transport itself.

## **Cost structure and competition**

- Segment is more flexible compared to air companies including low cost carriers. Coaches are still a very flexible mode of transport. Of course infrastructure in cities and regions to receive coaches are important.
- Sector is depending strongly on European demand. Long distance travelling from e.g. Asia or USA is determined largely by big travel costs towards Europe in the first place. This demand is moreover very vulnerable for changes in the economic situation in those regions of the world.
- This segment of the European tourism industry is labour intensive. Labour represents a large cost factor.
- Cost structure is largely influenced by growing amount of local taxes. As a caricature we could state that tourists are more than welcome in Italian cities but coaches are not.

## **Productivity and profitability**

- Labour conditions are characterised by seasonal work. Coach drivers work mostly when other people are enjoying holidays. Compared to other segments of the tourism industry the labour is however spread over a bigger period of the year.
- Demand is not necessarily peaking in summer time. Spring and Fall turn out to be the most busy periods of the year. This is due to high dependency on club life who are travelling between Easter and June and between September and November.

## **Regulation and Standards**

- EU regulation about driving and rest hours has been developed mainly for truck transport and not specific for coaches. Adapted EU legislation about road safety and social conditions are seen as necessary.
- Implementation of EU legislation has led to major differences between different Member States. This is leading to competitive disadvantages in certain countries.
- Taxability and VAT regulation are largely the competence of different Member States. For package tours this is leading to competitive disadvantages in countries like Belgium.
- IRU is asking for equal treatment in taxation as for instance the air industry. In Belgium consumers pay 6% VAT, in Germany 17% and in Austria 10% on coach tickets while flight tickets are profit from 0% rate.

## **Sector development**

- Major drivers of future success of this segment of the tourism industry are: evolution in legislative framework, changes in mentality of consumer and composition of population within EU. Key parameters for success are availability to react on new trends in market, the issue of safety of travelling in a group, the ability to overcome one's initial hesitation towards new destinations, the exploration of new destinations not yet covered by low cost carriers.
- Demand is largely determined by economic situation. Evolutions in demand can be explained by the Gulf War, 9/11 and now the financial and economic crisis. Leisure

has however become a necessity and not longer a luxury. External influences might however change patterns in demand side.

- Focus on sustainability may actually be a positive element for the sector. Coaches are implementing newest evolutions on construction and emission. Marketing of this competitive advantage is however insufficient.
- IRU is fighting the image problem of the sector. Image might be a bit droll. Dealing with this has to overcome problem of largely segmentation of sector into many smaller players. Smaller players don't always understand necessity for larger campaigns to work on image of the whole industry.
- Economic crisis is putting problem of access to finance high on the agenda. As profitability within the sector is rather low compared to other industries access to finance is crucial. Coaches are being replaced every 8 years in average.
- Economic crisis is also influencing demand side. First impressions are showing that club life is keeping the level as before, but so far individual customers tend to postpone their bookings ('wait and see'). Shift from long haul to more regional tourism is probably positive for coach industry. Other examples are the significant decrease in incoming activities both related to organised tours through Europe for non-European citizens and shorter trips related to MICE tourism in Europe.
- Sector is suffering largely from uncertainty. Will consumers still come or won't they come after all? Uncertainty has to be placed in confrontation with necessity to place new orders to replace old coaches.
- Shift towards activities with more added value in business (cfr. tour operators). A high degree of quality of service becomes central element for industry as a whole. Necessity of product innovation to keep sector attractive even for new groups of consumers.

**Study on the competitiveness of the EU tourism-industry**  
**Telephone Interview**  
**TUI AG**  
**Brussels, 4 June 2009**

**Attendees:**

**TUI AG:** Dr Wolf-Dieter Zumpfort, Director political relations, Head of Office Berlin  
**Idea Consult-ECORYS group:** Isabelle De Voldere and Cristina Nuñez

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**Introduction and general background**

**TUI AG** is an internationally active group with two divisions: tourism and shipping. In both these divisions TUI commands a leading market position: number 1 among the European travel companies and number 5 in the world of container shipping.

TUI AG key figures:

- Turnover: 24.9 billion on 2008 - Turnover in Tourism: 18.7 billions
- Employees: 70.000 employees in total, of which 62.000 work in the tourism activities

In the tourism division, TUI AG holds 51% share in TUI Travel plc, 50-100% shares in TUI Hotels and Resorts and 50-100% shares in Cruises

Through these different companies TUI AG offers a full range of tourism activities (multichannel). Some key figures related to the tourism activities:

- 170 brands in Europe
- 3500 travel agencies
- airlines (TUIfly, Thomson, Jetair, etc) : 135 aircrafts
- 34 incoming agencies in 42 countries
- 297 hotels & resorts
- 12 cruise ships

**Key messages from TUI AG interview:**

**2. Structure (German) TO market**

Germany is a country where entrepreneurship in tourism is high. Many of the big tourism players in Europe originate from Germany and have their headquarters there (e.g. TUI, Thomas Cook).

**'Do-it-yourself' versus organised market:**

Germany is a 'do-it-yourself' market: 55% of the travels are organised by customers themselves, whereas travel packages organised by tourism companies represent 45%. Over time TUI has adapted its product range to significantly increase the flexibility of customers in designing their holiday (dynamic packaging). Moreover, TUI increasingly offers each element separately, this to also capture parts of the do-it-yourself market. Three different distribution channels are being used to distribute the TUI products: the travel agents, internet and direct sales.



Next to Germany, also countries like Bulgaria and Romania are characterised by a large 'do-it-yourself' tourism market, whereas in other new Member States like Poland the share of the organised tours remains high.

The plane is the most popular means of transport for tourism in industrialised countries (Market Share: 33 % of the German Travel Market, 70 % of TUI Production). In the new Member States on the other hand buses or trains remain popular.

#### **Other characteristics of the German tourism market:**

- high presence of SME's (large majority of the sector);
- low entry barriers for Tour-Operators and Travel Agencies; high for Airlines, Cruise Ships and Hotels;
- large horizontally and vertically integrated companies operate next to an important number of specialised and high level competence small tour operators and internet companies. The big tour operators do not have an oligopolistic position in the market (market share TUI in Germany < 30%);
- strong growth of online travel agents (OTAs): this segment has shown annual growth rates between 20 and 33% since 2005 (compared to an average annual growth rate of 2 to 4% in traditional tour operator market). These OTAs are hardly confronted with regulation and entry barriers are very low. Due to the increasing success of OTAs, Tour Operators need to offer an added value based on the quality and flexibility of their products.

#### **TUI's global market position:**

TUI is a global player, with its source markets predominantly concentrated in Europe, but with activities worldwide. In most of the countries where it is active, the group tries to transfer the "TUI business model", but in especially emerging countries TUI needs to work together with local enterprises in a joint-venture formula to be able to do business there (e.g. in Russia, India, China). In the new Member States TUI is strengthening its market position both through mergers/takeovers (e.g. Poland) and organic growth.

Market position of TUI in the European TO business (in 2008):

- market leader in Germany, UK, France, The Netherlands, Austria and Ireland
- 2<sup>nd</sup> position in Belgium, Nordic countries, Poland, Russia
- 3<sup>rd</sup> position in Switzerland, Slovenia and Hungary

### **3. Cost structure and competition**

**Labour costs.** Costs of human resources in Europe are high and, unlike other industries, there is little scope to decrease HR costs through automation. The tour operator business is a people's business.

**Main drivers of competition.** Price and brand are the main drivers for competition in the travel market, together with overcapacity in the flight- and hotel-business. *Price* remains very important, and in some segments even becomes increasingly important. Over the last few years, changes in consumer behaviour - such as the short term booking trend and the hunt for 'best deals' - have led to strong price competition in the industry. Also the internet has led to a strong 'price erosion', through the publication of day-to-day prices. This downward spiral in prices has a negative impact on the image of the tourism

industry. TUI tries to somewhat avoid this strong price competition by using its strong **brand**. Branding is the basis of TUI's strategy since brands are the best way to guarantee the quality of the product. In general, the prices at TUI are a bit above the average market price, but customers are willing to pay this premium since the brand guarantees them a certain quality of the product. It is expected that the importance of brands will only increase over time.

**Labour – necessary skills.** As the technological and ICT possibilities for the industry increase, there is a growing need for more technical knowledge and skills in the industry. Moreover, due to the changing role of travel agents and tour operators, TUI has identified a need for more training focussing on managerial skills, how to adapt to changing customer behaviour and how to sell a specialised and sustainable offer. Within the organisation, TUI organises a number of trainings. But more university degree programmes in tourism should be offered. EU institutions could play an important role encouraging such specialised training. In Germany at this moment a number of university degree programmes are being offered by the FHW Berlin.

**Labour – selection and retention.** In the tour operator business turnover of personnel is lower than in travel agencies. Due to the increasing importance of internet bookings and the loss of airlines' booking commissions, travel agents have gone through major changes in their business model and therefore also needed to change the skills portfolio. TUI selects and recruits the skilled people they need among others through university internships. They manage to attract high skilled people because of the attractiveness of the tourism sector and the good reputation of the company in the industry. The percentage of female employees working in the tour operator business is much higher than in other industries.

**Access to finance.** Access to finance has always been an issue, especially since Basel II. With the introduction of Basel II, the business risks in the tour operator business have increased, making that the costs that financial institutions ask for lending money, have increased as well. In the current economic situation, difficulties to get access to finance have only increased. Capital to invest in transport and accommodation is less available.

**Innovation.** TUI identifies three main **drivers for innovation**: 1) Changes in travel demand: increasing demand for long distance destinations, increasing use of air travel, increase of the thematic and security aspect of the destination (political instability, pandemia/terrorism threat, etc); 2) Demographic change: Senior citizens need new and tailor-made products; 3) Increasing importance of sustainability and increased environmental awareness.

Related to this last driver, TUI is at this moment a leading market player in sustainability performance and is offering special products accordingly (example: Green offers). The company is represented in the leading sustainability indices, such as the Dow Jones Sustainability Index, FTSE4Good a.o.

Important **barriers to innovation** and new product development are:

- General economic development
- Bureaucratic obstacles: red tape

- Diseases, terrorism and the impact of media – in this context TUI distinguishes between the objective and subjective feeling of security that do not always correspond with one another.
- Lack of free trade in services worldwide

The most important *actions for government* to enhance innovation and as such improve the competitiveness in the tour operator business are to:

- 1) remove the barriers that still exist in trade of services (through the WTO - see further)
- 2) set more liberal rules for capital investment and transfers
- 3) liberalise and harmonise air traffic and introduce Eurocontrol in Europe
- 4) improve the infrastructure to make optimal use of intermodal transport
- 5) introduce compatibility in ICT systems
- 6) improve the educational and training system to develop the necessary skills
- 7) increase the sustainability minimum standards **and** raise the awareness of the importance of sustainable tourism among consumers.

In general, governments need to take a much more positive position towards the “tourism industry”, if they want tourism to be a job creator and a tool for economic development. The EU should take due actions to demonstrate the importance of the tourism industry for economic growth.

#### 4. Productivity and profitability

Labour productivity within the TO sector is high compared to other businesses in tourism due to the higher level of professionalization and automation in the sector.

#### 5. Internationalisation

TUI is aware of the high potential of the new markets, especially since China has allowed setting up companies in which a foreign company can have >50% ownership.

TUI identifies an important role for the EU (European Commission, DG-Trade) to play in the GATT negotiations on trade and service agreement to further liberalise the trade of services worldwide. Indeed, there are still high regulatory restraints in some important tourism destinations (which are not all part of the WTO (e.g. Russia)) and, therefore, TUI needs to work in partnerships with local organisations in order to provide destination services. This is a barrier for offering TUI's quality services.

Moreover, the trade restrictions make it very difficult to get people out of these countries, thus making the organisation of inbound tourism (from non-EU countries to the EU) very difficult for European tour operators.

#### 6. Regulation and standards

**Regulation and the single European market.** According to TUI, regulation as such is not a barrier for competitiveness, but it is overregulation that reduces competitiveness. Due attention should go to the reduction of bureaucratic procedures.

Although the further integration of Europe has already brought some good results such as the introduction of the EURO, still a number of framework conditions make that we cannot talk about a real ‘single European market’. Continued actions need to be taken in e.g. the harmonisation of taxes across Europe, harmonisation of air traffic and especially liberalisation in services trade. For this last, actions should not so much be taken at the

EU level, but at a global level through WTO. The renewal of the GATS agreement is very important for tourism and needs to come in place as soon as possible.

**Standardisation.** There is a major difference between legal standards and company standards. Legal standards set a minimum, but for integrated companies such as TUI these legal standards are far too insufficient to guarantee the quality that TUI wants to offer to customers. Therefore, the integrated companies such as TUI all have developed internal quality standards that are much higher than the minimum level that the authorities might agree. According to TUI, brands are the best way to guarantee quality, not legal standards.

#### **7. The current economic situation and future outlook**

Over the last year, one can notice that in most industrialised countries (mainly the EU-15) the demand has decreased or stagnated due to the current business climate. In the new Member States on the other hand, the market is still growing. Moreover, demand for air travel and higher quality hotels are also still increasing in this market. But price competition has strongly increased, both in source and destination countries.

The current economic situation clearly has different effects on different segments of the tourism business. Cruises e.g. are being characterised by a decreasing demand. As TUI integrates all the business from the tourism chain, it clearly suffers in certain segments whereas this is less the case in other segments.

Even though the general thought in Germany is that the tourism industry situation will improve over the next year, it remains at this moment very difficult to forecast when business will pick up again.

**Study on the competitiveness of the EU tourism-industry**  
**Face to Face Interview**  
**UN World Tourism Organisation (UNWTO)**  
**Madrid, 7 April 2009**

**Attendees:**

**UNWTO:** Mr. John Kester (Chief Market Trends, Competitiveness and Trade in Services), Ms. Sandra Carvão (Deputy Chief Market Trends, Competitiveness and Trade in Services), Mr. Eduardo Fayos-Solà (Regional Representative for Europe)

**Idea Consult-ECORYS group:** Isabelle De Voldere

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**Introduction and general background**

The World Tourism Organization (UNWTO) is a specialized agency of the United Nations and the leading international organization in the field of tourism. It serves as a global forum for tourism policy issues and a practical source of tourism know-how. UNWTO plays a central and decisive role in promoting the development of responsible, sustainable and universally accessible tourism, paying particular attention to the interests of developing countries.

Its membership includes 161 countries and territories and more than 370 Affiliate Members representing the private sector, educational institutions, tourism associations and local tourism authorities.

**Market structure, comparison regions**

1. Europe and North America are characterised by a mature tourism industry: an atomised industry with many SMEs (even micro – especially in Europe, in US much quicker national expansion through franchising or acquisition), stock mostly comparatively aged (built in '60-'70s in EU, in America even '50-'60s), authentic, owners often 'self-man' with no specific tourism or hospitality education.

This is in contrast with the tourism infrastructure in Asia: young expanding industry, operations at larger scale, mostly built in the last 10 to 20 years.

2. The tourism industry in Europe shows a strong seasonal pattern, much more than in other regions (cfr. figures in UNWTO report). This has an influence on the flexibility of labour and temporary employment. European tourism industry should evolve to a situation where the tourism infrastructure and capacity are more optimally used over the year. This requires a different thinking and might require additional investments, such as e.g. investing in indoor swimming pools even in the southern of France.
3. The accommodation business is very diverse. Worldwide only half of the accommodation is in hotels (in Europe even less). The rest is other accommodation, being second homes, rented apartments, camp sites, etc. (figures see "climate change and tourism" book UNWTO). This last group has been

growing in importance over the years, as customers more look for ‘value for money’ and diversified products.

4. The market for accommodation is still very fragmented in Europe (and even worldwide). The top 10 in the industry have less than 5% of the total bed stock. This is a completely different industry structure than e.g. the airline industry that is much more concentrated. In the latter industry size does matter. This is much less the case in the accommodation industry, although larger operations certainly allow for advantages of scale.
5. Fragmentation in the accommodation industry is not so much a problem. However, connectedness with the rest of the value chain should significantly improve with most of the accommodation companies. As customers more and more expect value added on top of a bed and breakfast, accommodation managers should build linkages with other players in the chain to be able to provide this value added.

### **Cost structure and competition**

1. Competition should not be on price, European firms cannot win this competition. European tourism industry should differentiate through the provision of value-added activities and collaboration across the value chain. Sustainability (environmental, economic, social) is seen as a major opportunity for the EU to differentiate from the rest of the world.
2. Despite the fact that firms should no longer compete on price, many still do. More awareness should be created in the industry to look for value added and charge prices accordingly. Customers are willing to pay for a good travel experience, they are not always looking for the cheapest price: people look for a good price/quality ratio (“we don’t eat junk food every day either”)

### **Innovation**

1. Innovation should be much more embedded in the industry. Due to the atomised structure of the EU tourism industry, investing in innovation has been neglected for years in many parts of the industry. Many ‘self-made’ managers in the tourism industry manage their business such that they can make a living out of it. There is no growth strategy nor do they build up any reserves to innovate. However, after a number of years every establishment needs investments to renovate/innovate, otherwise the infrastructure becomes old-fashioned and outdated. People in the industry are too little aware of this. -> government should promote the importance of innovation more and provide e.g. soft loans for innovation. You should avoid that the industry ends up in a ‘run down’ situation.
2. SMEs should be provided with the right support and incentives to innovate. The role of promoting innovation within SMEs should best be given to local authorities and associations close to the SMEs. The European level or even the national level is often too far away from the day-to-day business of SMEs.
3. Whatever measure that governments take to stimulate innovation, it should be easily implemented! Otherwise it is useless for the SMEs in the industry. One should therefore carefully consider what the appropriate government level is to implement any measure (EU, national, regional,...?) and even what the right

organisation is (maybe through sector organisations?). An integral approach is needed if one wants to reach the large group of SMEs.

4. Companies in the industry should be made aware of the importance of interconnectedness in the value chain. Training should be provided to create awareness and make the industry make use of the great opportunities that ICT provides to reach the (global) market.

### **Internationalisation**

1. A reason to internationalise in accommodation is taking advantage of the fact that customers want to lower uncertainty. They look for brands and products that they know -> 'follow the customer' strategy. Standardised products are being offered. It is clear that this type of product is only looked for by a specific type of travellers. Other travellers do not want standardised products, but much more prefer 'couleur local' and look for differentiated products.

### **Regulation and Standards**

1. At the moment no European industrial policy for tourism exists, despite the fact that this industry is of major economic importance. One of the consequences is the 'incompetence' at the EU level to effectively promote Europe as destination in a coherent way. Promotional efforts towards non-EU potential customers are at this moment very fragmented, inefficient and often incoherent.
2. The tourism industry does not need more regulation. There is however a need to put more rationality in existing regulation affecting the tourism industry.
3. UNWTO regards standards and especially certification as useful tools to improve the competitiveness of the industry. Voluntary certification (bottom-up approach) is a good way to engage the industry. Certification systems should be such that companies have the right incentives to apply for this certificate. This might in the beginning be given through fiscal or financial incentives when you apply or later come automatically because customers ask/look for it (cfr. "blue flag" system for beaches)
4. In light of differentiating Europe as a sustainable destination, one should develop a sustainability certificate at EU level and give enterprises fiscal/financial incentives to apply for this certificate.
5. The Schengen region is a very important enabler for tourism within the EU. However, visa issues should be solved for non-EU travellers as they will otherwise avoid Europe.

### **Developments in tourism transport industry**

1. Low cost carriers have played a major role in the development of tourism in Europe. They have lowered fares and have opened up many regional areas through regional linkages. Someone once stated that "low cost carriers have done more for European integration than the European Union"<sup>16</sup>. Moreover, they have stimulated competition in the otherwise oligopolistic airline industry.

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<sup>16</sup> See also The Economist, "The airlines that integrated Europe", Jan. 27, 2005



2. The environmental impact of the low cost carriers is considered to be rather limited. These operators have very efficient operations, often fly with newer airplanes and normally have high occupancy rates. A single European sky instead of the fragmented sky we have now, would help a lot in reducing the environmental impact.
3. As in the airline industry, at the moment also a consolidation in land transport is seen. We are now only at the beginning of this process. Also the privatisation of rail transport is a positive evolution for tourism. Privatisation and consolidation will lead to more (cost) efficient operations, more customer oriented operations.
4. Investments in rail infrastructure for high speed trains are good. For 'shorter' distances (less than 1000 km) within countries or between countries, rail transport is a convenient and comfortable alternative for tourism, i.e. French TGV, German ICE, Spanish AVE, Eurostar linking London, Paris and Brussels. For longer distances, it is expected that air transport will remain important, even in light of the environmental challenges.
5. A major issue to lower the environmental footprint of travelling, is improving the interconnectedness of different modes of transport. E.g. A study about the direct environmental impact of the Schiphol airport showed that the largest environmental burden was caused by the cars picking up/bringing passengers. If all these passengers could leave/enter Schiphol with public transport, this would 1) lower the environmental footprint and 2) facilitate travelling. At present, Air France already operates the route Paris-Brussels by TGV. Also Amsterdam Schiphol Airport and Paris Charles the Gaulle (with stop in Brussels) will soon be linked by high-speed.

### **Climate change**

1. Although the industry is aware of the importance to take measures in relation to the environment, due to the atomised structure of the EU tourism industry it is difficult to implement real changes.
2. To stimulate investments in energy efficient infrastructure the industry should be given the right incentives to invest through an equilibrated set of rules, subsidies and taxation. Awareness should increase that energy efficient infrastructure also increases comfort and reduces the costs of operation.
3. Currently, UNWTO is doing a project on energy efficiency in hotels in the EU.

### **Impact of current economic situation**

1. Credit conditions are tougher now. One should make sure that the financial system works properly again and gives the necessary credits to (healthy) firms wanting to invest.
2. Governments have already taken a number of measures, such as tax reductions, to support firms. UNWTO is closely following the situation through the Tourism Recovery Committee ([www.unwto.org/trc](http://www.unwto.org/trc)).
3. It is expected that 2009-2010 still will be tough for tourism industry, but the industry is until now less affected than other industries. The tourism industry is resilient and is expected to rebound quicker than other industries once the economic situation is improving.



4. The crisis makes that collaboration across the value chain becomes even more important. Especially for more remote regions, it is of utmost importance that airline companies (low cost carriers) keep the region connected to the rest of the world. However, this implies that occupancy rates need to be maintained at acceptable level (otherwise the low cost carriers might suspend the route). Joint promotion efforts between the airline companies, tourism destination offices and tourism companies could be set up to remain attracting the necessary groups of tourists.
5. Due to the crisis, competitiveness of the industry has come more into the picture. As things get tougher, only the ‘fittest’ do well. Different elements such as sustainability, branding or diversification strategies receive more attention than before the crisis. This is a positive element. It is now time to also act upon these issues to effectively increase the competitiveness of the industry.

## Annex IV: Methodological notes on the availability of data

To carry out a quantitative analysis on the tourism industry in the European Union we are depending largely on the availability of statistical data.

### Main data sources

Statistical data on businesses are mainly available within the NACE classification<sup>17</sup>. So far only the NACE Rev. 1 classification can be used, despite the fact that a more recent NACE Rev. 2 classification has been put in place. Statistical data are however not yet available within this newer classification. This study will incorporate mainly two major data sources:

- Eurostat: The business related data provided by Eurostat are mostly only available at a three digit level of the 'NACE Rev.1.1' classification and on NUTS 1 level. For about 90% of the Member States the most recent data stem from 2006. The most important indicators to be used in this study are 'number of companies', 'turnover', 'number of people employed', 'profitability', and 'labour productivity'. For about two thirds of the Member States these indicators are available for micro, small, medium sized and large companies. Specifically for the accommodation sector additional data are available on labour market (eg. temporary work, seniority,...) and use of internet (internet access, purchases via internet,...).
- Amadeus: Amadeus contains data on over 6,1 million private companies in 36 different countries, ranging from ownership over corporate information to financial ratios. Data is externally obtained, mostly through partnerships with country-specific data providers. For their part, those providers rely on data from official filed sources. Inconsistency and gaps in the Amadeus data might result from the fact that there are many differences concerning legislation on obligatory information the companies have to file. Data provided by Amadeus are available on a four digit level of the 'NACE Rev. 1.1'-classification. Most of the data are updated in 2007. Major restriction is that especially smaller companies tend to be underrepresented in Amadeus. Amadeus is however useful to identify the major players in the sector or to get an idea of the geographical concentration of industries within the different Member States. Amadeus provides us additional information to the data collected from Eurostat.

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<sup>17</sup> NACE - the Statistical Classification of Economic Activities in the European Community – is a European industry standard classification system consisting of a 6 digit code. The first four digits of the code are the same in all European countries. The fifth digit might vary from country to country and further digits are sometimes placed by suppliers of databases.

### Tourism industry within NACE classification

The tourism industry is of a hybrid type, in the sense that it refers to parts of different NACE codes. Some examples:

- “Hotels and camping sites” are classified under code H (55.1 and 55.2)
- “Non scheduled air transport” is classified under code I (62.2)
- “Activities of travel agencies” are found under code I (63.3)
- “Fair and amusement park activities” are found under code O (92.33)
- “Museums” are categorised under code O (92.52)

Table 0.1 shows the complete list of sub-sectors which can be related to the tourism industry.

Table 0.1 List of sub-sectors of the tourism industry

NACE			Description
<b>H (55xx)</b>			<b>Hotels and Restaurants</b>
	55.xx		
		55.1	Hotels
		55.2x	Camping sites and other provision of short-stay accommodation
		55.21	<i>Youth hostels and mountain refuges</i>
		55.22	<i>Camping sites, including caravan sites</i>
		55.23	<i>Other provisions of lodgings</i>
		55.3	Restaurants
		55.4	Bars
		55.5	Canteens
		55.51	<i>Canteens</i>
		55.52	<i>Catering</i>
<b>I (60xx till 64xx)</b>			<b>Transport, storage and communication</b>
	60.xx		Land transport, transport via pipelines
		60.1	Transport via railways
		60.2x	Other land transport
		60.21	<i>Other scheduled passenger land transport</i>
		60.22	<i>Taxi operation</i>
		60.23	<i>Other land passenger transport</i>
		60.24	<i>Freight transport by road</i>
		60.3	Transport via pipelines
	61.x		Water transport
		61.1	Sea and coastal water transport
		61.2	Inland water transport
	62.x		Air transport
		62.1	Scheduled air transport
		62.2	Non scheduled air transport
		62.3	Space transport
	63.xx		Supporting and auxiliary transport activities
		63.1x	Cargo handling and storage
		63.2x	Other supporting transport activities
		63.3	Activities of travel agencies
		63.4	Activities of other transport agencies

NACE			Description	
	64.xx			Post and telecommunications
<b>O (90.xx till 93.xx)</b>			<b>Other community, social, personal, service,... activities</b>	
	90.xx			Sewage and refuse disposal, sanitation and similar activities
	91.xx			Activities of business, employers and professional organisations
	92.xx			Recreational, cultural and sporting activities
		92.1x		Motion picture and video activities
		92.2		Radio and television activities
		92.3x		Other entertainment activities
			92.31	<i>Artistic and literary creation and interpretation</i>
			92.32	<i>Operation of arts facilities</i>
			92.33	<i>Fair and amusement park activities</i>
			92.34	<i>Other entertainment activities</i>
		92.4		News agency activities
		92.5		Library, archives, museums and other cultural activities
			92.51	<i>Library and archives activities</i>
			92.52	<i>Museums activities and preservation of historical sites</i>
			92.53	<i>Botanical and zoological gardens and nature reserves</i>
		92.6		Sporting activities
			92.61	<i>Operation of sports arenas and stadiums</i>
			92.62	<i>Other sporting activities</i>
		92.7		Other recreational activities
			92.71	<i>Gambling and betting activities</i>
			92.72	<i>Other recreational activities</i>
	93.xx			Other service activities

Given the fact that data are only available at a three digit level in Eurostat the identification of certain sub-sectors of the tourism industry is not always possible. For example:

- Identification of e.g. the sub-sector of attractions would require disaggregating and separating existing data on a four level digit. Analyzing the data on a three digit level would imply that also for instance radio and television activities or news agency activities are included in the results.
- For other activities it is impossible to identify within the data the tourism share of certain activities. The NACE code 60.2 for instance consists of both passenger and freight transport. Separating the tourism activities would require disaggregating the data on a 4 digit level.

Only two sub-sectors are clearly defined within the existing NACE classification at the 3 digit level. These sub-sectors are on the one hand accommodation and on the other hand travel organizers, intermediaries and destination tourism organizers (TO&TA). This is not the case for the sub-sectors tourism transport and attractions.

- Accommodation is defined as sub-sectors 55.1 and 55.2 in the NACE Rev. 1 classification.
- Travel organizers, intermediaries and destination tourism organizers can be found in the classification as 63.3.

#### Differences in definition of tourism data

Interpretation of quantitative data from any data source should be done with prudence. Data collection for Eurostat consists of harmonised data collected by the Member States in the frame of the Council Directive on tourism statistics 95/57/EC on the collection of statistical information in the field of tourism. There are however two main remarks to be kept in mind when looking at the results within this study:

- Differences in definition: For instance the number of establishments is connected to the minimal capacity defined by each Member States individually.
- Changes over time: The definitions used to measure tourism activities might have changed over time leading to changes in data.

The official statistics make it difficult to describe and evaluate the tourism industry. These problems with the official statistics cannot be solved by this report. When reading this report the reading should be aware of the statistical under-estimation because of the non-observance of a large quantity of for instance tourist arrivals and overnight stays. For instance the two following segments of the tourism industry are generally not included in this kind of studies:

- Hotels: The national definitions of which hotels should be recorded in the statistics widely vary across the EU. In most Member States a minimum number of bed places (e.g. 8 beds in Germany, 40 beds in Denmark) is required for collecting figures referring to hotels. This would lead to some under-estimation of overnight stays if those in accommodation establishments not counted in the official statistics are not estimated by other sources.

- Second homes: In many regions within the European Union second homes represent a large part of the bed capacity to receive tourists. This is for example the case in large parts of France and Spain, but also in countries like the UK and Belgium.
- Bed and breakfasts: Many countries within the European Union use minimum capacities to include the establishment in tourism data. The result is that a part of the tourism capacity is not shown in the official tourism statistics. Eurogites estimates the bed capacity in rural tourism in Europe at 3.6 million places.

When calculating the economic importance of the tourism industry we should always keep in mind that the actual importance of the industry is thus larger than calculated based on the available data.

## Annex V: Competitiveness grid of the accommodation and TO&TA industry

This annex includes the competitiveness grids of the accommodation industry (Figure 0.1 to Figure 0.3) and the TO&TA industry (Figure 0.4 to Figure 0.6). For each of the sub-sectors we show three grids: the regulatory conditions grid, the other framework conditions grid and the exogenous conditions grid.

### *How to read the competitiveness grid?*

The **intensity of the impact** is indicated by means of lighter or darker grey crossings between the framework condition and the indicator in question, where lighter colours mean a less intensive impact and dark colours mean a heavy impact.

Furthermore, for each shadowed crossing, the **direction of the effect** is given. With respect to inputs and outcomes, the direction of the effect indicates the direction in which the framework condition changes the stock or level of the input/outcome. E.g. if a framework condition urges the industry to invest more or if certain additional costs have to be made in order to comply with a certain regulation, then the industrial ‘stock of capital’ diminishes [-]. On the other hand, if a framework condition renders the tourism industry more attractive and it consequently stimulates people to work in the sector, the employment level increases [+]. If the direction of the effect is unclear, then it is marked by [?]. If an effect can merely be considered as a change, without valuing the change as an impact that increases or decreases input/outcome, then the symbol [\*] is used.

Finally, also the **source** through which we have identified the effect is given. We distinguish between effects that are found in the literature [1], effects that have been deduced from interviews [2] and effects that we expect based on our own assessments and theoretical background information [3].

In Part 3 of the report, the most important effects that different competitiveness indicators encounter through the framework conditions are discussed. For this discussion we group the competitiveness indicators in three different clusters:

- **Input-outcome indicators cluster** (yellow): how do the different framework conditions influence labour and capital, the basic inputs to realise higher levels of productivity?
- **Business structure indicators cluster** (pink): how do the different framework conditions influence industry relations, business models and industry characteristics?
- **Product strategy indicators cluster** (orange): how do the different framework conditions influence the way that companies position themselves in the market through specialisation, segmentation, the use of knowledge & technology?



Figure 0.1 Regulatory framework grid of the accommodation industry

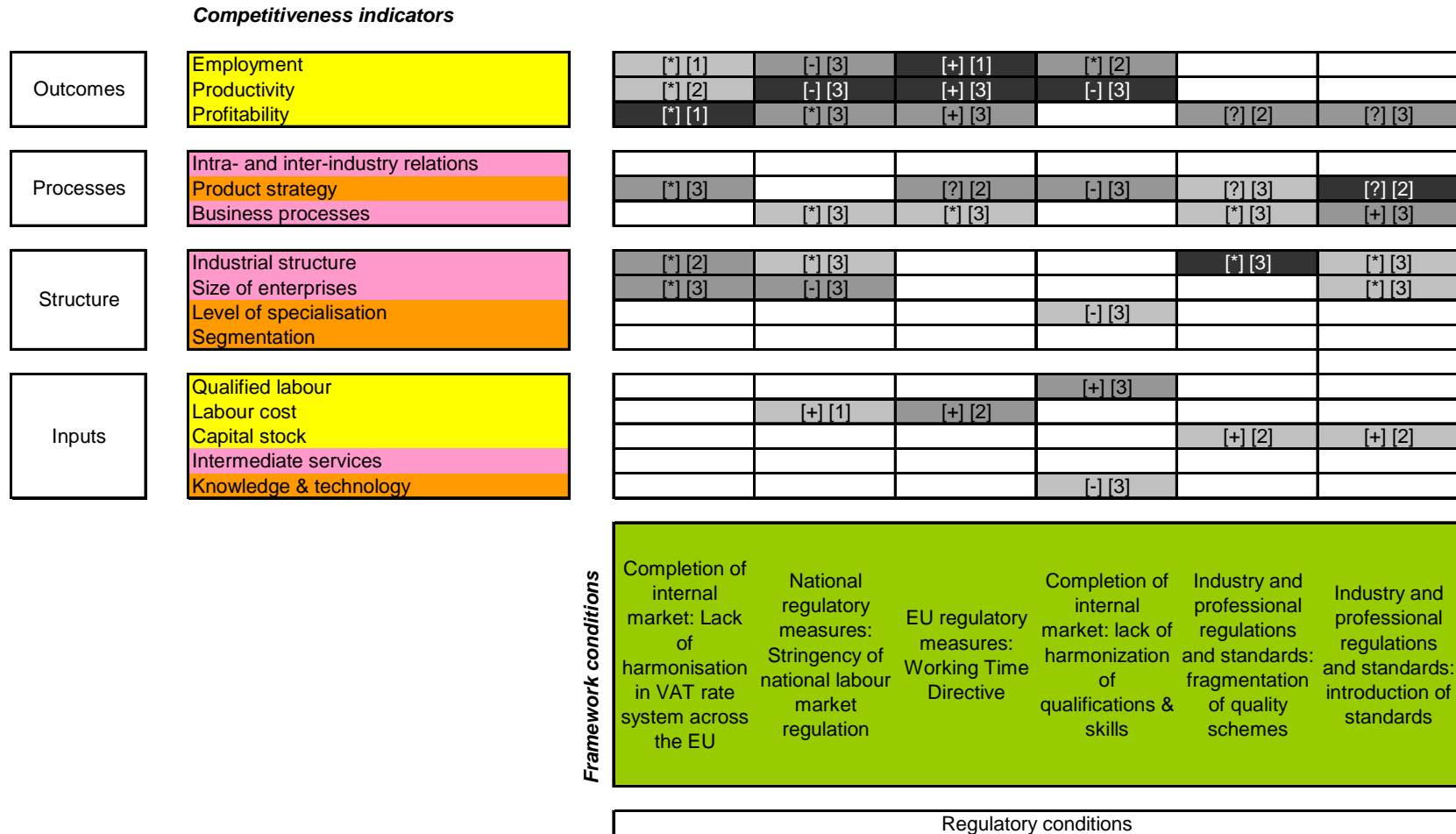


Figure 0.2 Other framework conditions grid of the accommodation industry

<b>Indicators</b>								
Outcomes	Employment		[+] [2]	[-] [1]		[-] [3]		[-] [3]
	Productivity	[-] [2] [3]	[+] [3]	[-] [3]	[-] [3]	[-] [3]	[-] [1]	
	Profitability	[-] [3]	[+] [1]	[-] [3]	[-] [3]	[-] [2]	[-] [2-3]	[-] [3]
Processes	Intra- and inter-industry relations		[+] [1]	[-] [1] [3]	[*] [1]		[*] [3]	
	Product strategy		[+] [2] [3]		[*] [3]	[-] [2]	[-] [2]	[-] [3]
	Business processes	[-] [3]		[-] [3]	[-] [3]	[-] [3]	[*] [3]	[-] [3]
Structure	Industrial structure			[*] [3]		[*] [3]	[*] [3]	[*] [3]
	Size of enterprises			[-] [1]		[-] [3]		
	Level of specialisation			[-] [1]	[-] [3]			
	Segmentation			[-] [1]				
Inputs	Qualified labour	[-] [2] [3]	[+] [1] [2]	[-] [1]		[-] [2] [3]		
	Labour cost		[+] [1] [2]					
	Capital stock					[-] [3]		[-] [1]
	Intermediate services							
	Knowledge & technology	[-] [3]		[-] [1]	[-] [1]		[-] [2]	
<b>Framework conditions</b>	Labour force: negative image of industry as employer Labour force: social dialogue Knowledge: Lack of training in managerial/entrepreneurial skills Knowledge: low absorptive capacity of SMEs High seasonality Low interconnectivity in value chain access to finance							
Other framework conditions								



Figure 0.4 Regulatory framework grid of the TO&TA industry

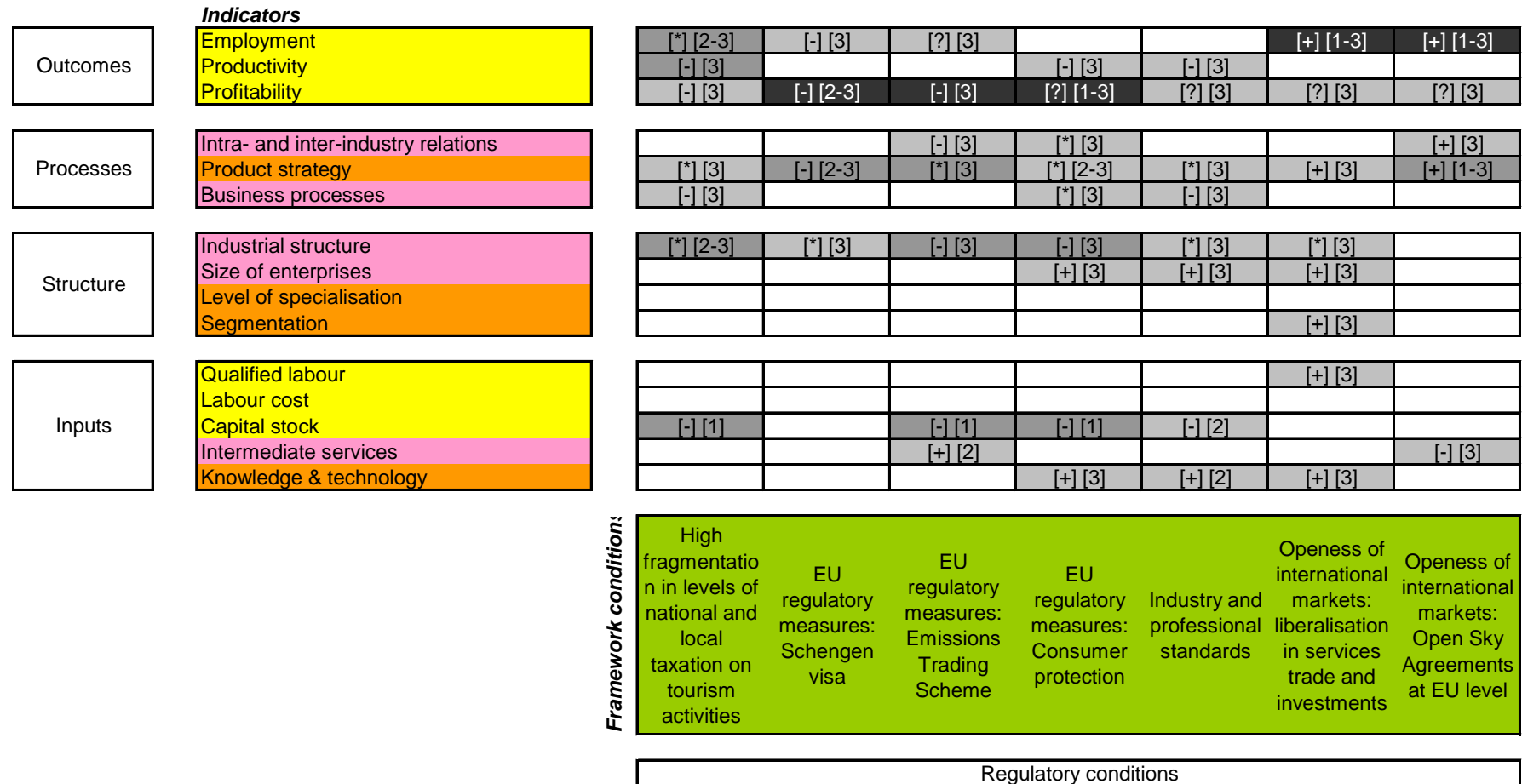


Figure 0.5 Other framework conditions grid of the TO&TA industry

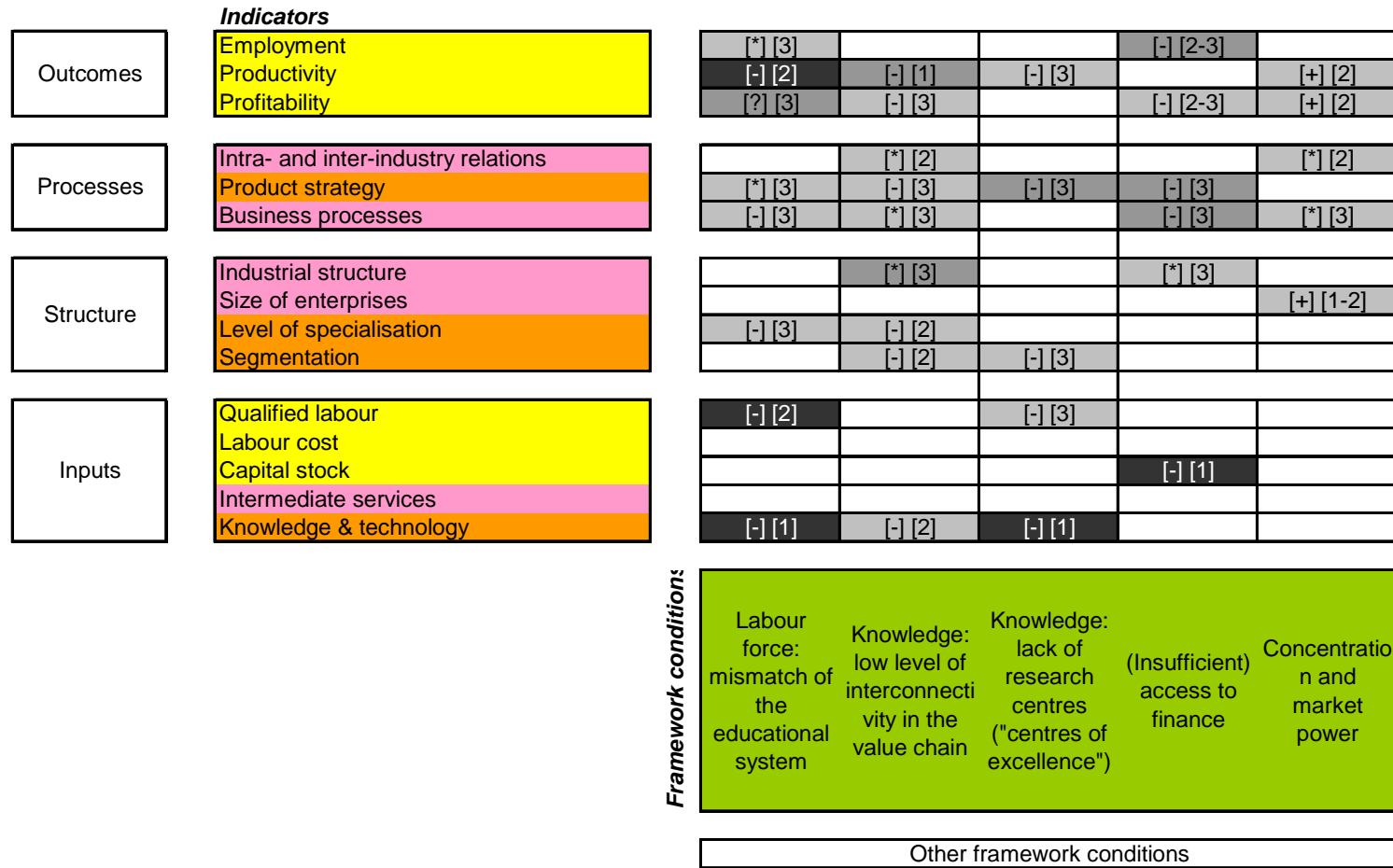


Figure 0.6 Exogenous framework conditions grid of the TO&TA industry

		<b>Indicators</b>					
Outcomes	Employment	[?] [3]	[?] [2-3]				[-] [3]
	Productivity	[+] [3]					
	Profitability	[?] [3]	[?] [2-3]	[?] [3]	[?] [2]	[?] [2]	[-] [2]
Processes	Intra- and inter-industry relations	[*] [2]	[*] [2]		[*] [2]	[*] [2]	[*] [2]
	Product strategy	[+] [2]	[*] [2]	[+] [2]	[*] [2]	[+] [2]	[*] [3]
	Business processes	[*] [2]		[*] [2]	[*] [3]	[*] [2]	
Structure	Industrial structure	[*] [2]	[*] [2]			[*] [2]	[*] [2]
	Size of enterprises		[+] [2]				[+] [2-3]
	Level of specialisation	[+] [2]					
	Segmentation		[+] [2]	[+] [2]		[+] [2]	
Inputs	Qualified labour						
	Labour cost						
	Capital stock	[-] [1]		[-] [3]	[-] [2]		[-] [2] [3]
	Intermediate services					[+] [2]	[-] [1]
	Knowledge & technology	[+] [1-2]		[+] [2]			
<b>Framework conditions</b>		Technologic al change: rise of the internet and automation Globalisation : new destinations + new target groups Social and demographic change: Increased public ecological awareness Increasing exchange rates (to euro) or energy prices Transport infrastructure: rise of low cost carriers Economic and financial crisis					
		Exogenous conditions					