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**REPORT FROM THE COMMISSION
TO THE COUNCIL, THE EUROPEAN PARLIAMENT,
THE ECONOMIC AND SOCIAL COMMITTEE
AND THE COMMITTEE OF THE REGIONS**

**Follow-up of the European Council of 21 September: the situation in the
European tourism sector.**

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INTRODUCTION

The Commission report of 17 October 2001¹ provided to the Gent Summit an *Overview of EU action in response to the events of 11 September and assessment of their likely economic impact*. The report explained what the EU had done in this respect, up to that date, and listed the implications for priorities both in terms of action and of resources at EU level. It also examined the impact of the events of 11 September on the EU economy and on four specific sectors, one of them being tourism.

Concerning the impact on EU tourism, the Commission has assessed the situation as it developed. It has invited European and international associations in the field of tourism to present their views with regard to short and medium term impact and policy consequences. In addition to the replies from these associations, several national associations and tourism administrations of Member States also reacted.

To complete the assessment, a meeting was held on 18 October between the representatives of the European tourism industry and the Commission services concerned, to which the Member States' tourism administrations were also invited. It provided a broad forum for discussing the situation. Chapters II to IV mainly refer to information made available by these sources.

I. GENERAL OVERVIEW

Europe, with the greatest diversity and density of tourist attractions, is the most visited tourist region in the world. Two million tourism enterprises in the European Union account for about 5 % of both GDP and employment, i.e. more than 8 million jobs. Tourism also generates a considerable amount of activity in other sectors.

An impact simulation carried out immediately after 11 September forecasted dramatic losses in tourism, with severe effects on GDP and employment world-wide. The simulation also included alarming figures for Europe. The Commission, based on wide consultation of European stakeholders, did not find confirmation for these results. It believes that the information available does not yet allow the release of precise figures on the short-term, nor medium to long-term impact of the 11 September attacks.

The European Commission therefore largely agrees with the analysis and conclusions issued by the World Tourism Organisation: that is that, from an economic viewpoint, the impact on tourism in Europe can be expected to be rather limited in scope and time, provided that no new dramatic events take place. No doubt, as further explained below, the short-term impact is significant in particular for certain forms of tourism, destination types and specific sectors. It is, however, conceivable that there will be no measurable impact on EU tourism in the medium to long term. In addition, the effect on overall EU economic growth and employment could also be mitigated to some extent by the fact that short-term cuts in consumers' tourism expenditure could lead to reallocation to other goods and services.

¹ COM(2001) 611 final.

What complicates the analysis is the fact that the impact of the 11 September atrocities, both on travel behaviour and on business, overlaps considerably with other preceding developments, such as the global economic downturn and the outbreak of the foot-and-mouth disease which had already had an extremely damaging effect on inbound tourism in the United Kingdom. In the above-mentioned report to the Gent Summit the Commission predicted a scenario of recovery beginning in the second half of 2002 and with an annual growth rate of around that achieved in 2001.

Existing evidence points to some change in the behaviour of the European traveller over recent weeks, which is expected to continue during the next few months. This would mean more independent than package holidays, fewer trips by plane and more travel by private car, coach and train. Shorter trips to more traditional destinations are now preferred. In turn, the effect of the terrorist action is that it may take some time for travellers' fears to be overcome. However, this effect should not be significant in the longer term.

The short-term impact on EU inbound tourism

The impact on European tourism from outside the EU of the terrorist attack on the United States is unambiguously negative. These events have confirmed the high degree to which tourism is an integrated and interdependent trade sector.

Manifest fear of travel primarily affects the high-spending tourists from America, Japan and the Middle East who concentrate on specific destinations. There are substantial cancellations, no shows at airports and a reduction in both air routes and subsequently the aircraft fleet. The volume of tourism movement of these countries to Europe has dropped by up to an estimated 30 %. Ireland and the UK have registered even higher losses. These effects have been quite serious particularly for those destinations hosting incentive groups, i.e. tourists offered the stay by the enterprise employing them, and international conferences and exhibitions.

Beyond the immediate negative effect it is expected that this situation, especially as far as the flow of American tourists to Europe is concerned, is likely to stretch into the winter vacation period. According to reports from wholesalers there are no bookings and the prospects for the autumn and winter seasons as regards business and leisure travel are very pessimistic. Many American tourists are not booking a winter vacation trip overseas until they are assured of a measure of stability in the political and economic environment. However, contrary to EU inbound tourism, which accounts for no more than 13 % of nights spent but much higher spending and yield, the European markets are less affected and have adopted a "wait and see" strategy until the situation becomes clearer. Travel within Europe seems to have been affected only to a limited extent.

The short-term impact on EU outbound tourism

As for tourism by EU citizens, one-quarter go to other (non-EU) parts of Europe and to worldwide destinations, while the other three-quarters remain within the EU. There is already a serious fall-off in European travelling to destinations outside Europe, which is contributing to the economic instability of European airlines. The big European tour operators in the sector anticipate a reduction in bookings to all destinations but especially to the US and the Middle East. Bookings for destinations in Southeast Asia, the Caribbean and Southern Africa are still going reasonably well. In future, overseas destinations looking to recover their markets are expected to offer creative pricing packages to attract Europeans.

II. PARTICULARITIES WITHIN THE EU MARKET

1. Forms of tourism

Business travel and specifically the meeting and incentive sector, tourism offered by an enterprise to its employees to stimulate or to reward increased performance, are particularly badly affected. Large numbers of conferences and incentive travel groups have been cancelled. It is expected that demand for business travel will return next year, but at levels significantly below those of previous years.

The impact on the cruise industry in Europe, which is largely dependent on American tourists, is equally severe. Countries with an established cruise-industry and ports on the routes of cruises report a drop of up to half of the usual business. One major company that operated a significant number of cruises in the Mediterranean stopped its undertaking. Other cruise companies have relocated vessels from Europe to, for instance, the Caribbean.

2. Destination types and countries

In Europe, significant negative effects are felt mainly in capitals and other major cities, for which a large share of tourism volume is business, congress and incentive tourism and/or cultural/sightseeing tourism by overseas visitors (in particular from US and Japan). Other types of destination are less affected.

This general picture shows differences between certain groups of countries. Ireland and the UK, with a traditionally important or above-average share of American visitors are more affected than other EU countries. On the other hand, Spain and Portugal do not report any measurable effect.

Some experts estimate that, due to a shift towards more independent holidays, countries with a greater dependence on package tours are likely to be more affected. Tour operators have to decide now whether or not to reduce capacity for the next season and whether to change destinations to places considered to be safer than others. The current lack of bookings, although largely a consequence of a postponement of travel decisions, may lead to financial (cash flow) problems affecting not only wholesalers but also hotels in Mediterranean countries. Other sources, however, expect that the coastal and island destinations of the Southern European countries will benefit from the reluctance of some Europeans to travel to long haul destinations.

Those destinations that redirect their promotion campaigns to markets less affected by the crisis and create new products (e.g. in co-operation with National Tourist Boards and airlines) are expected to recover quite quickly. In some cases creative pricing may generate new markets.

III. SPECIFIC SECTORS

According to information provided by the European tourism industry, the situation can be summarised as follows.

1. Air transport

The Commission Communication of 10 October 2001 on the *Repercussions of the terrorist attacks in the United States on the air transport industry* gives detailed figures regarding the impact on the European air transport industry, which is the sector of the economy most seriously affected by the events, resulting in a severe reduction of staff. The decline in the number of first-class and business-class passengers and of long-haul passengers is economically the most significant. The impact on air transport is manifest in the reduction in scheduled flight operations to and from Europe and to a certain extent within Europe. Flights within Europe have been reduced as a result of financial constraints rather than as a result of a falling market. Low-cost carriers or so-called no-frills airlines serving mainly European routes have not been seriously affected.

Announcements of reductions of services and personnel by major European airlines have undermined confidence in their ability to operate at pre-disaster schedule levels. However, the immediate shift from air travel to rail travel is likely to continue only in the short term. Reduced capacity and more expensive fares due to increased cost (insurance and security measures) risk contributing to a reduction in air travel in the medium term. However, as airlines recover and realise that they have to promote air-travel in order to win back their markets, and as travellers realise that additional security measures make air transport safer than before, capacity and air traffic volumes are expected to recover in the medium to long term.

2. Travel agents and tour operators

Travel agents and tour operators are perhaps the most seriously affected segments within the core tourism industry. Some 80 % of air tickets in Europe are sold through travel agents, representing up to 40 % of their turnover. Just after 11 September travel agents faced huge numbers of cancellations, partly requiring reimbursement. There are drastic reductions in immediate international travel and significant ones in bookings for travel in the near future. The significant decline in the most profitable segments, i.e. first-class and business-class passengers, long-haul flights and normal-budget (as opposed to low-budget) carriers is particularly damaging to travel agents.

Some operators are more affected than others. Large tour operators suffer in particular from the effects on their business as charter air carriers, which in nature is similar to those of scheduled airlines. Travel agents and tour operators specialising in destinations that show a particularly strong decline in tourism activity are experiencing extremely high losses. Small and medium-sized companies lack financial reserves to bridge the immediate negative effect on business. A number of companies have announced staff reductions or are said to be close to bankruptcy. Some must be expected to drop out of the market, and the trend towards concentration that already existed before the events is likely to increase.

3. Accommodation

Mainly large and high standard hotels in capitals and other major cities accommodating overseas and business/congress/fair guests are significantly affected by reductions in the number of guests that could amount to more than half of the normal guest figures. These losses, and the prospects for overcoming them, are in direct relation to the effects mentioned above for destination types and countries. For some countries, overall losses in occupancy in urban destinations are estimated at 20 % to 30 %. In this regard, no change is expected until the end of this year. First positive developments are expected for the second quarter of 2002, if nothing more happens.

This impact also affects the labour situation in the accommodation sector. Hotels in main cities report their intention to lay off employees or want, as a first step, to reduce the normal working hours for all employees.

In low budget accommodation youth hostels are most affected, since their percentage of US guests is higher. The effect on European youth hostels might be more significant in summer 2002, since the terrorist attacks occurred after their main season. According to their geographical location, they expect to lose between 5 % to 20 % of next year's turnover. While in principle business with younger Europeans will be affected to a lesser extent, a major influence on youth hostels will be if authorities impose restrictions or conditions on school travel, as was partly done (e.g. France) after the terrorist attacks.

4. Other sectors

For short-term rental to private and business travellers, the European car rental industry is forecasting a decrease in turnover of one-third until the end of this year. During the first three weeks after 11 September, one of the largest companies recorded a 15 % reduction in car rental at airports. A parallel 12 % increase at railway stations could not in any way compensate for these losses since it is based on a much lower level of business. There will also be a significant impact on car manufacturers, since the current fleet is expected to be renewed at a slower rate, and in reduced numbers, with impacts on both the new and second hand markets.

Regarding leisure parks, a 30 % and more reduction of visitors after 11 September is expected to result in less investment for new equipment in that sub-sector, especially by SMEs. This effect also applies to sectors mentioned previously. The repercussions would lead in the short term to financial problems for suppliers and manufacturers of equipment, and closures may occur. In the longer run, concentration in all areas may result, leading to a less diverse offer.

IV. REQUESTS FROM THE TOURISM INDUSTRY STAKEHOLDERS

Several requests for policy action have been made by the European tourism industry. Above all, the European tourism industry emphasises the need to co-ordinate, more than ever before, the promotion of Europe in its overseas markets and has asked that the Commission play an active role in the promotion of Europe as a safe destination. The European tourism industry has called upon the Commission to ensure that policy measures in the relevant Community policy areas are developed taking into account, as far as possible, the best interests of the tourism sector. Close co-operation with the industry has been requested with a view to overcoming the immediate crisis and supporting (including financially) this important service sector.

Beside some calls for a lower VAT rate for tourism businesses and special support for SMEs, the professional stakeholders ask for the reduction of airport departure taxes, which can be as much as 30 % of some budget fares; otherwise, revenue from these taxes is seen to be at risk of serious erosion. They think that alleviation of taxes on travellers will help to encourage more travel and resurrect airline finances without the necessity for public sector financial contributions to ailing airlines. The tourism industry considers action to mitigate damage as important for loss limitation, including the tax revenues to governments from tourism.

The EU Social Dialogue Committee in the Horeca/Tourism sector has started to discuss the possible impact of the 11 September events. None of the social partners has yet ventured to quantify the possible effect. Calls for implementing measures in the context of the different EU policies in a co-ordinated way to assist the sector, can be expected.

V. CONCLUSIONS

In its communication of 10 October 2001 on the *Repercussions of the terrorist attacks in the United States on the air transport industry*² the Commission has set out its political response. Some of the measures proposed also respond to requests made by the European tourism industry. These refer to increased safety levels for the travelling public, including co-ordination throughout the EU and regular inspection of implementation of safety precautions. They refer also to governments underwriting the additional insurance costs, and aid to the financial recovery of airlines.

Despite the immediate crisis situation with which specific market segments, sectors and destinations are faced, measures which harm the long-term prospects for growth and competitiveness of the European tourism industry must be avoided.

The challenge therefore will be to develop a strategy for the European tourism sector that meets the medium and long-term political and economic challenges ahead. This, together with the requests from the European tourism industry stakeholders for integration and co-operation should be met by the new co-operative approach for the tourism industry set out in the Commission communication of 13 November 2001³ entitled "*Working together for the future of European tourism*". The measures favoured under this approach aim at improving the integration of the concerns of all tourism stakeholders in Community policies and initiatives affecting tourism, and at promoting a better interface with the tourism industry and other parties involved. It is suggested that this be put into effect through the open method of co-ordination.

Since uncertainty remains, the Commission will continue to monitor the impact of current events on tourism and keep it under review. This will be done in co-operation with the Member States, the tourism industry, and the other stakeholders.

² COM(2001) 574 final.

³ COM(2001) 665 final.