

A World Travel Trends Report

Message from the Pisa
Forum 2007



November 2007

WORLD TRAVEL TRENDS REPORT 2006-07

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A World Travel Trends Report: Message from the Pisa Forum 2007

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Foreword

The annual barometer of world tourism ...

This *World Travel Trends Report 2007-08* was commissioned by ITB Berlin from IPK International, organisers of the 15th annual World Travel Monitor Forum – now more commonly known as the Pisa Forum – which was held on 24-26 October in San Giuliano Terme near Pisa, Italy.

As usual, this year's Forum was organised in co-operation with the European Travel Commission (ETC), attracting more than 55 participants from around the world. All authorities on world tourism, the participants comprised chief executives and heads of marketing and research of international tourism bodies such as the World Tourism Organization (UNWTO), as well as national tourism organisations (mainly ETC members from all over Europe, but also from destinations much further afield such as Canada, Thailand, Kenya and Kazakhstan), regional tourism associations (Flanders, the Austrian and Italian Tyrol, Catalonia, etc), research institutes and private companies from travel and tourism and related sectors.

Private sector companies represented included Philadelphia-based economic forecasters Global Insight; the Department of Travel & Tourism Management at the Worms University of Applied Sciences; Ascend, part of Airclaims Information and Consultancy; the US Airlines Reporting Corporation (ARC); the Japan Travel Bureau (JTB) Foundation; and the Deutsches Zentrum für Luft- und Raumfahrt (the German Centre for Air and Space Travel).

... from one of the world's leading 'tourism think tanks'

Participants, who came from more than 30 countries, represented all regions of Europe, plus sub-Saharan Africa, North and South America, Southeast and Central Asia – as always, a multi-national, multi-disciplinary group of experts, who have given the Pisa Forum a growing reputation as the annual 'think tank' of the global tourism industry.

This summary report, commissioned by ITB Berlin, can only provide a brief overview of the wealth of information on travel and tourism demand exchanged by the participants in Pisa, but it highlights the main conclusions of nearly three days of intensive discussion and debate.

The primary objective of this year's meeting was to analyse the state of the industry in 2007 – identifying important demand trends in key and emerging source markets – and to assess prospects for 2008.

ITB Berlin is delighted to be closely associated with the Pisa Forum for the third consecutive year and, in co-operation with IPK International, we will be looking more closely at the different issues and trends over the next few months, in the run-up to ITB Berlin in March 2008.

Meanwhile, happy reading!

Dr Martin Buck
Director
ITB Berlin

Rolf Freitag
President
IPK International

World Tourism in 2007

Current trends

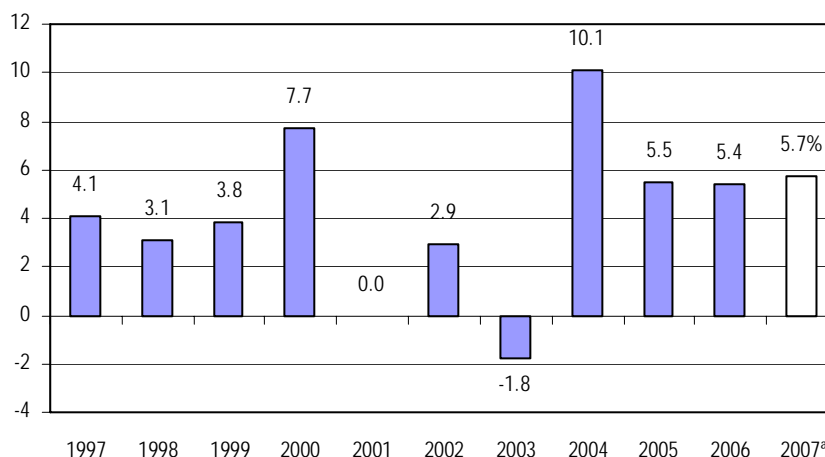
Fourth consecutive year of growth

As reflected in the data compiled by the World Tourism Organization (UNWTO) for the first eight months of 2007 in its newly published *World Tourism Barometer*, the growth in tourism demand continues to exceed expectations, recording a fourth consecutive year of growth, and averaging 1.5 percentage points above the long-term average of 4.1% – for the third year running.

In the first eight months of 2007, international tourist arrivals worldwide increased by 5.6% over the same period in 2006, and UNWTO is now forecasting a 5.7% increase for the full 12 months of the year – in line with the 5-6% growth forecast by IPK International based on World Travel Monitor trends from January through August 2007.

Although it is still too early to make a reliable estimate for the growth in international tourism receipts worldwide, participants at the Pisa Forum agreed that the trend of the past three years is likely to continue – ie with receipts rising more slowly than arrivals. This is largely attributable to the fact that most current growth in tourism demand is for shorter trips, often using low-cost/low-fare airlines. So, while the trend is bound to vary from one region to another, the average spend per trip worldwide is likely to fall, and overnight volume will show more modest growth.

International tourist arrivals worldwide, 1997-2007
(% annual change)



^a Forecast

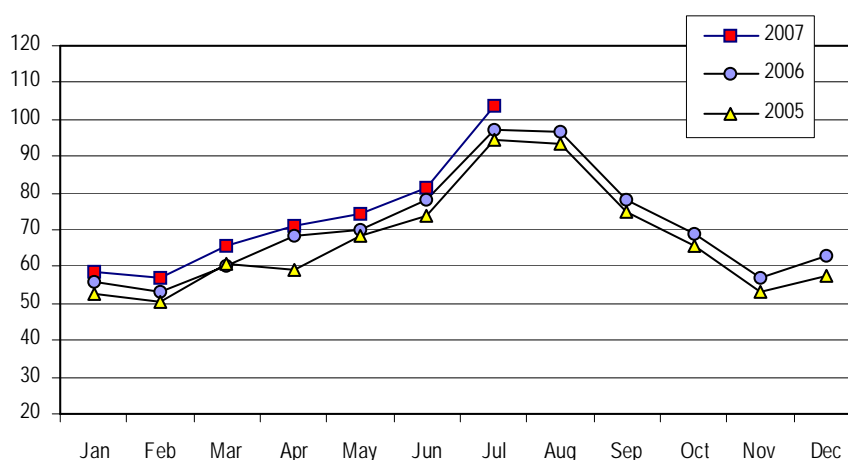
Source: World Tourism Organization (UNWTO)

No marked change in seasonal flows

Except in March and April, when demand patterns are influenced by when exactly Easter falls, there has been no marked change in seasonal flows in 2007 on a month-by-month basis. Tourism demand peaks in the northern hemisphere's summer months, with February accounting for the lowest share of arrivals worldwide.

Nevertheless, in 2007, February was the second fastest-growing month after March (Easter fell in March this year and in April in 2006), followed by May and August.

Monthly growth trends in international tourist arrivals, 2005-07 (mn)



Source: UNWTO

Asia Pacific again tops the regional growth ranking

Regional trends will undoubtedly change as new statistics become available, but the latest UNWTO data (see graph on next page) confirms that Asia Pacific is currently the star regional performer, recording an increase through August of more than 10%, ahead of the Middle East and Africa with +8%. Growth for both Europe and the Americas currently stands at around 4% – one percentage point down on 2006's level in the case of Europe, but twice as high as the rate of growth for the Americas last year.

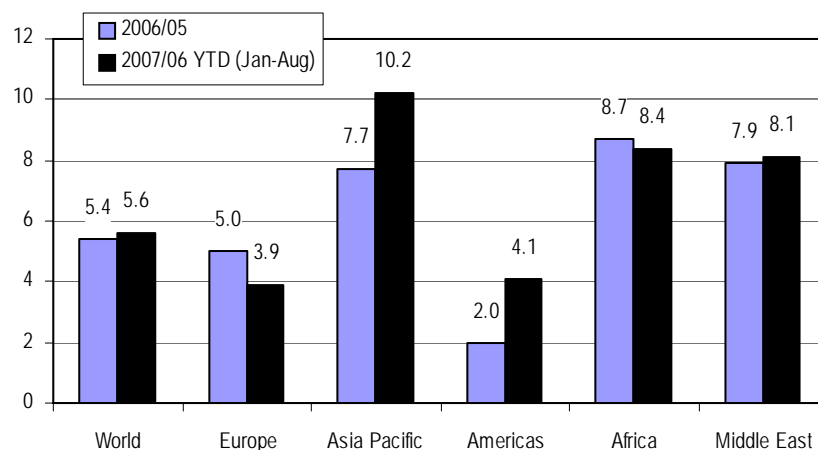
Major factors driving demand

The fact that this will be the fourth year of healthy growth worldwide confirms that tourism is extremely resilient and that travellers are generally undeterred by external threats – whether rising fuel prices, significant exchange rate fluctuations, increased taxation relating to air travel, or continued threats to travellers' health, safety and security. Admittedly, local incidents can affect patterns of tourism flows, and exchange rate fluctuations may favour certain destinations, but tourism growth overall does not seem to be affected.

The 5-6% growth expected for the full 12 months of 2007, which is above that forecast 12 months ago in Pisa, owes much to the healthy global economy, as well as a robust air transport sector. Other important contributing factors cited by participants at the Pisa Forum include the expansion and spread of low-cost/low-fare airline services – almost all regions of the world are now

benefiting from the trend – and significant increases in outbound travel from emerging markets, as well as less traditional European source countries.

International tourism performance by world region, 2006 vs 2005 and Jan-Aug 2007 vs Jan-Aug 2006 (% change in arrivals)



Source: UNWTO

Global travel continues to pace the strong world economy ...

The global economy grew even more strongly than expected in the first half of 2007, allowing the International Monetary Fund (IMF) to maintain its forecast for world GDP growth for the year as a whole at 5.2%. This closely mirrors the forecast made by Global Insight, which also shows that global travel demand has continued to pace the world economy for as long as trends have been monitored.

In addition to the drivers already cited, the Pisa Forum attributes the trend to favourable demographics, rising disposable incomes, increased consumer confidence – due in large part to the fact that people are better informed about world events – to increased trade as a result of globalisation and, last but not least, to the priority accorded by governments to economic development.

... although the downside risks have increased

While the risk of world recession is still fairly low, Global Insight says slower economic growth is a certainty in 2008, exacerbated by financial volatility, the housing weakness in key markets like the USA and UK, the continued high price of oil, and renewed inflationary pressures. Business investment may also be put on hold as a result of all the uncertainties.

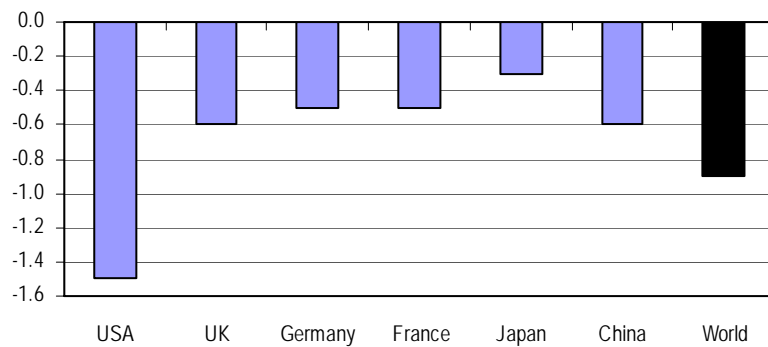
The good news is that a tripling of oil prices during the past five years has not caused much damage at all, and Global Insight predicts that if oil prices do go to US\$100 a barrel in the next couple of years, this will only result in an 0.5 percentage point fall in world growth. Consumer price inflation is still low in most regions and, although there is upwards pressure on interest rates in many countries, interest rates are expected to fall in the USA and there may well be u-turns in interest rate policy in Europe as well.

The slowdown is expected to be confined very largely to North America and Europe. Growth in the Third World (which is already, by historical standards,

remarkably strong) is expected to hold up much better. Prosperity in China and much of Asia has its own domestic momentum, and will help to sustain the commodities prices on which so much of the rest of the Third World depends.

However, concerns still persist that troubles in the housing market in the USA will spill over into a domestic economic recession and, via the related crisis in financial markets, into the rest of the world. Coupled with the continuing weak dollar, this could have an impact on economic growth in many countries, as the following graph shows.

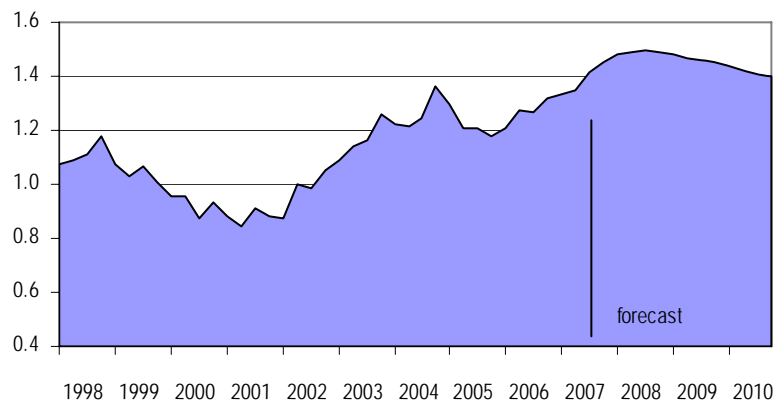
Impact of a mild US recession on world growth
(% point change in annual GDP)



Source: Global Insight

What would this mean for global tourism? According to the Pisa Forum, demand for outbound travel would moderate in step with global GDP and, given the further decline forecast in the value of the US dollar – to US\$1.50 per €1 in 2008 – it would also cause a shift in inbound tourism flows away from Europe towards the USA, Asia and the Caribbean. However, the dollar is expected to recover from late 2008 against the euro and sterling.

Trend in exchange rates: US dollars per euro, 1998-2008



Source: Global Insight

Outbound trips vs arrivals

Explaining the different measures

While the World Tourism Organization gathers data on arrivals from different countries around the world, IPK International's World Travel Monitor measures outbound trips of a minimum one night abroad. In 2006, international arrivals totalled 846 million, but outbound trip volume was significantly lower at 639 million, according to IPK – due largely to the fact that many trips cover more than one destination country. In addition, although in principle international arrivals do not include same-day visits, in practice some are included, because some countries do not distinguish between tourist and visitor arrivals (overnight arrivals versus those including stays of less than 24 hours).

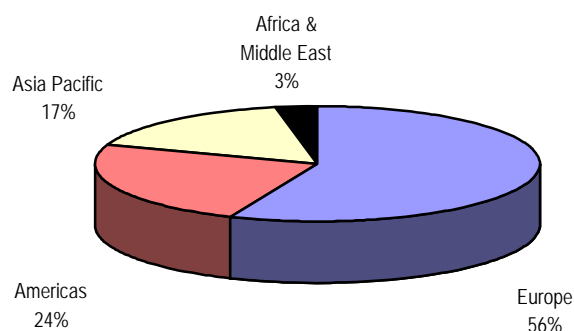
The 639 million outbound trips identified by IPK's World Travel Monitor for 2006 generated 6.4 billion overnights, or some ten nights per trip, and €698 billion in spending – €110 spend per night and €1,080 per trip.

The World Travel Monitor, which IPK International launched in 1988, is based on some one million interviews a year conducted in 54 countries around the world – 35 in Europe, five in the Americas, five in the Middle East and North Africa, and nine in Asia – which are estimated between them to generate nearly 90% of global outbound trip volume. It is the most comprehensive representative sample survey of international travel in existence, providing comparable statistics on travel volumes, patterns and behaviour across the 54 source markets covered.

Europe accounts for 56% of total overnight outbound trips

To put the figures into perspective, it should be noted that Europe generates as much as 56% of the 639 million outbound trip volume worldwide, ahead of the Americas with 24%, Asia Pacific with 17% and just 3% for the Middle East and Africa.

Breakdown of global trip volume by source region, 2006

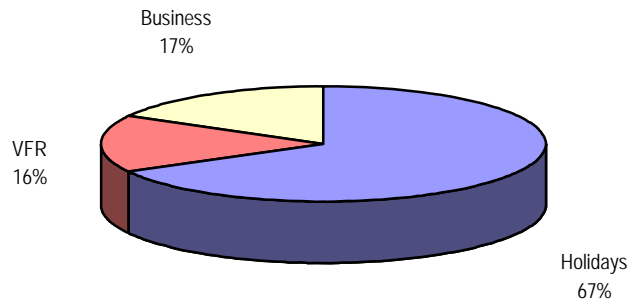


Source: IPK International's World Travel Monitor

Holiday travel dominates

Holidays account for more than two thirds of total trips, with business travel generating a 17% share and visits to friends and relations (VFR) 16%. It goes without saying that these averages mask wide variations from one region and individual market to another.

Breakdown of global trip volume by purpose of trip, 2006



Source: IPK International's World Travel Monitor

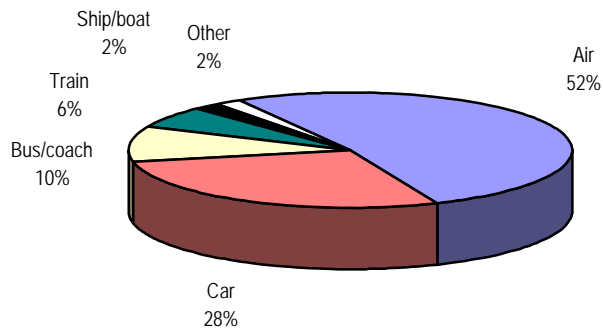
Air transport

Air travel now accounts for 52% of all outbound trips worldwide

Not surprisingly, given the rapid growth of low-cost airline services in North America, Europe, Asia Pacific, and now North Africa and other parts of the world, air travel has become an increasingly popular form of transport for outbound travel over the past decade.

World Travel Monitor data shows that air travel now accounts for some 52% of all outbound trips globally – nearly twice the share of car-based travel (28%) and five times more than bus/coach travel (10%). The balance of trips are taken by train (6%), ship/boat (2%) and other forms of transport (2%).

Breakdown of global travel by mode of transport, 2006



Source: IPK International's World Travel Monitor

A good year for the world's airlines ...

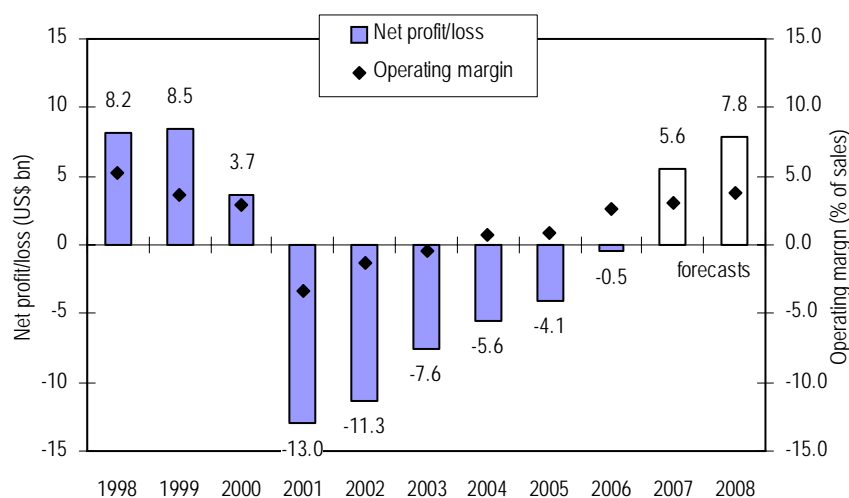
Confirming the healthy growth trend that has characterised world air transport this year so far, the 260 or so member airlines of the International Air Transport Association (IATA) reported a 7.3% year-on-year increase in international passenger traffic from January through September 2007 (expressed in revenue passenger-km, or RPK).

Systemwide capacity (ASK) rose by 6.3% over the nine months, resulting in a slight improvement in average passenger load factor, to 77.3%. However, this average masks variations from one region to another, with North America maintaining the highest load factor (81.2%) and Africa the lowest (69.5%).

... and the first profitable one for seven years

While the credit crunch has clearly shaken both business and consumer confidence, IATA expects demand for air travel to remain solid through the remainder of 2007, and this is reflected in its revised financial forecast for the world's airlines of US\$5.6 billion net profit for the year – up from the US\$5.1 billion forecast in June. However, 2008's net profit forecast has been downgraded to 7.8% from 9.6%.

Global aviation industry net profits and operating margins, 1998-2008



Source: International Air Transport Association (IATA)

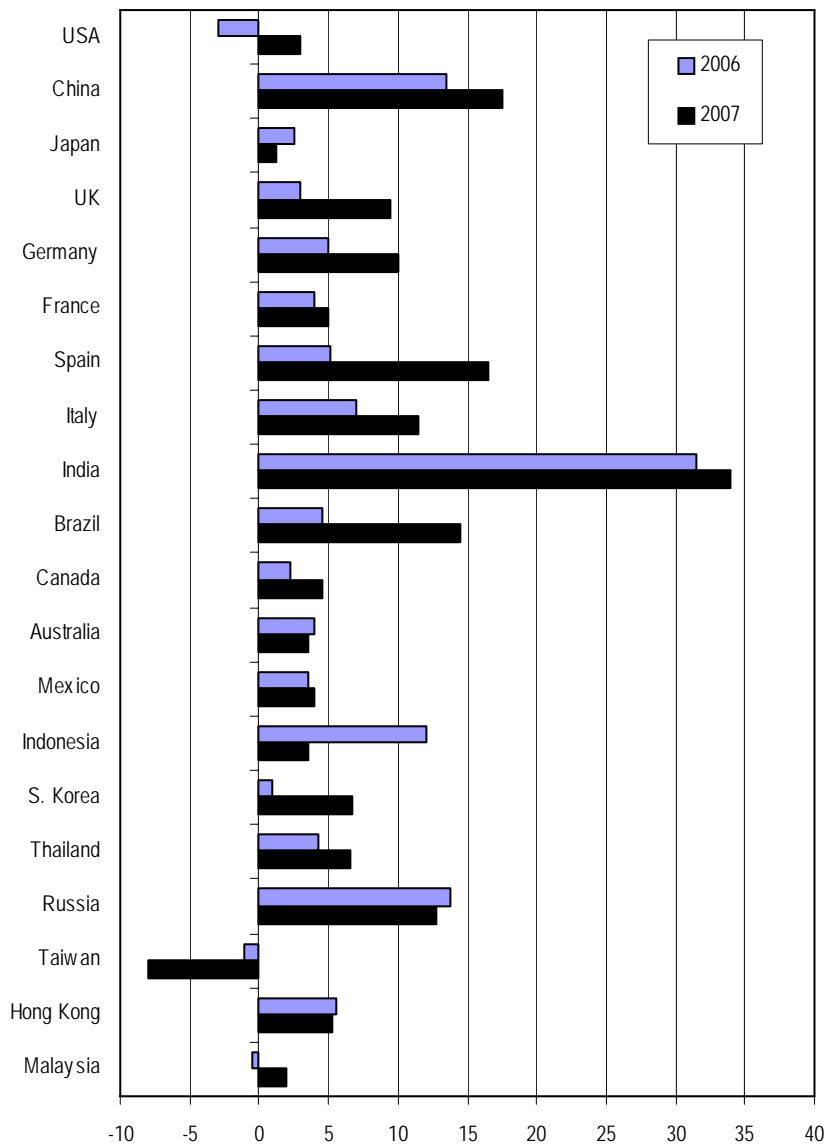
This year's net profit, after six consecutive years of losses, is attributed in large part to the continuing healthy economic environment, but also to a massive turnaround in airlines' performance in North America, due to reduced costs. Although fuel costs have continued to rise, says Ascend (part of the Airclaims Information & Consultancy Group), this has been compensated to a great extent by a fall in labour costs and a general improvement in airlines' financial performances. Nevertheless, the impact of the credit crunch puts some question marks over the industry's performance next year and the continuing high price of fuel will become more difficult to mitigate with efficiency gains. Underlying the forecast is a substantial shift in relative regional performance, primarily driven by capacity increases.

Massive capacity increases in India and China

Since 2001, Asia Pacific-based carriers, preparing to serve the massive inbound and outbound opportunities in China and India, have added 42% to their capacity and improved load factors by two percentage points. By contrast, North American carriers have added 11% to capacity and improved load factors by six percentage points. European carriers have expanded capacity by 29% with load factors showing a five percentage point increase.

The following graph shows the increases in scheduled airline departing seat capacity in key markets, ranked according to total seat capacity, for 2006 and 2007 (quarter 3). In absolute terms, the annual seat growth in China exceeds that of the USA, although the market is still only one quarter of the size of the USA. Over the past decade, due to both outbound and inbound demand, China's seat capacity growth has averaged 10% per annum, says Airclaims – over twice the world average – or 15% in departing seats on international routes out of China in the past five years. And India is now catching up fast.

Increase in scheduled airline departing seat capacity, 2006 and 2007^a
 (% increase on previous year)

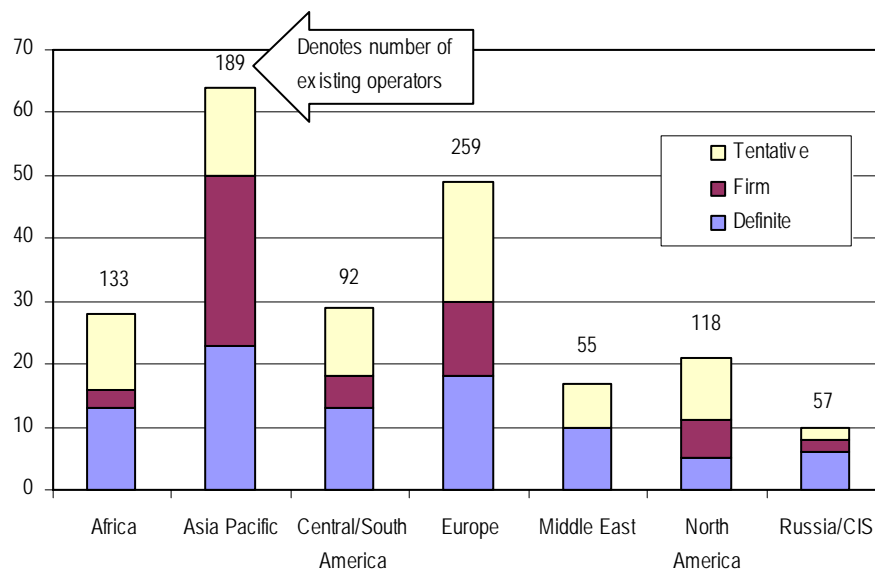


^a 2007 data relates to the third quarter only, compared with the same quarter in 2006

Source: Ascend, from OAG data

The growing importance of Asia Pacific as an origin and destination region for air travel is reflected in the following graph, which shows the number of airline start-ups projected for 2007-10. Much of the growth, of course, will come from low-cost carriers (LCCs), especially in India, China and Southeast Asia.

Prospective airline start-ups, 2007-10



Source: Ascend

**Current outlook:
continued recovery,
complicated by structural
issues**

Short-term forecasts, according to Ascend, are for net global industry recovery, with the US market staggering back to profit after five years of losses. However, many issues remain unresolved – eg the competitive framework, the age of airlines' fleets, infrastructure constraints, environmental taxation, and airport slots.

Major European and Asia Pacific airlines seem to be generally in good health and Middle East airlines are expected to continue stirring up the marketplace. At present, planned regional fleet growth appears broadly to match potential demand, but a structural change in operators, markets and fleets could change the outlook significantly.

Travel and tourism demand

The remainder of this report which, as already indicated, can only provide a glimpse of the depth and breadth of discussions in Pisa, focuses on outbound travel and tourism demand from key established and emerging markets worldwide.

More detailed information is available directly from either ITB Berlin or IPK International, and a series of press releases will also be issued over the coming three months in the run-up to ITB Berlin 2008 to supplement the information in this *World Travel Trends Report 2007-08*.

Europe

Overview of main trends in 2007

**Strongest growth again
for business travel, while
VFR declines**

In 2006, according to IPK's European Travel Monitor, European adults aged 15 years and over made 389 million trips abroad. Of these, 268 million (69%) were for holidays, 66 million (17%) for visits to friends and/or relations (VFR) and other leisure purposes, and 54 million (14%) for business.

Business travel, which had lost significant market share in recent years, has rebounded over the last couple of years, and the following table shows that the recovery was sustained in the first eight months of 2007, with business trip volume up a further 8%. It should be noted, nevertheless, that this estimate is based on trends in just 12 leading European markets (100,000 interviews) which, according to IPK International, account for roughly 65% of total European outbound trip volume.

Holiday travel, which stagnated in 2006, registered a 4% increase – thanks in no small part to strong growth from some of Europe's less traditional outbound markets – while, in contrast, VFR and other leisure trips (undertaken mainly for educational, medical and/or religious purposes) declined by 5% from January through August, after recording above average growth in recent years.

European outbound travel, 2006-07

	2006	% change 2006/05	% change Jan-Aug 2007/06 ^b
Trips ^a (mn)	389	3	3
Short trips (1-3 nights long)	103	6	3
Long trips (4+ nights)	286	2	2
Holiday	268	3	4
VFR and other leisure	66	5	-5
Business	54	4	8
Overnights (mn)	3,700	5	0
Average length of stay (nights)	10	2	-4
Spending (€ bn)	354	6	2
Spending per trip (€)	898	1	-2
Spending per night (€)	95	1	2

^a Trips made by adults aged 15 years and over ^b Based on trends in the first eight months of 2007 from the leading 12 source markets, which account for 65% of European outbound trip volume

Source: IPK International's European Travel Monitor

**City breaks and touring
lead the growth in holiday
demand**

While sun & beach trips continue to dominate the outbound holiday market in Europe, they showed only modest growth in the first eight months of 2007 in terms of trip volume. The best growth sectors were city breaks and touring

holidays, with mountain recreation (without snow) also attracting a healthy increase. However, the poor snow conditions during the winter months at the beginning of 2007 resulted in a decline for winter sports holidays.

Stagnation in overnight volume and length of stay

Total overnight volume, which reached 3.7 billion in 2006, stagnated from January through August this year, resulting in a lower average length of stay – a trend that has intensified in recent years as a result of the faster than average growth in short breaks using low-cost airlines.

Expenditure, meanwhile, rose by 2%, as did spending per night – because of the lower average stay – but spending per trip declined by 2%.

Growth in long-haul travel outpaces that for short-haul trips

Among the trends confirmed by the European Travel Monitor in the first eight months of 2007 was a faster increase in long-haul travel (4%) than in short-haul trips (2%) – a trend that had been forecast by the Pisa Forum in 2006.

Thanks to the increasing weakness of the US dollar against the euro and sterling, travel to the USA picked up quite strongly from January through August, and sub-Saharan destinations have performed well in the European market. But the sharpest rises were for Asia, especially China and Indochina, according to IPK.

Travel to North Africa by Europeans has shown above average growth, and there have been healthy rises for the southeast and southwest Mediterranean countries, but eastern, western and northern European countries have attracted lower than average growth from European markets.

Despite the poor snow conditions during the winter season 2006/07, renewed terrorist attacks (eg in the UK), floods in western Europe (UK) and forest fires in southern Europe (Greece and Italy) – not to mention a lack of mega sporting or cultural events to stimulate tourism demand – the European market confirmed its resilience.

Leading markets

Strongest growth is coming from less mature markets

Europe's two leading travel source markets, Germany and the UK – which, between them, account for about 35% of total European outbound trips – have turned in disappointing performances this year so far, and are not expected to show much improvement before the end of 2007. In Germany's case, the market's stagnating volume was attributed by Pisa Forum participants to uncertainties over employment prospects, together with the negative impact of the three percentage point rise in VAT at the start of the year.

The decline in the UK market, on the other hand, is blamed on different factors – the government's decision to double the Air Passenger Duty, as well as a possible saturation in demand for secondary short breaks using low-cost carriers, and increased hassles associated with travel through UK airports as a result of stepped-up security and immigration checks. However, as representatives of the USA, Canada and Kenya in Pisa confirmed, while total

trip volume has stagnated, demand from the UK for long-haul destinations has recorded a healthy increase.

Meanwhile, in terms of percentage growth over the first eight months of 2007, the best performers were either those markets more traditionally considered as destinations or domestic markets – Spain and Italy, for example – or emerging markets such as Russia. There were also above average increases for Ireland, Scandinavia and France.

Leading European outbound travel markets, January through August 2007

Market	% growth in trips
Spain	11
Russia	10
Italy	7
Norway	5
Ireland	5
Sweden	5
France	5
Finland	2
Belgium	1
Denmark	0
Germany	0
UK	-2

Source: IPK International's European Travel Monitor

In the case of France, and probably also Spain and Italy, outbound travel demand in recent years has been boosted by the introduction of the euro, since it has made prices more transparent across Europe and drawn attention to the fact that foreign travel can be less expensive than holidaying at home.

It should be noted, of course, that the preliminary 2007 results are based on 12 of the leading markets in Europe only, so the higher growth expected from some of the region's smallest members is not yet evident and will only be confirmed after the year has ended.

Destination trends

The 'superstars' include mainly long-haul destinations

Trends in European outbound travel this year have again been influenced by a number of factors. On the positive side, the strong (and appreciating) euro, the continuing healthy economic situation in many countries, the expansion of low-cost/no-frills flights, and the poor weather during much of the summer in northern Europe, all stimulated demand for outbound travel in the first eight months of the year.

Long-haul destinations make up most of the 'superstars' – destinations attracting more than 10% growth out of the European market – as the following table shows, although Morocco, Serbia, Montenegro and Iceland all feature among the winners.

Performance of different destinations in the European market, January through August 2006

> 10%				
China	Japan	Cambodia	Vietnam	
Kenya	Morocco			
Serbia	Montenegro	Iceland		
5-10%				
Belgium	Finland	Portugal	Switzerland	Turkey
Croatia	Latvia	Lithuania	Poland	
Malta	Egypt	Middle East	South Africa	
India	Malaysia	Thailand		
Brazil	USA			
1-4%				
Denmark	France	Germany	Ireland	Italy
Netherlands	Spain	UK	Czech Republic	Bulgaria
Greece	Tunisia			
Canada	Dominican Republic			
Australia	New Zealand			
Weak performance (0% and below)				
Austria	Cyprus	Hungary	Russia	Estonia
Singapore	Sri Lanka	Israel		
Cuba				

Source: IPK International's European Travel Monitor

Transport

Rail travel gains share, albeit from a low base

For the first time for several years, there was an increase in travel by rail on European outbound trips. While the total volume of rail-based trips remains small, it was a double-digit increase, attributed in part to the increased hassles of air travel due to stepped up security and immigration controls at airports, but also to the expansion of high-speed and other rail services in Europe.

Although some delegates at the Pisa Forum questioned whether Europeans are perhaps starting to avoid air travel as a way of reducing their carbon emissions, there is no clear evidence of such a trend.

'No-frills' flights gain further share

Meanwhile, airline trips increased by 5%, due mainly to the continuing boom in demand for low-cost/low-fare airline travel, more usually dubbed 'no-frills flights'. According to the European Travel Monitor, trips involving flights costing less than €150 return increased by 17% in volume in the first eight months of this year, with the result that they now account for more than 39% of total trips abroad by air made by Europeans.

It should be noted that trips involving airline travel account for well over half of all outbound trips made by Europeans, although this average clearly masks wide variations from one source country to another.

Travel distribution

Huge increase in bookings through the internet

Use of the internet for online booking as opposed to simply 'looking' – gathering information prior to booking a trip – continues to grow very fast in Europe. As a result of a 13% increase in online bookings (for at least part of a trip) during the first eight months of 2007, their share has now reached 36% of total trips abroad. The equivalent share was just 19% in 2003. Moreover, in some markets the share is over 65%.

If those using the internet to research their foreign trips – ie the online 'lookers' – are included in the count, the share of internet users in Europe for travel is now 50%. Clearly, the incidence of internet bookings among the smaller, less mature European markets is lower, but it is growing fast – much faster, in fact, than online travel 'looking'.

European online travel trends, January through August 2007

	Market share Jan-Aug 2007	% change Jan-Aug 2007/06
Online booking	36	13
Online 'looking'	14	3
All internet users	50	10
Non-internet users	50	-8

Source: IPK International's European Travel Monitor

The internet is now nearly twice as important generally as travel agents as an information source, although the travel trade is still very important in terms of travel distribution. And, given the rise in dynamic packaging offered directly by tour operators to clients booking online, the travel trade is not about to lose its importance as a distribution channel.

Information sources used by European outbound travellers, January through August 2007

Source	% share ^a
Internet	47
Travel agency	24
Friends/relatives	15
Travel guide	7
Travel brochure	7
Newspaper	2
Tourist office	2
TV	1
No response	7
Others	16

^a Multiple responses possible

Source: IPK International's European Travel Monitor

While more than one third of all bookings are made at least partly online, 25% involve travel agents, 9% are booked direct with hotels and 7% direct with transport companies. Just over 20% of all European outbound trips do not involve any advance bookings at all.

Europeans' travel booking channels, January through August 2007 (% of trips^a)

With help of internet	36
Travel agents	25
Direct with hotels	9
Direct with transport companies	7
Other ^a	14
No advance booking	26

^a Multiple responses possible. In particular, bookings through travel agents, hotels, transport companies and other channels may also be made with the help of the internet

^b eg Newspapers, clubs, staff associations

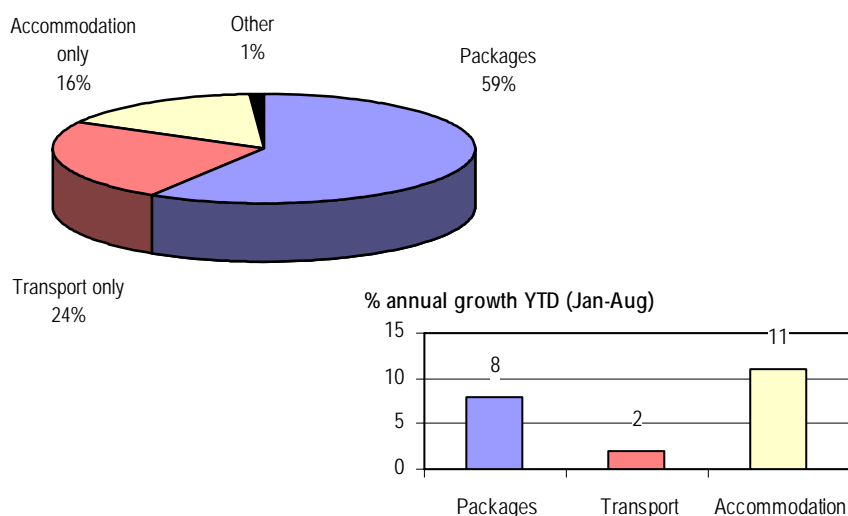
Source: IPK International's European Travel Monitor

Nearly 60% of Europeans opt for a package, or create their own

Contrary to popular opinion, package holidays are not out of favour among Europeans. In the first eight months of 2007, as many as 59% of all trips booked from January through August 2007 were for packages (ie transport plus hotel) – an increase of 8% over the same period in 2006. A significant share of these packages were, however, self-tailored online, primarily as dynamic packages.

Bookings for transport only (a 24% share of total trips) rose by just 2% and accommodation-only sales were up 11%, accounting for a 16% share.

Breakdown of European pre-bookings, Jan-Aug 2007



Source: IPK International's European Travel Monitor

Europe inbound

Arrivals increase faster than overnight volumes

Although this report is primarily about outbound travel, it is important to look at trends gathered by the European Travel Commission (ETC), IPK International's partner in organising the annual Pisa Forum.

Preliminary data from ETC points to an overall growth from all over the world into Europe of just over 4% – in line with trends identified by the World Tourism Organization. Overnight volume averaged a slightly lower 3-4% increase, according to data already available for the first six, seven or eight months of 2007. This would also seem to confirm the continued faster than average growth in short breaks as a result of the expansion of low-cost airlines (LCCs).

More independent, as well as more last-minute, bookings

Among the main trends highlighted by ETC in Pisa, most country representatives agreed that there has been more independent travel, both among intraregional and long-haul travellers to Europe. Also important has been the growth in last-minute bookings – attributed at least in part to the strange weather conditions in Europe, which led people to delay making travel decisions so that they could choose the most appropriate destination at the last minute.

Russia leads the growth in short-haul arrivals into Europe

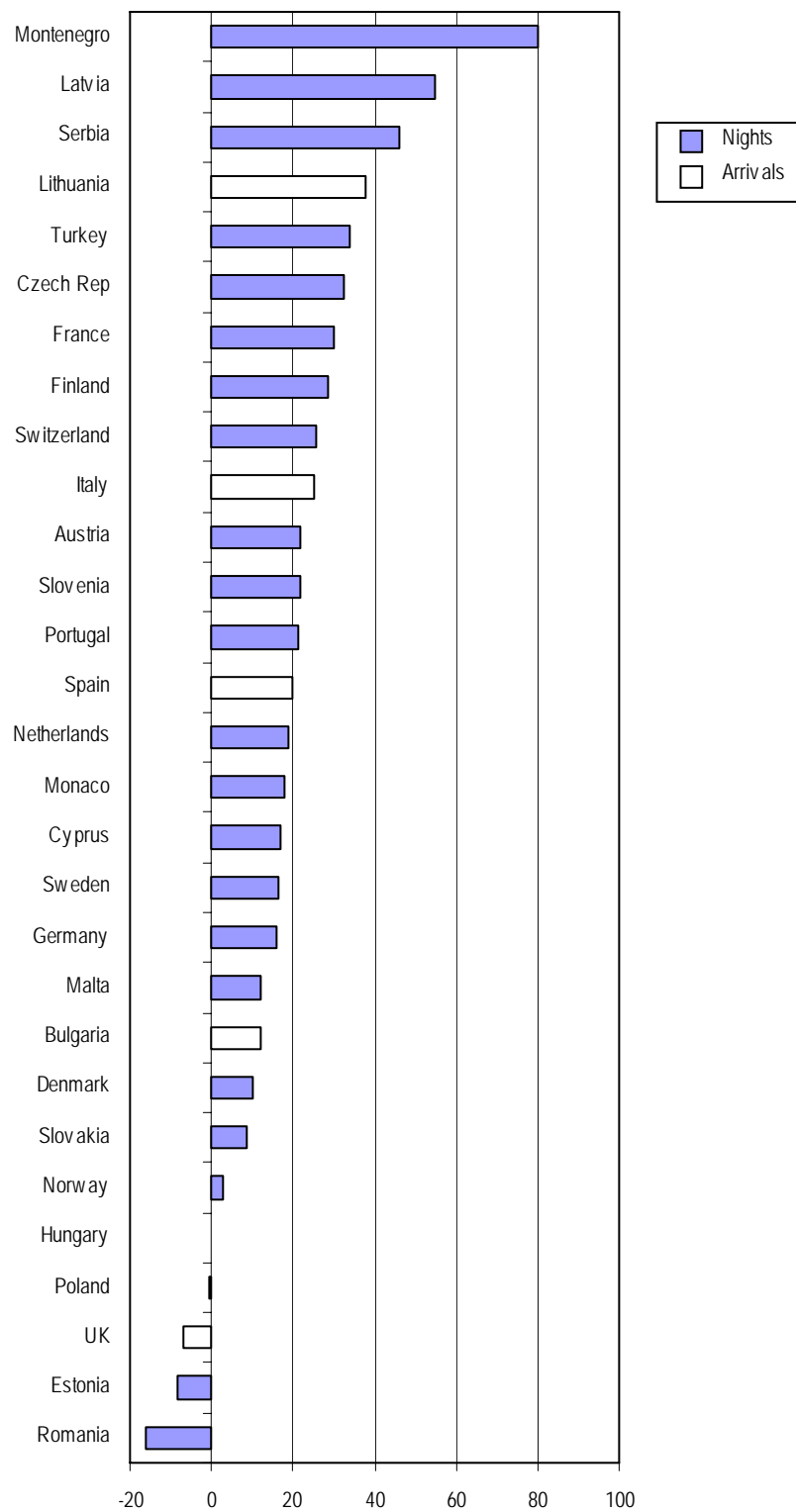
The best-performing outbound travel market to European destinations for the first six to eight months of 2007 was undoubtedly Russia and, as the graph on the following page illustrates, Montenegro led the inbound growth ahead of Latvia, Lithuania, Serbia and the Czech Republic.

Only four destinations recorded declines: Poland, the UK, Estonia and Romania. In the case of Estonia, a factor is the increased tensions between the two countries since the Estonians moved a statue of a Soviet warrior from downtown Tallinn to the military cemetery in April 2007. The UK's decline is surprising since Russia has been one of its strongest growth markets in recent years, but particularly in overnights, trends for which are not yet available.

Romania's decline could well be due to the fact that, as it is a new European Union member, Russians need visas to visit the destination, something that already proved a deterrent to travel by Russians to other new EU member countries like Cyprus and Malta in 2004 – the year that they joined the EU.

As far as long-haul markets into Europe are concerned, there have been very mixed performances so far, but some leading emerging markets are fulfilling their promise and showing strong growth. Key long-haul markets – both traditional and emerging – are discussed in the following chapter.

Growth in Russian overnights (or arrivals) in European destinations, YTD 2007^a
(% annual increase)



^a Arrivals shown when overnights are not available. YTD = year to date, ie the first 6-8 months of 2007 – and some data is estimated

Source: European Travel Commission (ETC) from member national tourism organisations (NTOs)

North America

Canada

Outbound travel demand remains buoyant ...

Although detailed market data is only available for the first few months of 2007, there appears to have been continued growth in Canadian outbound travel this year, according to the Canadian Tourism Commission (CTC), with trip volume up 7% from January through July (and 10% excluding travel to the USA). UNWTO also shows that international tourism expenditure by Canadians in the first half of the year rose by 4.7%. Demand was boosted by the strong Canadian dollar, stable interest rates and low inflation, which have resulted in sustained consumer confidence.

However, in the first three months, while the Caribbean – Canadians' favourite overseas travel destination – attracted a 7% increase in Canadian visits, Central America was up 30% (from a low base), and Asia attracted 9% growth, South America recorded a 37% drop in demand and Europe was down 10%.

... but few countries in Europe have benefited from the trend

Data gathered by the European Travel Commission (ETC) from member NTOs on Canadian arrivals is more up to date – generally covering at least the first six to eight months of 2007 – and this shows that there have been some very mixed performances in terms of Canadian arrivals in European destinations.

As can be seen by the following table, the strongest growth – in arrivals and/or overnights – has been for Monaco, Cyprus, Iceland, Spain, Lithuania, France, Greece and Bulgaria.

Nights and arrivals from the USA and Canada in European destinations, YTD 2007^a
(% annual increases)

Destinations	USA		Canada	
	Nights	Arrivals	Nights.	Arrivals
Austria	-2.2	-4.5	2.6	-1.8
Belgium	-0.1	-1.9	6.8	8.8
Bulgaria	na	2.4	na	10.8
Cyprus	-26.3	19.8	89.2	6.4
Czech Rep.	-1.2	-2.0	-9.4	-8.2
Denmark	-12.4	na	-2.1	na
Estonia	11.7	11.0	na	na
Finland	4.3	na	3.2	na
France	2.7	-1.8	13.8	15.5
Germany	-2.1	-1.0	3.6	2.4
Greece	na	30.0	na	12.0
Hungary	-4.8	-2.0	-2.1	-8.7
Iceland	na	-9.3	na	54.2
Ireland	na	3.6	na	1.5
Italy	na	10.0	na	10.0
Latvia	-8.0	na	na	na
Lithuania	-16.8	-10.4	7.8	30.2
Malta	37.2	45.5	na	na
Monaco	8.0	23.0	151.0	157.0

(continues)

Nights and arrivals from the USA and Canada in European destinations, YTD 2007^a (continued)
(% annual increases)

Destinations	USA		Canada	
	Nights	Arrivals	Nights.	Arrivals
Montenegro	25.5	na	7.5	na
Netherlands	-1.0	0.0	-13.0	-7.0
Norway	-3.9	na	na	na
Poland	na	-9.1	na	4.1
Portugal	4.7	na	1.7	na
Romania	7.6	-3.8	-19.2	-19.0
Serbia	16.0	9.0	17.0	24.0
Slovakia	-4.4	2.0	na	na
Slovenia	1.0	3.0	4.0	-3.0
Spain	na	23.7	na	39.7
Sweden	3.6	na	4.2	na
Switzerland	-0.1	-0.4	3.6	6.5
UK	na	-6.0	na	0.0

^a First six to eight months of the year (except Belgium, first three months only). Data for other countries is not available

Source: ETC

USA

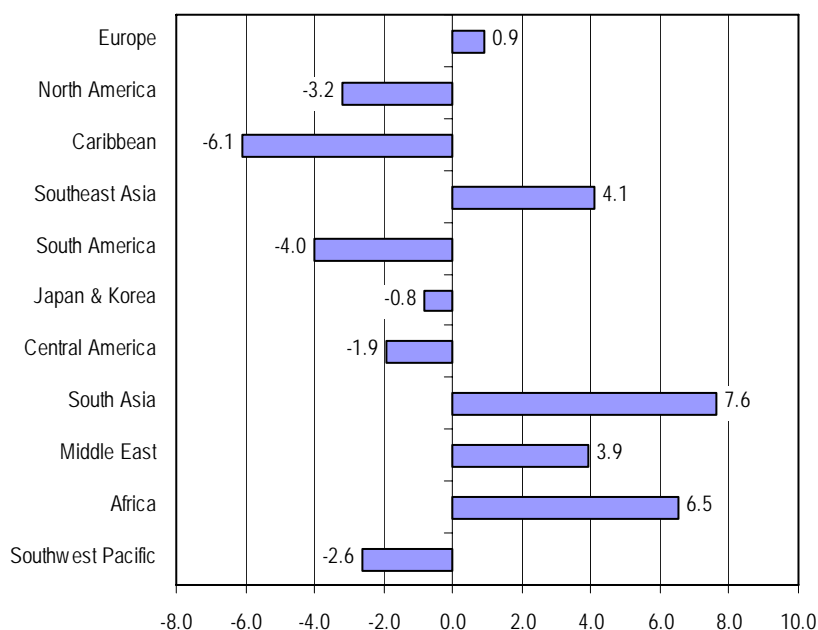
Recovery of US outbound travel ...

Official data from the US Department of Commerce indicates that outbound travel from the USA by air increased by only 1% through the month of August in 2007 – due in no small part to the weak dollar – while the growth for some Asian and Latin American markets exceeded 20% (in terms of either expenditure and/or trip volume). Europe attracted an increase of just 1% from the USA, in line with overall trends.

However, as was the case with Canada, there have been sharply contrasting performances from one European destination to another – and, in some cases (eg Cyprus), between arrival and overnight trends in the same destination. Many of the European countries recording healthy increases are smaller, secondary destinations – like Malta, Monaco, Estonia, Montenegro and Serbia. But Spain also attracted a 24% increase in arrivals from the USA in the first half of the year and Greece, continuing to benefit from increased exposure as a result of the 2004 Olympic Games, saw a further 30% rise from January through August.

Other sources of data show slightly different results for US outbound travel, although the respective statistics cannot be strictly compared. However, it is interesting to highlight some of the differences. Data from the Airlines Reporting Corporation (ARC), for example – which measures departures by air from the USA (regardless of nationality or residence) – suggests that, in terms of air travel alone, South Asia, Africa, Southeast Asia and the Middle East attracted the strongest growth, albeit from different bases.

**Outbound travellers by air from the USA, January through August 2006-07
(% annual change^a)**



^a Calculated before rounding

Source: ARC

ARC also shows the individual countries that recorded the greatest growth and declines by air from the USA over the January through August 2007 period. Trends correlate fairly closely with inbound arrivals in destinations for which data is available.

**Outbound travellers by air from the USA, January through August 2007
Destinations showing the greatest growth and declines over the same period in 2006**

	Greatest growth	Greatest decline
Europe	Spain Croatia Serbia & Montenegro	United Kingdom Ireland Netherlands
North America	–	Mexico Canada
Caribbean	US Virgin Is. Cayman Is. Trinidad & Tobago	Jamaica Bahamas Puerto Rico
Southeast Asia	China Vietnam Philippines	Thailand Malaysia Singapore

(continues)

Outbound travellers by air from the USA, January through August 2007
Destinations showing the greatest growth and declines over the same period in 2006
(continued)

	Greatest growth	Greatest decline
South America	Panama ^a Ecuador Peru	Brazil Colombia Guyana
Japan & Korea	South Korea	Japan
Central America	Guatemala	Costa Rica Nicaragua Belize
South Asia	India Bangladesh Nepal	Pakistan Sri Lanka
Middle East	United Arab Emirates Israel Egypt	Jordan Lebanon
Africa	South Africa Ethiopia Uganda	Nigeria Senegal Zambia
Southwest Pacific	Australia American Samoa Solomon Is.	French Polynesia New Zealand Fiji

^a Panama is defined by IATA as within South America

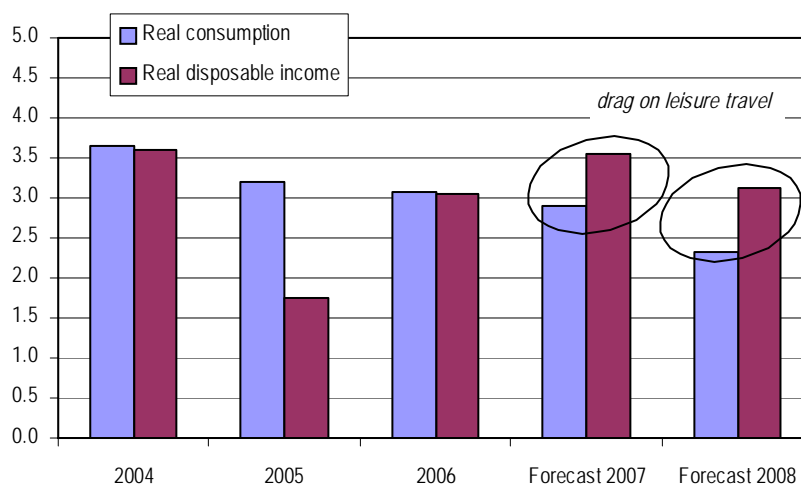
Source: ARC

... but can it be sustained?

But, despite the welcome recovery of the US market, the weaker outlook for the economy, coupled with the continued depreciation of the US dollar, the housing downturn and the sub-prime mortgage crisis in the USA led a number of participants at the Pisa Forum to predict sluggish demand in US outbound travel during the remainder of 2007 and 2008. Moreover, all these factors combined increase the risk of a recession in the USA, currently estimated by Global Insight at one in three over the next two years, and this in turn increases the downside risk for outbound tourism demand.

There are also signs that Americans are starting to put more of their disposable income into savings – something they have not done for several years – which tends to suggest that there will be less money available for foreign or even domestic travel.

Trend in real disposable income and consumption in the USA, 2004-08
(% annual growth)



Source: Global Insight

Asia

Overview of current trends

The world's fastest growing source region

Results of the Asian Travel Monitor, part of IPK International's World Travel Monitor, concur with data gathered by the Pacific Asia Travel Association (PATA), which shows that Asia is the fastest growing outbound source region in the world. Nevertheless, only one Asian market, Japan, ranks among the top ten source countries for travel and tourism, with 18.1 million trips in 2006. While China's official outbound trip count is much higher, at 34.5 million, some 70% of these trips are in fact for Hong Kong and Macau – Special Administrative Regions (SARs) of China – and therefore domestic destinations.

IPK data shows that intra-Asian travel accounts for the highest share of all trips (71%), with Europe in second place in the destination favourites' ranking (16% share), ahead of the Americas (12%).

Holidays account for more than two thirds of total volume (65%), with other leisure travel (including VFR) generating a 24% share and business travel 11%.

The favourite types of holidays involve touring (44%) – travelling to several different destinations, of which mainly cities – followed by city breaks (13%) and sun & beach trips (13%).

Japan

China is hot on its heels

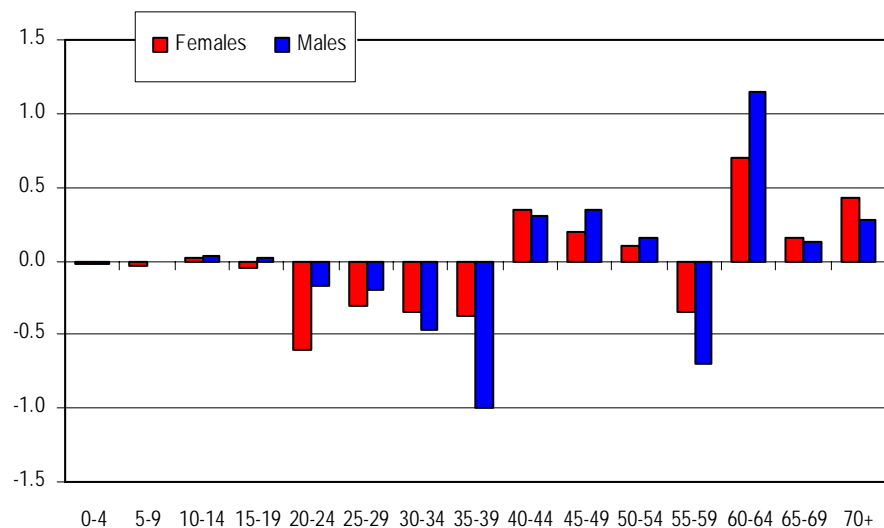
Despite its extremely sluggish growth this decade, Japan is arguably still the region's most important outbound travel source, since its 18.1 million outbound trips in 2006 generated US\$26.9 billion in international travel expenditure, placing the market in fifth position in the World Tourism Organization's (UNWTO's) world ranking of top spenders – ahead of China in sixth position with US\$24.3 billion.

Nevertheless, a 1% decline in outbound trip volume from Japan this year through the month of August, together with near stagnation in spending by Japanese from January to July, suggest that China may overtake Japan in the UNWTO ranking.

Few age groups show any growth in outbound travel

The Japan Travel Bureau (JTB) Foundation, IPK International's partner in Japan, expects only modest growth in the Japanese market this year, if any at all, and most of this will come from Japanese – and primarily females – aged 60 years and over, or in their 40s and early 50s. A significant share of the latter – at least, females in their early 40s – comprise unmarried Japanese who are still living at home and who, therefore, do not have concerns about rent or mortgages.

Change in the departure rate of Japanese based on gender and age groups, 2006/05
(% change^a)



^a Year to date (6 months), compared with same period in 2006

Source: Japan Travel Bureau (JTB) Foundation

It is interesting to note that the departure rate of Japanese aged 55-59 years old fell by 0.3% for females and 0.7% for males in 2006 – due in large part to their increasing concerns among this age group about pensions for their

coming retirement. However, for older Japanese females in their late-50s, a number of other major life-altering events also discourage foreign travel. These include the birth of a new grandchild, personal health concerns, house refurbishment, and a whole host of other personal events.

Meanwhile, the decline in departure rates among Japanese under 40 is attributed to the impact of equally life-changing events such as childbirth, starting new jobs or studies. In some ways, younger Japanese are considered to be even more conservative than their elders when it comes to spending their disposable incomes.

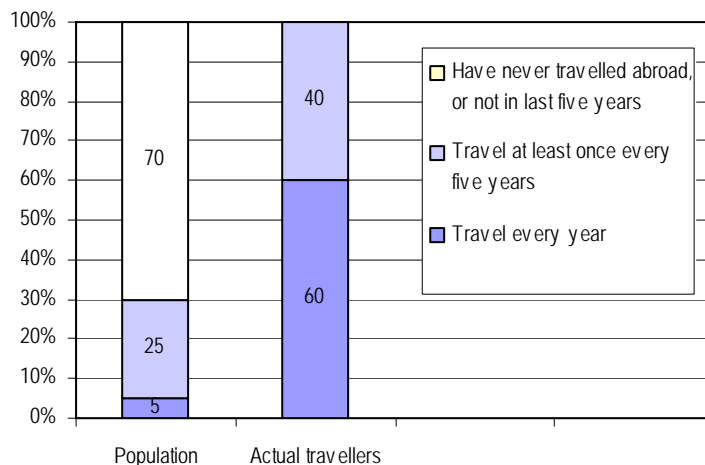
Nevertheless, the sluggishness of the Japanese outbound travel market in recent years is difficult to explain satisfactorily. The JTB Foundation says there is no evidence that economic growth has, or will have in the future, a major impact on outbound travel demand. More important is the fact that the group tour market seems to have reached saturation, yet Japanese – with the exception of the young – are generally not confident enough about their ability to speak English or other foreign languages to travel independently.

Propensity for foreign travel seems to be declining

The impact of all these different factors has been significant over the past decade. Some 70% of Japanese have never travelled abroad, or at least not in the last five years. And 25% travel only once every five years. A mere 5% of the population takes at least one trip abroad every year, and these are increasingly to short-haul destinations in Asia.

As a result, the share of long-haul trips has fallen from 60% at its peak around 2000 to 45%, and is expected to fall further.

The travelling population of Japan



Source: JTB Foundation

Another disappointing year for long-haul destinations

Most traditional Japanese long-haul destinations – from Australia to the USA and Europe – have suffered a further decline in arrivals from Japan in 2007 and, in most cases, Japan is the only Asian market to register such a decline.

The following table highlights the negative growth trend to Europe in the first six to eight months for all but a small handful of destinations – mainly newer destinations such as Montenegro (+54.2% in arrivals), Slovenia (+23.0% in nights and +21.0% in arrivals), Cyprus (+142.4% and 9.9% respectively) and Poland (+5.8% in arrivals). But there are some exceptions to the general rule of thumb – notably Spain (+53.9%).

Nights and arrivals from Japan, China and India in European destinations, YTD 2007^a
(% annual increases)

Destinations	Japan		China		India	
	Nights	Arrivals	Nights	Arrivals	Nights	Arrivals
Austria	-12.9	-10.9	-8.7	-9.2	0.2	-8.1
Belgium	8.3	5.1	8.3	17.3	27.2	19.1
Bulgaria	na	-2.2	na	7.9	na	40.8
Cyprus	142.4	9.9	-12.4	71.6	na	63.9
Czech Rep.	-5.8	-6.3	3.1	5.7	na	na
Denmark	-12.1	na	-23.4	na	na	na
Estonia	-29.9	-28.5	na	na	na	na
Finland	4.2	na	-26.0	na	42.9	na
France	0.3	-1.7	-11.8	-11.9	na	na
Germany	-17.3	-13.3	1.4	7.9	35.1	42.9
Hungary	0.4	-7.4	13.7	22.6	na	na
Iceland	na	3.3	na	na	na	na
Ireland	na	-10.2	na	na	na	na
Italy	na	0.0	na	na	na	na
Lithuania	-12.6	-9.0	50.5	-6.5	na	na
Monaco	-12.0	3.0	46.0	121.0	na	na
Montenegro	54.2	na	na	na	na	na
Netherlands	-15.0	-14.0	12.0	3.0	37.0	25.0
Norway	-9.2	na	-14.0	na	na	na
Poland	na	5.8	na	-20.2	na	-7.8
Portugal	-3.8	na	na	na	na	na
Romania	-10.8	-6.3	-0.6	14.1	82.0	4.4
Slovakia	-29.6	-20.9	na	na	na	na
Slovenia	23.0	21.0	58.0	39.0	na	na
Spain	na	53.9	na	na	na	na
Sweden	-14.0	na	8.8	na	na	na
Switzerland	-5.4	-5.4	14.6	12.1	14.7	12.1
UK	na	3.0	na	26.0	na	-1.0

^a First six to eight months of the year (except Belgium, first three months only). Data for other countries is not included.

Source: ETC

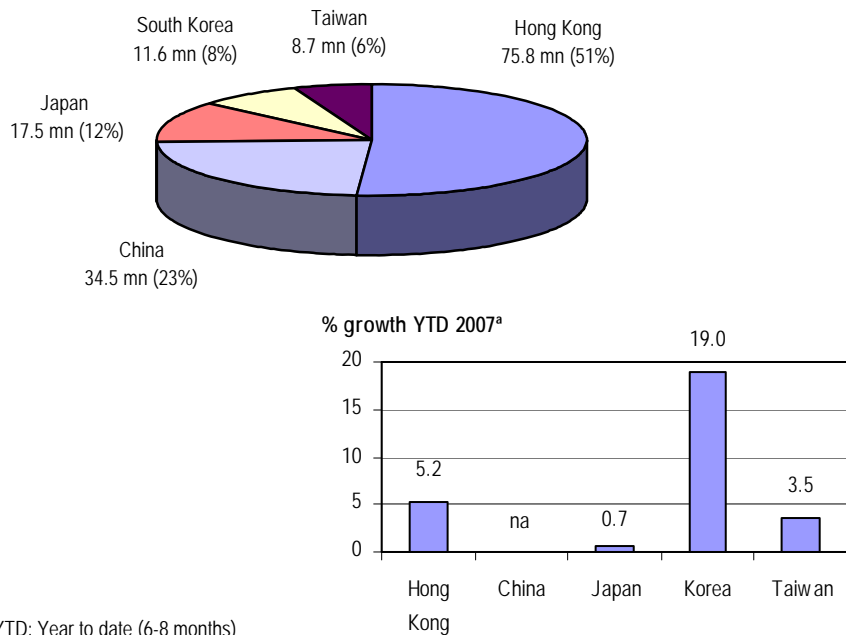
Other Northeast Asian markets

More than just China

Although the chart on the following page gives official outbound data for the different markets (note the discrepancy with the World Travel Monitor data in the case of Japan, for example, and the overstated China outbound figure, which includes travel to Hong Kong and Macau), it highlights the fact that Japan and China are not the only significant source markets in Northeast Asia.

South Korea, for example, which accounted for 11.6 million trips abroad in 2006. Is growing at some 19% for the year to date in 2007. Taiwan is also an important source, as is Hong Kong which, if trips to mainland China and Macau are taken out of the count, still generates more than 7 million outbound trips a year.

Departures from Northeast Asia, 2006



Source: Pacific Asia Travel Association (PATA)

Europe starts to benefit from Chinese outbound travel

Despite all the excitement in the tourism industry worldwide about China's outbound travel potential, figures show that the majority of trips are still to short-haul destinations. However, as illustrated in the table on page 26, some parts of Europe are beginning to attract growing numbers of Chinese.

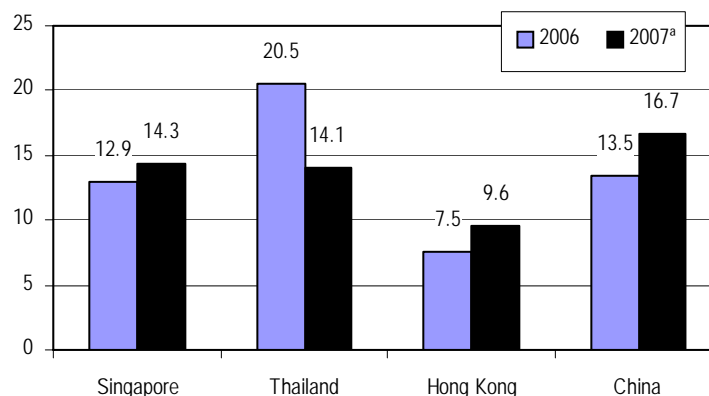
Of the 16 destinations that reported overnight growth trends from China, seven suffered declines while nine recorded increases – of more than 50% in the case of Slovenia and Lithuania. Meanwhile, 17 reported trends in arrivals, with only four showing negative performances in the Chinese market and 13 reporting increases.

India

Less data available, but trends are largely positive

Less data is available on the Indian market in 2007, but destinations in Europe that have reported trends have nearly all enjoyed strong increases, as the table on page 26 shows. Moreover, trends reported by the JTB Foundation, based on data gathered by PATA, shows that leading Asian countries have also attracted strong increases in arrivals from India.

Arrivals from India in selected Asian destinations, 2006-07



^a Year to date (6-8 months)

Source: PATA

Already a captive market

The main attraction of the Indian outbound travel market is not just that it is growing rapidly, although growth forecasts suggest that its growth could outpace that of China in the foreseeable future. It is more the fact that the Indian middle classes – the segment showing the strongest growth – are educated and knowledge of English is widespread, which makes foreign travel so much more accessible and enjoyable.

While most countries do require visas of Indians – and this is one of the main deterrents to travel – Indians are also (unlike the Chinese) relatively free to travel independently, where and when they wish.

There are many other positive factors influencing Indian demand for outbound travel, and which augur well for the future. The national economy is strong, with GDP growing by around 8.5% per annum. Middle-class disposable incomes are rising extremely fast. Airline capacity has risen sharply. And, thanks to the liberalisation of exchange controls, Indians are now allowed to take up to US\$10,000 per annum abroad for leisure trips.

India's growing openness to the outside world has also stimulated foreign travel, especially among the younger generations. More Indian students are studying in other countries than those of any other nationality, except perhaps China.

Indians took 8.3 million trips in 2006, of which 7-10% are estimated to have been by wealthy individuals spending upwards of US\$10,000 per person per trip. It will be interesting to see the final results of IPK's Indian Travel Monitor, which will be presented during ITB Berlin 2008.

Increasing potential from other Asian markets, albeit from a low base

Apart from the markets already cited, there are a number of other good growth markets in Asia that offer good growth potential for the travel industry, notably Thailand, Malaysia and, in the longer term, Indonesia and Iran.

Outlook for 2008

Growth expected to slow, but positive trend will continue

The consensus of the Pisa Forum, after nearly three days of deliberations, is that the positive growth trend seen in the first eight months of 2007 will be sustained through the remainder of the year and, barring any major deterrents, should continue through 2008, albeit at a slower pace – ie closer to 5% than 6% growth.

As far as Europe is concerned, the Pisa discussions resulted in a growth forecast of 3-4% in 2008, although this average may mask different trends across individual sub-regions and markets. In response to IPK International's question to outbound travellers in 12 of the region's leading travel source countries as to whether they intended to take a trip abroad in 2008, 83% said "Yes".

In addition, 42% said they might even make "more foreign trips than usual"; and 41% said they would travel "as often". Only 13% said they planned to travel less often and just 4% said they had no plans for travel abroad. Markets with the highest travel intentions are the UK, Germany, Belgium, Ireland and Norway.

Continuing trend to increased frequency of travel, but shorter trips

There is no firm consensus on whether the rise in receipts will equal, or possibly even outpace, that of arrivals. But it seems likely that, given the continuing trend towards shorter and more frequent trips – fuelled in large part by the growth of low-cost/low-fare carriers – average spending per trip will not rise in the foreseeable future.

However, in the medium term, assuming the renewed growth in long-haul travel gains further momentum, the growth in receipts will likely pick up more strongly.

Uncertainties persist, but are unlikely to discourage travel

The forecast growth is nonetheless set against an uncertain economic outlook in some key markets, especially the USA, with concerns over the sub-prime mortgage crisis, interest rates and the housing market – which could have a major impact on demand for outbound travel. This could be exacerbated by the further weakening of the US dollar expected in 2008 and a further increase expected in the price of oil.

Nevertheless, while travel patterns may change – eg with the US market favouring Asia at the expense of Europe – recent experience has shown that the increases in the price of oil, and resulting airline fuel surcharges, have had almost no impact on travel demand. Moreover, as Pisa participants learned from the German Centre for Air and Space Travel – the German NASA – technological advances have resulted in a 70% reduction in fuel consumption per passenger-km since 1960, and there could be a further 15-20% reduction between now and 2010, and 30-35% by 2020, if new technologies result in further expected efficiencies.

Positive factors stimulating growth

There are a number of positive factors stimulating growth. First, travel has become an integral part of people's lives and is not likely to be sacrificed for whatever reason. Second, the cost of travel continues to decline in real terms.

In line with the shifting of economic power to Asia, the region will also become the new leader in terms of travel and tourism, outperforming all other regions of the world – in terms of both inbound and outbound growth. This is clearly reflected in the massive number of aircraft on order by airlines in the region, as well as by non-Asian airlines planning to expand capacity into the region. In 2008, growth in Asia will also be boosted by China's hosting of the summer Olympic Games.

Changing lifestyles will influence travel decisions

Among the many different trends discussed by participants at the 2007 Pisa Forum, one of the most important was the impact of the internet in giving travellers greater control of their travel decisions – as they increasingly turn to C2C websites to research their travel options, monitoring consumer views rather than having to rely on suppliers and the travel trade to inform them.

This has already resulted in – and will continue to stimulate – increased individual travel, both among young people and the growing numbers of seniors, or baby boomers, who have more disposable time on their hands. And all age groups are increasingly looking to travel to provide an enriching experience, whether this involves activities, adventure or more community-based educational experiences.

Among the growing trends cited by Pisa participants, a stronger focus on hospitality, authenticity and tradition were all considered important, as well as an increasing demand for uniqueness, individuality and sustainability.

"Quality is now the buzzword," said Rolf Freitag, President and founder of IPK International, and organiser of the Pisa Forum. "It is rapidly replacing the 'cheap is chic' slogan."

Increased environmental and social concerns ...

In addition to climate change, a number of other issues relating to the environment and social responsibility are starting to influence travellers' choice of holidays and destinations. Some aspects of maintaining the local environment and being 'socially conscious' are increasingly attractive to travellers – particularly those associated with local culture and communities.

Efforts to offset carbon emissions are also increasing, although evidence to date suggests that the majority of the initiatives launched are being supply-led – in some cases, as a marketing tool – and few customers actually volunteer to offset their carbon emissions when booking a trip.

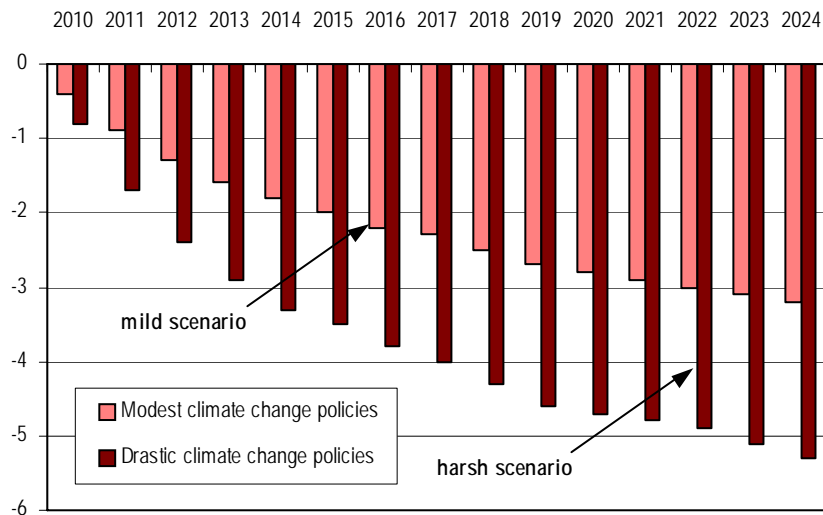
Moreover, there is a lot of scepticism as to value of carbon-offset schemes – they have clearly become a booming business for some organisations – and travellers want to know where the money collected is going and who in reality is benefiting from the different schemes.

... but excessive misinformation is exaggerating tourism's carbon footprint

Meanwhile, while carbon neutrality is the new 'religion' – generating increased awareness of, and interest in, the issue of climate change, as well as positive actions to reduce carbon emissions and mitigate other harmful effects, misinformation is also on the rise. And this is having a negative impact on tourism's image with the general public, as well as with governments. While it has a large symbolic impact, tourism's footprint is actually quite small, according to different research.

It is still very early days and much more work needs to be done to clarify tourism's impact on climate change, but research by Global Insight suggests that, even assuming the harshest scenario in terms of government-led climate change policies, the macroeconomic impacts of climate change on economic growth will not be as severe as many alarmists suggest. At worst, the percentage decline in global GDP will only be -5.2% – equal to a reduction of about 0.3% in annual GDP growth.

World GDP climate change scenarios
(% change in world GDP resulting from climate change policies)



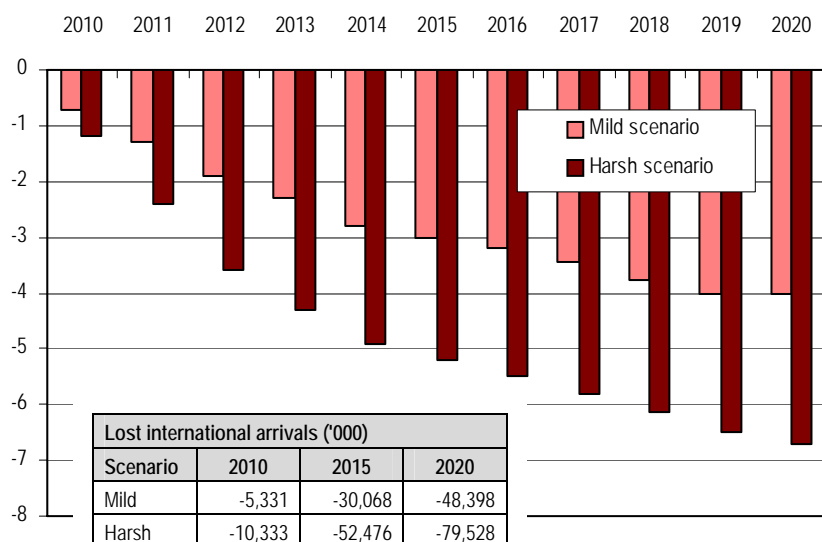
Source: Global Insight

Climate change policies will not have a severe impact on tourism demand

As to climate change's impact on tourism demand, the Pisa Forum predicts that tourism's resilience will help to absorb some of the impact of rising emission abatement costs, as well as to mitigate some of the income effect losses. By 2020, assuming the harsh scenario, total international arrivals lost will be around 79.5 million. But the mild scenario, which Global Insight believes is more likely, will result in a maximum of 48 million lost international arrivals – the same as the number of new arrivals expected for 2007!

And this, Pisa participants maintain, is good news – not just for the travel and tourism industry, but also for developing countries looking to tourism to help alleviate poverty and stimulate economic growth.

Impact of global climate change on global outbound travel, 2010-2020
(% variation in arrivals from baseline)



Source: Global Insight

The lesson for the travel and tourism industry is that it needs to make concerted efforts to address the issue and communicate its positive actions and intentions. If this does not happen, the industry runs the risk of seeing increased consumer and media hostility based on mistaken beliefs about the extent of tourism and aviation's environmental impact.