



EUROPEAN TOURISM INSIGHTS 2005

Including Outlook for 2006. A Report of the Market Intelligence Group of the
EUROPEAN TRAVEL COMMISSION

A Message from the President of the European Travel Commission

Information – intelligence – is the indispensable basis for effective marketing. And market intelligence is at the heart of the mission of national tourism organisations (NTOs): to act as intermediary and interpreter between demand and supply, between guest and product.

Today, the importance of market research as a central component of market intelligence comes into particularly sharp focus as Europe's tourism industry casts its sights on new source markets in parts of the world such as India, China, Brazil and Russia. Indeed, the emergence of these markets represents a test not only for European tourism's research competence, but also for its cultural intelligence. To remain relevant to the needs of the tourism industry and NTOs, researchers must increasingly produce qualitative as well as quantitative research.

The 'Declaration on the Future of European Tourism' adopted by the European Travel Commission (ETC) at its General Meeting in October 2005 recognised this and highlighted market intelligence and research among the research and development challenges that European tourism faces. Of course, market intelligence has implications for the other spheres – human resources and sustainable development – that the declaration identifies as crucial to the competitiveness of Europe's tourism sector.

It is thus particularly appropriate that ETC has named 2006 its 'Year of Market Intelligence'. This is the second of a series of three annual initiatives – on e-marketing, market intelligence and operational excellence – designed to focus attention on major issues for the success of Europe's tourism industry, NTOs and ETC. The year also provides an occasion on which to reinforce the relevance of our market intelligence activities, both to ETC's own strategy and the strategies of our member organisations.

This second annual edition of *European Tourism Insights* – another of the excellent market research studies produced by ETC's Market Intelligence Group – is thus being issued at a particularly pertinent juncture. Moreover, the study demonstrates again that ETC is an ideal platform for Europe's NTOs to join forces to achieve more together than they could individually.



Arthur Oberascher
President
European Travel Commission



EUROPEAN TOURISM INSIGHTS 2005 – OUTLOOK FOR 2006

A Report produced for the Market Intelligence Group
of the **European Travel Commission (ETC)**
by **The Travel Business Partnership**

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**European Tourism Insights 2005
– Outlook for 2006**

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Foreword

This second annual report from the European Travel Commission's (ETC's) Market Intelligence Group is one of a regular series of reports monitoring trends and developments in Europe's travel and tourism industry, in line with ETC's objective of establishing itself firmly as the authoritative voice of European tourism.

The ETC Market Intelligence Group is a network of tourism research professionals drawn from ETC's membership – 34 national tourism organisations (NTOs) in Europe. Members of the group possess unique insights into the mechanics affecting tourism activity in their countries, as well as the relationships that such tourism flows have with source market behaviour and competitor performance.

This report, which provides a timely picture of European tourism in 2005, with an outlook for 2006, owes much to the activities of the ETC Market Intelligence Group, which is celebrating its 20th anniversary this year. To mark the occasion, ETC has named 2006 'Year of Market Intelligence'. The main value of the report is that it is being published well before official statistics become available. It focuses very specifically on the European tourism dimension, as against other publications of a similar nature, which tend to dilute the European tourism perspective within a wider global context.

The production of this report has also been facilitated by the involvement of the Market Intelligence Group's members with other events, partner associations and organisations. Foremost among these is the annual World Travel Monitor Forum in Pisa, last organised in November 2005 by IPK International. The Forum brings together a broad mix of tourism professionals from around the world for three days of intensive discussions and debate on the state of the tourism industry worldwide. The active participation of the research directors of 20 ETC member countries in the 2005 forum ensured that the European dimension was given due importance in the ensuing discussions.

ETC recognises the valuable inputs resulting from the group's interaction with the World Tourism Organization's Market Intelligence & Promotion Unit, the European Tour Operators Association and the European Travel & Tourism *Action Group* / European Travel Industry Network. More significantly, the data capture and display platform created specifically for ETC in the TourMIS database has also proved to be a very important instrument, which ensures that the information used in this report is made available in the first place.



Rob Franklin
Executive Director
European Travel Commission



Leslie Vella
Chairman
ETC Market Intelligence Group

Introduction

Scope of the report and methodology

Focus on international tourism *European Tourism Insights 2005 – Outlook for 2006* is the second annual report from the European Travel Commission (ETC) focusing primarily on international tourism to and within Europe, and with a particular emphasis on ETC's 34 member countries. It provides a preliminary overview of trends and developments in 2005, setting Europe's performance in the context of world tourism generally, and highlights some of the main factors driving and shaping demand.

The report also attempts to identify the most important growth markets and sectors for European tourism – both established and new emerging sources – and assesses their short- to medium-term prospects. Finally, it looks at the opportunities and threats facing ETC member countries and makes some suggestions as to how these challenges should be addressed.

Data sources and definitions A wide range of different sources – statistical and anecdotal – have been used for the compilation of this report, all of which are quoted where relevant. Most of the statistical data concerning arrivals and overnight volumes has come from ETC members – national tourism organisations (NTOs) of the respective countries – either directly or via the TourMIS website (www.tourmis.info). TourMIS is an information and marketing system (which also provides regular statistics on tourism in European cities) and is a joint venture between the Austrian National Tourist Office (ANTO) and the Austrian Society for Applied Research in Tourism (ASART).

Credit must also be given to IPK International, which organises the annual World Travel Monitor Forum in Pisa. This is one of the major events in the travel industry's research calendar. The World / European Travel Monitor is cited in this report, as are some of the presentations made at the 2005 Pisa Forum.

It should be noted that there are gaps in coverage as a number of NTOs were unable to provide up-to-date statistics for this report despite its later publication this year. In an attempt to fill some of these gaps and supplement the desk research, as well as to provide a better assessment of demand-side trends, interviews have also been carried out in key source markets with the travel trade, airlines and different research institutes/firms.

The report uses the definitions adopted by the World Tourism Organization (UNWTO) to differentiate statistics on international tourist arrivals and overnights from one country to another (see figure 8). Given the wide variations in measures used – eg arrivals of visitors versus tourists at frontiers and/or in registered tourist accommodation – care must be taken in interpreting the data, and notably in making comparisons. There are similar differences in measurements of arrivals and nights in cities (see figure 11).

ETC's unique insight into overnight volumes Despite the gaps in coverage, the TourMIS database is constantly being expanded and enhanced for the benefit of ETC and European Cities Tourism (ECT) members, as well as the travel and tourism industry community at large. In addition to providing trends in international arrivals and tourism receipts /

expenditure – in parallel with UNWTO – ETC and ECT also monitor overnight volumes. This is often a much more relevant measure in terms of providing insight into tourism's contribution to national economies, especially in Europe where overnight trips are frequently short-distance, cross-border trips of little more than one night abroad.

This report focuses primarily on international tourism. However, in time, as the ETC / TourMIS data-gathering process is further enhanced and accelerated, ETC's annual overview of Europe's tourism performance and outlook will increasingly include domestic tourism statistics, which should further help to clarify tourism's vital economic contribution to Europe overall and to individual member states.

Overview of European Tourism in 2005

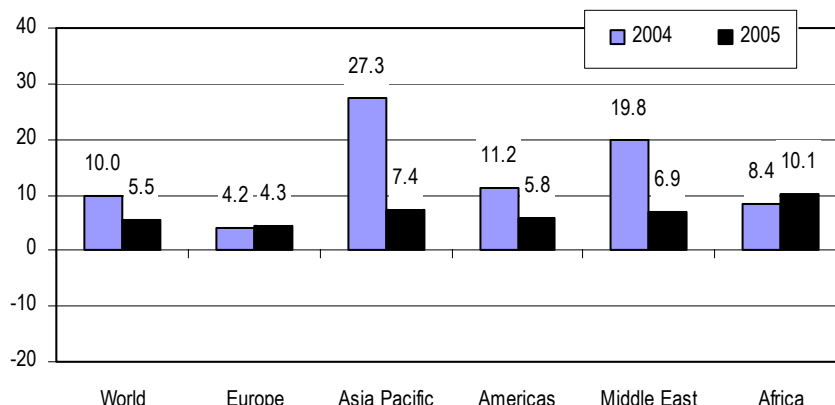
Europe in the world context

More than 18 million additional tourist arrivals ...

Preliminary figures published by the World Tourism Organization (UNWTO) in January 2006 point to another very good year for tourism in 2005 – for Europe and for the rest of the world. The 5.5% estimated increase in international arrivals worldwide comes after a record 10% growth in 2004, when world tourism bounced back from three years of stagnation and decline.

Europe's 4.3% growth last year was all the more impressive as it exceeded 2004's level, taking the region's arrivals to 444 million, or a world share of 55%. Moreover, the additional 18.3 million arrivals generated accounted for 43% of the world increase, reflecting Europe's continued dominance as a world tourism region, as well as its importance as a source market.

Figure 1
Growth in international tourist arrivals by region, 2004 and 2005^a
 (% change over previous year)



^a Figures for 2005 are preliminary estimates, based on data gathered by UNWTO from different countries for 9-12 months of the year

Source: World Tourism Organization (UNWTO)

... despite a year marked by terrorism and natural disasters

The record arrivals' count was achieved in a year when Europe suffered more than its fair share of disasters – from terrorist attacks to floods, droughts and forest fires. And the economic and political environment was not overly conducive to travel and tourism growth in all countries. This highlights the fact that underlying demand for travel and tourism is strong and that opportunities for further growth are good.

Caution must nonetheless be used in interpreting the data gathered so far since, for many countries in Europe, final results are not yet available. And estimates for different periods of 2005 are based on a variety of indicators – nights in registered accommodation or simply hotels, for example – that do not always reflect trends in tourist arrivals at frontiers.

Slower growth in tourism spending

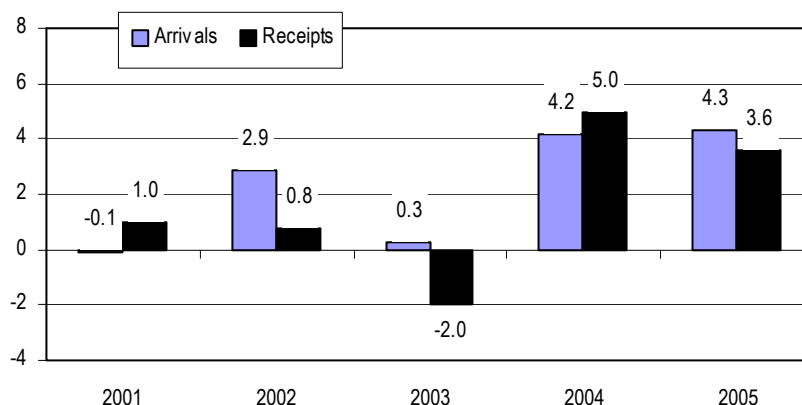
Among the main drivers of tourism growth for Europe in 2005, two should be singled out – accelerating demand for low-cost / no-frills air travel and the increased prominence of Central / Eastern Europe, not just as a tourism destination but also as a source market. New European Union members – ie those which joined the EU on 1 May 2004 – were the ones that benefited most.

As a result of these trends, which led to shorter, more frequent trips – and despite the recovery of certain longer-staying, long-haul markets – preliminary estimates point to slightly lower growth for international tourism receipts, or tourism spending, than for international arrivals in Europe.

Figure 2
Europe's international arrivals and tourism receipts, 2001-05

Year	Arrivals ('000)	% annual change ^a	Receipts (€mn)	% annual change ^a
2001	395.8	-0.1	253.1	1.0
2002	407.4	2.9	255.1	0.8
2003	408.6	0.3	250.1	-2.0
2004	425.6	4.2	262.6	5.0
2005 ^b	443.9	4.3	272.0	3.6

% growth 2001-05



^a The average annual growth 2001-05 was 2.9% for arrivals and 1.7% for receipts

^b Preliminary estimates – from UNWTO for arrivals and The Travel Business Partnership for receipts

Source: UNWTO

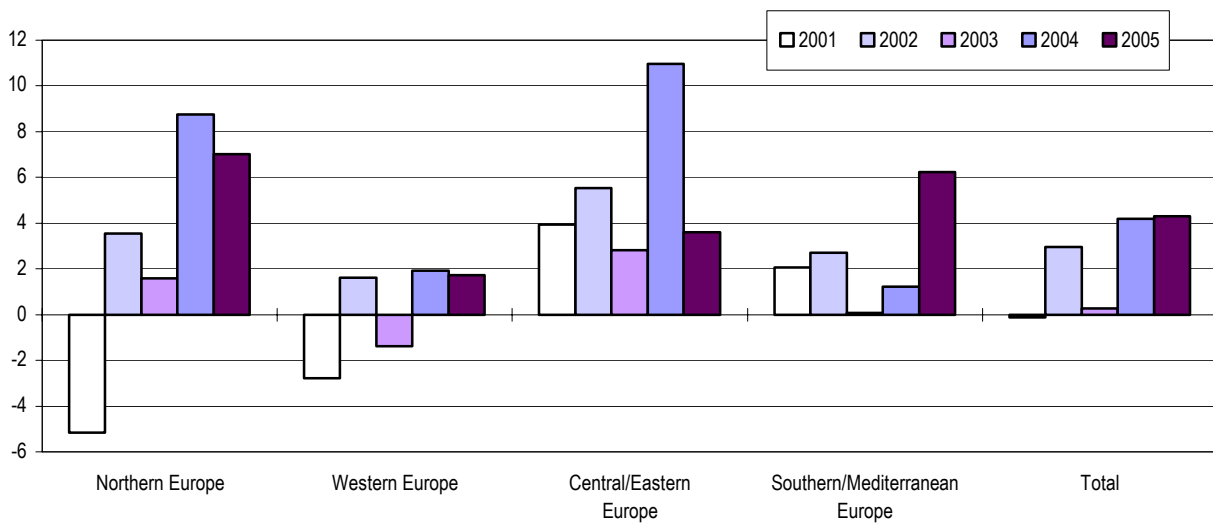
It is still too early to make a definitive judgement, especially since tourism results are rarely set in stone for at least two or three years. However, to cite the important case of Spain, which attracts a growing share of low-fare, short-break airline travellers, international tourism receipts rose by 4.5% as against a 6.0% rise in international arrivals.

Northern and Southern / Mediterranean Europe are the big winners

The following table highlights the performance of different sub-regions in Europe in 2001-05. Northern and Southern / Mediterranean Europe were the big winners in 2005, in terms of sub-regional growth, recording increases in international tourist arrivals of 7.1% and 6.2% respectively. It should nonetheless be noted that, while Southern / Mediterranean Europe generated a 36% share of arrivals in Europe overall, Northern Europe accounted for a relatively modest 12%.

In addition, Northern Europe's growth was nearly two percentage points down on 2004's level, but Southern / Mediterranean Europe increased its annual growth more than five times in 2005. In contrast, growth for 2004's best performer, Central / Eastern Europe, registered a marked slowdown, from 11% to 3%. This was perhaps not very surprising, given that 2004 saw a huge boom for the sub-region – largely the result of the European Union opening its doors to so many new members from Central / Eastern Europe. Meanwhile, growth for Western Europe fell slightly, from 1.9% to 1.7%.

Figure 3
International tourist arrivals in Europe by region, 2001-05
(% annual growth)



Source: UNWTO

Market segments

Business travel gains share

Although leisure travel is still the main driver of travel and tourism demand in and for Europe, business travel has recovered strongly over the past 12 months. Statistical surveys from different sources, such as American Express and IPK International, all point to an increased share of business travel in Europe, both for simple business trips and for the meetings, incentives conferences and exhibitions (MICE) sector.

As an example, IPK's European Travel Monitor indicates that business travel rose by 9% in 2005 – as against 4% for holidays and 2% for visits to friends and relatives – taking business travel's share of total European outbound trips (the vast majority of which are for Europe) to 15% from 11% in 2004.

Recovery of long-haul ... Nevertheless, demand for leisure travel continues to increase steadily. One of the key reasons for 2005's better than expected tourism performance cited by a number of ETC member countries was the recovery of long-haul markets such as the USA and Japan, as well as the emergence of new long-haul sources like China.

However, it should be noted that performance in long-haul markets was very mixed from one destination to another, as will be discussed later in this report. And while the continuing strong euro has dampened demand to some extent, its major impact has been a redistribution of tourism flows.

... but the industry is still largely dependent on intra-European flows Despite the recovery in long-haul markets, intra-European tourism is increasingly important, due in no small part to the huge growth in no-frills airline travel. It is nevertheless too early to determine any clear pattern in terms of length of stay (see below). For some destinations, arrivals increased more than overnights last year, again reflecting the continuing trend towards shorter, more frequent trips. But the trend was by no means consistent across Europe.

Cruise boom set to continue Europe's cruise business goes from strength to strength. Members of the USA-based Cruise Lines International Association (CLIA) – the marketing organisation for 19 leading cruise lines and nearly 17,000 North American travel agencies – have expanded their cruise programmes in Europe over the past 12 months, and now offer a very wide and exciting range of options for passengers. These include the Norwegian fjords and the North Cape – land of the proverbial 'midnight sun' – as well as the Baltic Sea ports, and the whole of the Mediterranean. In addition, river cruises are attracting increasing numbers of participants.

Preliminary estimates suggest that the leading European cruise markets, notably the UK and Germany, also grew strongly in 2005 – due in part to an increase in fleet capacity operating in European waters. And this is forecast to expand even more sharply in 2006 and 2007. Most importantly, given that the cruise market penetration rate is still only a meagre 1% of the total population in Europe, industry experts forecast a continuing boom in demand. Cruise business from non-European markets in European / Mediterranean waters is expected to grow at an even faster rate.

Air transport

Solid growth in passenger numbers ... Data from both the International Air Transport Association (IATA) and the Association of European Airlines (AEA) points to healthy growth in international passenger traffic within and to / from Europe in 2005. IATA members recorded a 6.4% increase, expressed in revenue passenger-km (RPK), with a seat load factor of 76.4%. This compared with a load factor of 75.1% worldwide and an overall industry growth of 7.6%.

Of course, the healthy traffic growth does not compensate for the fact that, due mainly to rising fuel costs through the year, the industry was still expected to end 2005 with a combined loss of US\$6 billion, despite a better than expected operating performance for many airlines. European carriers are estimated to have made a modest profit in 2005, thanks to consolidation and strong fuel hedging programmes to combat rising costs.

... is set to continue

Current IATA forecasts project a 5.6% average annual growth from 2005 to 2009 for key passenger traffic routes within and to / from Europe. In terms of individual countries, Poland is ranked at the top of IATA's growth list, forecast to record an average annual increase in passenger traffic of 11.2% over the next four years – ahead of China (9.6%). Two other European countries, the Czech Republic (9.5%) and Turkey (8.9%), are ranked third and fifth. Clearly, the growth forecast by IATA for these countries will boost air transport generally within Europe.

International traffic grows faster than domestic traffic

European airports generally performed slightly less well than airports in other regions in 2005, in terms of growth in passenger numbers – a 5.8% increase in international traffic as against a 6.7% rise for members of Airports Council International (ACI) overall. This was of course hardly surprising, given Europe's maturity as a destination and source market.

International passenger numbers rose much faster than domestic traffic, which was up a modest 2.8% over the same period in 2004. For the second consecutive year, this was also very much in line with trends in international and domestic arrivals in Europe.

Figure 4
International airline passenger traffic at ACI airports worldwide, 2005

Region	Passengers ('000)	% change 2005/04
International		
Africa	20,452	9.1
Asia Pacific	247,334	7.9
Europe	585,602	5.8
Latin America/Caribbean	33,557	7.7
Middle East	40,777	13.0
North America	99,355	6.2
Total	1,027,077	6.7
Domestic		
Africa	20,671	17.4
Asia Pacific	246,771	6.4
Europe	169,941	2.8
Latin America/Caribbean	45,066	9.5
Middle East	411	7.4
North America	548,118	3.3
Total	1,030,977	4.4

Note: Data based on results filed by 850 airports worldwide

Source: Airports Council International (ACI)

**Positive growth for all
Europe's leading
airports ...**

Europe's 30 largest airports all recorded increases, in terms of passenger throughput in 2005, with London's Heathrow, in number one position, registering the most modest growth of 0.8%. The best performers among the leaders were Moscow's Domodedovo, Prague and Barcelona – all achieving double-digit increases in passenger traffic compared with ACI Europe's 5.8% average.

In Domodedovo's case, this was due to a big increase in number of airlines operating to / from Moscow, driven largely by the growth in demand for outbound travel by Russians. For Prague and Barcelona, on the other hand, inbound traffic was probably the main driver, and there was particularly strong growth in traffic from no-frills airlines

Figure 5
Top 30 ACI airports in Europe by total passenger throughput^a, 2005

Rank	Airport ^b	Country	Passengers ('000)	% change 2005/04
1	London Heathrow	UK	67,915	0.8
2	Paris Charles-de-Gaulle	France	53,756	4.9
3	Frankfurt	Germany	52,219	2.2
4	Amsterdam Schiphol	Netherlands	44,163	3.8
5	Madrid	Spain	41,940	8.4
6	London Gatwick	UK	32,784	4.2
7	Rome Fiumicino	Italy	28,620	2.0
8	Munich	Germany	28,619	6.7
9	Barcelona	Spain	27,121	10.5
10	Paris Orly	France	24,857	3.3
11	Manchester	UK	22,730	5.5
12	London Stansted	UK	22,018	5.3
13	Palma de Mallorca	Spain	21,237	4.0
14	Copenhagen	Denmark	19,751	5.0
15	Milan Malpensa	Italy	19,619	5.7
16	Dublin	Ireland	18,450	7.7
17	Zurich	Switzerland	17,850	3.7
18	Stockholm Arlanda	Sweden	17,241	5.4
19	Brussels	Belgium	16,121	3.4
20	Oslo	Norway	15,896	6.9
21	Vienna	Austria	15,859	7.3
22	Düsseldorf	Germany	15,511	1.7
23	Athens	Greece	14,272	4.6
24	Moscow Domodedovo	Russia	13,975	15.6
25	Malaga	Spain	12,649	5.2
26	Berlin Tegel	Germany	11,533	4.4
27	Lisbon	Portugal	11,235	4.0
28	Helsinki	Finland	11,062	3.1
29	Prague	Czech Republic	10,777	11.1
30	Hamburg	Germany	10,676	7.9

^a Total passengers enplaned and deplaned (passengers in transit counted once)

^b Data not available for Istanbul (ranked 17 in 2004) and Antalya (ranked 24 in 2004), but Moscow Sheremetyevo has dropped out of the top 30

Source: ACI

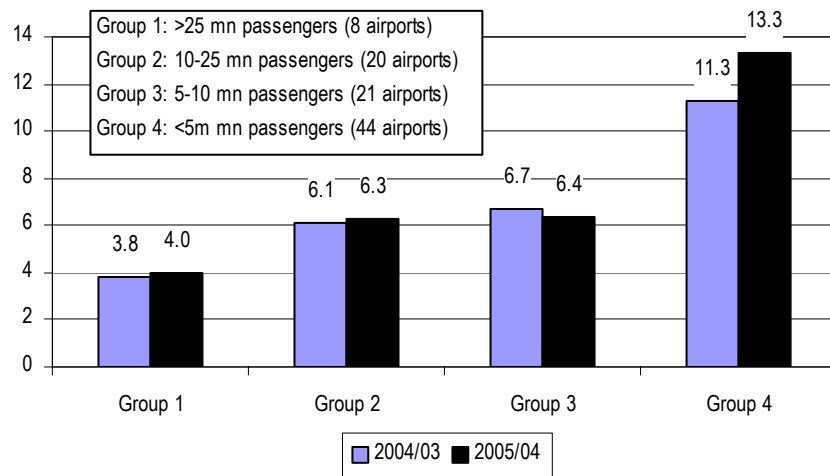
**... but secondary airports
show the strongest
increases**

Analysis of ACI Europe's results, which incorporate data from some 96 airports across the region, shows that the strongest increases were nonetheless enjoyed by 'Group 4' airports – those handling fewer than 5 million passengers a year.

Many of these airports are, of course, increasingly used by Europe's no-frills carriers, which have boosted traffic growth significantly over the past few years.

The overall growth in passenger throughput for Group 4 airports was 13.3% last year, compared with 6.4% for Group 3 airports (5-10 million passengers), 6.3% for Group 2 airports (10-25 million) and 4.0% for Group 1 airports (over 25 million). Riga recorded the biggest increase, of 76.6%, with Rome Ciampino up 66.6% and Valencia up 49.4%.

Figure 6
Growth in passenger throughput in Europe by size of airport, 2004-05 (%)



Source: ACI

Destinations

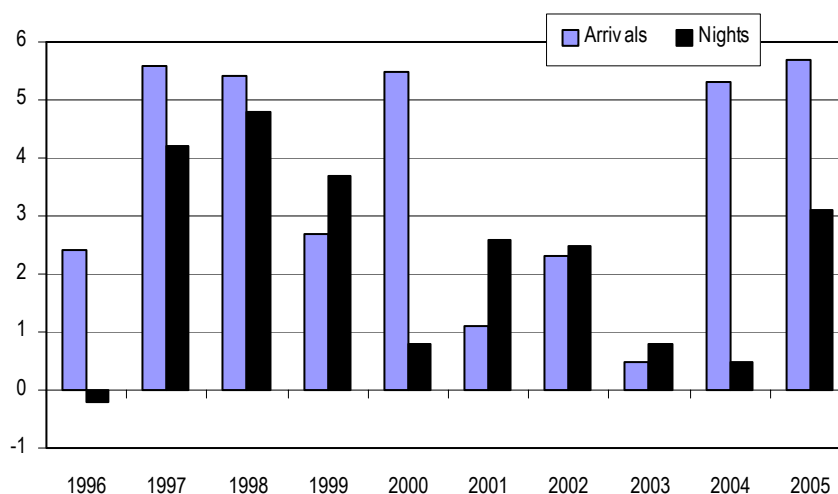
Arrivals versus overnights

Arrivals again outpace overnights

Annual growth rates for European tourism – both in terms of arrivals and overnights – have fluctuated quite sharply over the past ten years, with arrivals tending to outpace overnight volume. However, the trend has usually been reversed during periods of slower demand – ie after 11 September 2001 – when people are more likely to cut back on travel frequency and opt for longer stays instead.

The last two years have seen a much stronger rise in arrivals – at least, according to data filed so far with TourMIS – undoubtedly due to the increase in number and frequency of short breaks using no-frills airlines. Last year also looks like being the best year for European tourist arrivals growth since 2000. And although overnight volume grew at little more than half the rate of arrivals, its growth was also the best since 1999.

Figure 7
Trends in international arrivals and overnights in Europe, 1995-2005^a
(% annual change)



^a Estimate for 2005 is based on actual results available from 22/20 countries in April 2006

Source: Data filed by European Travel Commission (ETC) members on TourMIS

European sources dominate arrivals and nights

Europe attracts a very high share of intra-regional arrivals – 88% of total arrivals, according to UNWTO, as against 12% for arrivals from outside the region. These comprise 6% from the Americas, 4% from Asia Pacific and 2% from the rest of the world. The intra-regional share has actually grown over the past 15 years – no doubt, once again, due to increased travel frequency with the expansion of the no-frills airline sector. The share of intra-regional flows is even higher in some sub-regions – eg within Central / Eastern and Southern / Mediterranean Europe (94%).

Despite the rapid growth of air transport, road transport is still dominant, according to IPK International's European Travel Monitor, accounting for 51% of all trips within Europe in 2005. It is especially important in Western and Central / Eastern Europe.

UNWTO does not compile regular data on overnight volumes, but estimates suggest that, since long-haul tourists tend to spend longer in Europe, their share of overnights is higher, at around 20%. So Europeans probably account for around 80% of total overnight volume. However, since long-haul tourists usually take in more than one destination on their trips to Europe, their real length of stay within the region is not easy to determine.

Rankings by volume

The most visited destinations in 2004 ...

To put the current trends in perspective, the following two tables show the ranking of European destinations in terms of absolute volumes of arrivals and international tourism receipts for 2004 – the last full year for which relatively comparable data is available. As already indicated, care must be taken in making comparisons regarding arrivals, since the measurements vary from one destination to another. These differences are explained in the footnotes to figure 8.

Figure 8
International tourist arrivals in Europe by destination, 2004

Rank	Destination	Measure	Arrivals ('000)	% change 2004/03	2003/02	2002/01
1	France	TF	75,121	0.1	-2.6	2.4
2	Spain	TF	52,430	1.2	0.3	4.5
3	Italy	TF	37,071	-6.4	-0.5	0.6
4	UK	VF	27,755	12.3	2.2	5.9
5	Germany	TCE	20,137	9.5	2.4	0.6
6	Russian Federation	TF	19,892 ^a	-2.7 ^a	-3.9	na
7	Austria	TCE	19,373	1.5	2.5	2.4
8	Turkey	TF	16,835	26.2	4.3	18.6
9	Ukraine	TF	15,629	24.9	19.0	na
10	Poland	TF	14,290	4.2	-1.9	-6.8
11	Greece	TF	13,271	-5.0	-1.5	0.9
12	Hungary	TF	12,212	na	na	3.5
13	Portugal	TF	11,617	-0.8	0.5	-4.3
14	Netherlands	TCE	9,646 ^a	5.1 ^a	-4.3	1.0
15	Croatia	TCE	7,912	6.8	6.7	6.1
16	Switzerland	TF	7,229	9.9	-4.9	-7.9
17	Ireland	TF	6,982	3.2	5.0	1.3
18	Belgium	TCE	6,710	0.3	-0.4	4.2
19	Czech Republic	TCE	6,061	19.4	10.9	-11.8
20	Bulgaria	TF	4,630	14.4	17.9	7.8
21	Norway	TCE	3,600	10.1	1.1	1.2
22	Denmark	TCE	3,358	-3.3	0.3	-0.9
23	Sweden	TCE	3,003	1.7	-0.1	0.4
24	Finland	TF	2,840	9.2	-9.5	1.7
25	Andorra	TF	2,791	-11.0	-7.4	-3.7
26	Cyprus	TF	2,349	2.0	-4.8	-10.3
27	Lithuania	TF	1,800	20.7	4.4	12.7
28	Estonia	TF	1,750	19.7	7.3	3.2
29	Slovenia	TCE	1,499	9.2	5.5	6.8
30	Slovakia	TCE	1,401	1.0	-0.9	14.8
31	Romania	TCE	1,359	23.0	6.1	13.8
32	Malta	TF	1,156	6.1	-0.6	-3.9
33	Latvia	TF	1,080	11.2	14.5	43.5
34	Luxembourg	TCE	874	0.8	-2.0	6.6
35	Iceland	TCE	836	8.4	9.4	4.9
36	Serbia & Montenegro	TCE	580	20.6	7.4	27.6
37	Monaco	THS	250	0.8	-2.0	na
38	Bosnia & Herzegovina	TCE	190	15.0	3.6	na
39	Macedonia (FYR ^b)	TCE	165	4.8	28.3	na
40	Liechtenstein	THS	49	-1.0	0.0	-12.5
41	Others	-	9,889	na	na	na
	Total Europe^c	-	425,622	4.2	0.4	2.4

^a UNWTO estimates ^b Former Yugoslav Republic of Macedonia ^c Including Israel and Central Asian states formerly part of the Soviet Union (which UNWTO place in Europe)

Note: TF = tourist arrivals at frontiers; VF = visitor arrivals (including same-day arrivals) at frontiers; TCE = tourists at all forms of commercial accommodation; THS = tourists at hotels and similar establishments.

Sources: UNWTO; ETC; national sources

The five most visited destinations in Europe – France, Spain, Italy, the UK and Germany (Germany overtook Austria in 2004) – accounted for 50% of total international arrivals in the region, and the top three for 37%. Although these

shares are down slightly over 2003's level, the importance of these destinations in the overall count explains why it is so important to have full-year results for these countries in order to provide a reliable assessment of tourism performance.

The top performers, in terms of percentage growth in arrivals in 2004, were Turkey, Lithuania, Serbia & Montenegro, Estonia and the Czech Republic. The new EU members among them showed the best growth. In the case of Turkey and Serbia & Montenegro, healthy annual growth has been consistent since 2001.

... and the top tourism earners

The same five countries – yet ranked in a different order – were also the top five destinations in Europe in 2004 terms of international tourism receipts. Spain headed the ranking, ahead of France, Italy, the UK and Germany. Together, they generated more than 54% of total European international receipts. It should be noted that Turkey, in sixth position, was well behind the leaders, achieving €12.8 billion as against Germany's €22.2 billion.

Once again, there were mixed performances from one destination to another in 2004. Poland was the big winner – up more than 30%, thanks in no small part to its joining the European Union in May 2004 – but this followed a decline in receipts of 21% in 2003. The UK achieved a healthy increase of 13.3% (after a decline of 7.4% in 2003), but the main winners were from Central / Eastern Europe. Bulgaria, Estonia, Bosnia & Herzegovina, Macedonia, Slovenia and Lithuania all recorded double-digit increases.

Figure 9
International tourism receipts for selected European destinations^a, 2004

Rank	Destination	Receipts (€ mn)	% change 2004/03	% share
1	Spain	36,376	3.8	13.9
2	France	32,834	1.5	12.5
3	Italy	28,665	3.8	10.9
4	UK	22,688	13.3	8.6
5	Germany	22,243	8.9	8.5
6	Turkey	12,773	9.4	4.9
7	Austria	12,341	0.0	4.7
8	Greece	10,348	9.0	3.9
9	Switzerland	8,372	3.1	3.2
10	Netherlands	8,307	2.6	3.2
11	Belgium	7,417	2.5	2.8
12	Portugal	6,307	7.8	2.4
13	Croatia	5,506	-1.2	2.1
14	Sweden	4,981	6.4	1.9
15	Poland	4,689	30.4	1.8
16	Denmark	4,559	-2.1	1.7
17	Russian Federation	4,200	5.5	1.6
18	Ireland	3,445	1.1	1.3
19	Czech Republic	3,354	6.7	1.3
20	Hungary	3,265	-8.7	1.2
21	Luxembourg	2,947	11.3	1.1
22	Norway	2,482	5.6	0.9
23	Ukraine	2,058	na	0.8
24	Bulgaria	1,785	22.6	0.7
25	Cyprus	1,685	-2.8	0.6
26	Finland	1,669	0.8	0.6
27	Slovenia	1,311	10.7	0.5

(continues)

Figure 9 (continued)
International tourism receipts for selected European destinations^a, 2004

Rank	Destination	Receipts (€ mn)	% change 2004/03	% share
28	Slovakia	724	-5.3	0.3
29	Estonia	710	20.3	0.3
30	Malta	628	2.4	0.2
31	Lithuania	624	10.6	0.2
32	Romania	406	2.5	0.2
33	Bosnia & Herzegovina	394	20.2	0.2
34	Iceland	299	5.7	0.1
35	Latvia	215	9.4	0.1
36	Serbia & Montenegro	178 ^b	na	0.1
37	Macedonia (FYR ^c)	58	15.2	0.0 ^d
38	Others	1,757	na	0.7
	Total Europe^a	262,600	5.0	100.0

^a Including Israel and Central Asian states formerly part of the Soviet Union

^b 2003 ^c Former Yugoslav Republic of Macedonia ^d Less than 0.05%

Source: UNWTO; national sources

Key trends by destination in 2005

A shortage of full-year data

ETC members that were unable to supply full-year trends for 2005 have not been asked to estimate results. This explains the larger number of gaps in the following table compared with the respective table last year, and the reason why macro trends need to be interpreted with caution.

All of Europe's leading destinations have provided data – either through their NTOs or directly from their ministries and / or statistics offices – with the exception of Italy, for which trends have been obtained from the Ufficio Italiano dei Cambi (UIC). These may not strictly compare with the final results that will be issued by the Italian State Tourist Board (ENIT). France's results are also estimated and overnight data for the UK is not yet available. However, the data from ETC members and other European countries is sufficiently comprehensive for Europe-wide trends to be deemed reliable.

Another year of relative stagnation for France and Italy ...

Given the apparent stagnation in both international tourist arrivals and overnights in France and Italy in 2005 – two key destinations in Europe – the region's overall 4.3% growth seems even more impressive than at first glance. The trend is due in no small part to the excellent performances of Spain, the UK and Germany – which with France and Italy make up the top five tourism destinations in Europe.

A third disappointing year for France can be at least partly blamed on the civil unrest and riots that occurred in the country in autumn 2005. Anecdotal evidence suggests that, at the end of last summer, France's inbound tourism appeared to be well on the road to recovery. Nevertheless, some key cities bucked the general trend – both Paris and Nice, for example, recorded good increases. And France performed better in long-haul than in short-haul markets. Demand from the USA picked up thanks to an improving image of France in the US market. But China, from which there were huge growth expectations, was down on target.

Figure 10
Latest trends in international arrivals and overnights in European destinations, 2005
 (% annual change)

Destination	Arrivals	Nights	Periods covered 2004-05 (arrivals/nights)
Austria	3.0	2.1	Jan-Dec/Jan-Dec
Belgium	na	na	
Bulgaria	4.5	12.8	Jan-Dec/Jan-Sep
Croatia	7.0	na	Jan-Oct ^e
Cyprus	5.2	na	Jan-Dec
Czech Republic	4.4	3.2	Jan-Dec/Jan-Dec
Denmark	na	-1.0	Jan-Dec
Estonia	5.7	8.5	Jan-Dec/Jan-Dec
Finland	10.6	2.6	Jan-Dec/Jan-Dec
France	0.2	0.1	Jan-Dec ^a /Jan-Dec ^a
Germany	6.8	6.4	Jan-Dec/Jan-Dec
Greece	11.0	na	Jan-Sep ^a
Hungary	4.3	1.3	Jan-Dec/Jan-Dec
Iceland	2.0	na	Jan-Dec
Ireland	6.1	4.6	Jan-Dec/Jan-Sep
Italy ^b	1.2	0.8	Jan-Dec ^a /Jan-Dec ^a
Latvia	21.0	34.3	Jan-Sep/Jan-Dec
Lithuania	14.8	15.5	Jan-Sep ^a /Jan-Dec ^a
Luxembourg	na	na	
Malta	3.7	na	Jan-Nov ^a
Monaco ^b	15.0	14.0	Jan-Dec/Jan-Dec
Netherlands	3.0	-1.0	Jan-Dec/Jan-Dec
Norway	5.9	3.0	Jan-Dec/Jan-Dec
Poland	5.1	na	Jan-Aug
Portugal	na	4.2	Jan-Nov ^a
Romania	5.2	na	Jan-Dec
Slovakia	8.1	4.2	Jan-Dec/Jan-Dec
Slovenia	4.0	1.0	Jan-Dec/Jan-Dec
Spain	6.0	3.1	Jan-Dec/Jan-Dec
Sweden	na	6.6	Jan-Dec
Switzerland	9.9 ^c	6.4 ^c	Jan-Nov ^a /Jan-Nov ^a
Turkey	20.6	na	Jan-Dec
UK	8.0	na	Jan-Dec ^a
Ukraine	na	na	

When making comparisons between countries, please note that the measures used by different countries vary – see notes to figure 8

^a Estimate ^b Data from sources other than the NTOs ^c Calculated on 2003 data

Sources: ETC members; TourMIS

France's main weakness is that it is perceived as being very expensive, especially compared with 'newer' tourism destinations in Europe that offer better value for money. This is also a problem for Italy, which experienced another unmemorable year in terms of tourism from the rest of Europe, despite a good performance from long-haul markets – it is the most sought-after destination in Europe among Japanese and Chinese travellers, for example. Italy also continues to suffer from a declining average length of stay.

... but Spain's stellar performance boosted the region's overall growth ...

The picture is totally different for Spain, which has succeeded – against all odds, some might argue – in diversifying its tourism product to adapt to the changing marketplace. The country's 6.0% increase in international arrivals was its best annual growth since 1999. The main trend in the last couple of years has been a decline in mass-market package tourists in favour of independent (FIT) travellers

looking for culture, history, health / wellness and city tourism as well as, or instead of, sun & beach. The meetings, incentives, conferences and exhibitions (MICE) sector has also shown strong gains.

The autonomous region of Catalonia, home to Barcelona, was one of the best performing regions in the country in 2005, attracting an overall share of arrivals of more than 25%, or 14 million, ahead of the Balearic Islands with 9.6 million and the Canary Islands with 9.4 million.

As a result of Turespaña's aggressive promotion of Spain's lesser-known attractions, it is now attracting more elderly, long-stay tourists, not to mention more and more 'residential' tourists who have bought real estate in the country. In addition, Spain has also benefited to some extent from a shift back to tried and tested 'safe' destinations during a period when terrorism and natural disasters of different kinds have been of increasing concern to the travelling public.

... as did the UK and Germany

The UK chalked up a new tourism record in 2005 thanks to an 8.0% increase in arrivals, although it is still catching up in some sectors. Inbound holiday travel, for example, is only 4% up on 2000's level, reflecting the series of blows that affected the UK's tourism industry during the first half of the decade – from the outbreak of foot & mouth disease to natural disasters, terrorism threats and the 7 July 2005 London bombings. In fact, given the 7 July attacks, last year's strong growth was little short of remarkable, reflecting – as did similar terrorist attacks in Egypt, Turkey and other parts of the world – tourism's continued resilience to such events.

Central / East European markets have been especially strong for the UK and emerging long-haul markets are expected to be increasingly important contributors to tourism growth. Although seen as an expensive destination, sterling has been pretty stable against most key currencies, notably the euro, which is seen as positive for the future. However, the UK Government's increase in visa fees has not been well received and could dampen demand.

Germany achieved another excellent year. Although there were mixed performances from one market to another, both long- and short-haul sources recorded healthy growth. Asia seems to have strengthened its share despite only modest growth out of Japan, and growth from the Middle East was strong.

The country has confirmed its dominance in Europe's MICE sector, attracting a significant share of the region's major conferences and other events in 2005. In addition, positive publicity about its hosting of the Football World Cup in 2006 has undoubtedly attracted growing interest in the country as a leisure tourism destination.

Northern Europe – the best performing region, but with mixed results

UNWTO's crowning of Northern Europe as the best sub-region in 2005 may have been a bit premature since, apart from the UK, no other destination appears to have exceeded the estimated average of 7.1%. Admittedly, there were good performances from a number of other countries, but results available so far are somewhat disappointing – especially for Denmark and Iceland. Interestingly, Copenhagen appears to have had a much better year than Denmark overall, probably because of an increase in pre- and post-cruise tourism business.

Finland's 10.6% growth in arrivals relates to all tourists, and contrasts with a reported increase of only 2.6% in overnights in registered accommodation.

Sweden turned in the best performance of all the Nordic countries, ahead of Norway, and attributes the growth to a number of factors including a recovery of the US market and increasing demand from Russia.

Norway says its successful year was in part due to increased demand for winter tourism, but also improved performances in some long-haul markets, such as Japan – but not the USA. New low-cost airline routes and ferries serving the destination have also boosted arrivals.

The region generally has benefited from increased cruises in the Baltic Sea although, according to the Finnish Tourist Board, the Nordic countries have lost out to some extent to the Baltic States in terms of pre- and post-cruise business. Finland enjoyed increased tourism demand during last August's World Athletics Championships in Helsinki, but this did not compensate for a poor summer overall. Although Finland is hoping to expand its long-haul markets, especially from Asia, to compensate for the loss in cruise-related business, Europe is still its primary target. Niche sectors, such as Christmas in Lapland, have performed particularly well, and Russia is proving to be a strong growth market for 2006.

Ireland, up an estimated 6.1% in terms of arrivals and a slightly lower 4.6% in overnights, had a good overall result in 2005, but suffered declines out of some key source countries such as the USA and Japan. This is attributed by the industry in large part to the strong euro. Low-fare airline capacity has driven growth from European markets but, of the 20 or so new airline routes overall launched in 2005, several proved to be non-viable, economically speaking. Also negative is the fact that no-frills airline services have boosted urban tourism at the expense of rural destinations, and bed & breakfast accommodation has suffered. On the positive side, the industry says it has benefited from a strong government commitment to tourism.

**Southern Europe
produces lots of winners
– from Turkey ...**

Europe's second best performing sub-region in 2005, Southern / Mediterranean Europe, owes much to the excellent results achieved by Turkey last year – up nearly 21% in terms of arrivals, after similar growth in 2004. One of the main reasons for its success is that it has managed to stretch its tourism season beyond the summer to at least eight months of the year. And for a growing number of smaller markets winter tourism, including skiing in Eastern Anatolia, is becoming increasingly attractive.

Turkey performed well in both long- and short-haul markets, but especially in Russia and the other former Soviet Union member countries (Commonwealth of Independent States) and Central / Eastern Europe. It is seen as good value for money, but a major draw for these markets is that immigration is 'hassle free', with visas offered on arrival.

**... to Greece and
Cyprus ...**

2004 was a very disappointing year for Greece, since the Summer Olympic Games in Athens actually discouraged potential tourists from visiting the country, causing a 5% decline in arrivals. But the positive publicity during and following the Games – both in the media and through word of mouth – stimulated tourism demand from around the world. As a result, preliminary estimates point to an 11% rise in arrivals last year and an even higher increase for Athens. According to IPK International's European Travel Monitor (ETM), inbound holiday trips of four nights and longer to Greece from other parts of Europe rose by 24%.

Cyprus suffered a slowdown in growth in 2004, largely due to the fact that it was obliged to impose visa requirements on non-EU markets when it joined the EU. This had a particularly severe effect on Russia, which was its fastest growing source. However, demand picked up in 2005. There are still some concerns about the impact of visas and the North Cyprus situation is seen as a deterrent to growth for some markets. The destination's main weakness, according to the Cyprus Tourism Organisation, is that it is too far from the main source markets to attract low-cost airlines, and this is making the destination less competitive.

... and Monaco Monaco's healthy double-digit growth is attributed to a big increase in hotel capacity and an increase in event tourism through the year. But the principality is still 5% down on the arrivals and 7% on the overnights achieved in its record tourism year of 2000.

Increasing focus on quality ... Malta is another destination that feels it is losing out to the competition because of a lack of low-cost airlines serving the destination, although there is also concern that low-cost airline services could turn the Mediterranean island paradise into a hub for carriers wishing to link North Africa with Europe. Although growth in arrivals was below target in 2005, Malta's EU membership has brought in additional MICE business, including prestigious events like the Commonwealth Heads of Government meeting in November last year. It has also been making efforts to reduce its dependence on tour operators, to improve quality and attract more upmarket tourism.

Improving quality is also key to the success of star performers Croatia and Serbia & Montenegro. Both have succeeded in raising awareness of their tourism potential and have focused on developing sustainable tourism products. Serbia is now looking to develop its winter ski potential and spa tourism, while Montenegro is investing heavily in quality sun & beach resorts as well as rural and mountain tourism. The country has started to attract increasing interest and investment from quality brands such as Aman Resorts.

... and product diversification Although growth was down on 2004's level, Slovenia has strengthened its position as a year-round tourism destination, offering a wide range of tourism products and attractions from culture and city life in Ljubljana, to skiing, sun & beach and wellness / spas.

After a disappointing tourism year when it hosted the Euro2004 football championships, Portugal's fortunes picked up in 2005, especially in the Algarve. While some European markets are still soft, one contributing factor to its 4.2% increase in arrivals has been good growth out of new markets such as Russia, plus a strong performance from the Brazilian and Japanese markets.

Slowdown in growth for Central / Eastern Europe... Growth for Central / Eastern Europe slowed significantly overall in 2005, but this was to be expected given the exceptionally large increases recorded the previous year. 2004's strong performance was due to the fact that many countries in the sub-region became members of the EU in May 2004, and this stimulated tourism flows. Nevertheless, the continued expansion of low-cost airline services to the new EU member states in Central / Eastern Europe has stimulated demand to and from the different destinations, and even relatively remote parts of the region now have direct airline access.

... but the Baltic States continue to impress

Of the three Baltic States – which probably have more in common with neighbours in Northern Europe than the Central / East European sub-region – Estonia experienced a slowdown in growth in 2005, notably after the first quarter of the year. But the Estonian Tourist Board says that this was to be expected given the very strong increase achieved in 2004. It also says that average length of stay has increased for many markets due to growing awareness of the destination.

Latvia enjoyed a fourth year of double-digit growth in arrivals, albeit from a lower base, and Lithuania's strong increase is attributed to a recovery of the Russian market and growing interest from southern European markets.

More short breaks, at the expense of longer holidays

Excluding Bulgaria, which is primarily a sun & beach destination unlike most of Central / Eastern Europe, a main trend in the sub-region in 2005 was a slower rise in overnight volume than arrivals. This suggests that demand has grown faster for short breaks than long holidays, in line with the expansion of low-cost / no-frills airline services to and from the region.

The Czech Republic cites Prague's continuing popularity as a main contributor to growth, as well as strong demand from Japan, but the US market was down on target. Budapest was also key to Hungary's growth in tourism in 2005 – it achieved a record year – but the Hungarian National Tourist Office has successfully promoted a wide range of tourism products, from health / wellness to river cruises, cultural and sporting events. The Formula 1 Grand Prix held last year attracted very good numbers.

City tourism has also been important for Poland, especially since so many secondary cities have been opened up to tourism through the launch of low-cost / no-frills flights. The same is true for Slovakia, which (like Poland) has attracted stronger than average growth from long-haul markets eager to visit Europe's newer tourism destinations.

Bulgaria anticipates a slowdown

After two years of double-digit arrivals growth, Bulgaria recorded a 4.5% increase in 2005 but, thanks to a longer average length of stay, overnights rose by 13%. Nevertheless, Bulgaria is not resting on its laurels, as there are growing concerns within the industry about the likely impact of excessive Black Sea coastal construction on demand and the rising cost of labour, which is making it more and more difficult to compete with emerging destinations.

Modest growth for Western Europe overall ...

With the exception of Germany, which achieved another excellent year in terms of tourism growth, Western Europe's performance was relatively modest. Switzerland may have bucked the trend as well but, since no statistics were gathered by the Swiss authorities in 2004, 2005's results cannot be compared with the previous year. However, compared with 2003, arrivals increased by nearly 10% and overnights were up 6.4%.

... due in part to a soft German market

Regions of the country that depend heavily on German visitors performed less well, but Switzerland has attracted good increases from new emerging markets such as China, India and South Korea.

A soft German market due to poor summer weather also had a negative effect on tourism in the Netherlands in 2005, although most other European markets turned

in good performances, according to the Netherlands Board of Tourism & Conventions. Mediocre weather also dampened demand for Luxembourg last summer, and the camping sector was adversely affected by unfavourable currency trends. No results are available for Belgium's tourism in 2005, but anecdotal evidence suggests that MICE tourism in Brussels suffered due to the temporary closure of the Palais de Congrès.

Declining summer tourism for Austria

Austria continues to perform well as a winter destination – it remains a favourite for many markets – but a decline in summer tourism is of increasing concern. Overall length of stay is also falling. As for other parts of central Europe, Austria's summer tourism was also affected by floods in 2005. But this does not explain why, over the past ten years, the country has lost 10 million summer visitors, mainly from international markets.

Cities versus countries

Very mixed results from one market to another ...

The following table and graph highlight the differences in performance between European countries overall and their respective cities. The analysis is based on the latest available data for 2005 filed by ETC members and members of European Cities Tourism (ECT) on TourMIS.

Clearly, the relatively low number of cases on which the analysis is based (a maximum of 22 destination countries and 24 cities for each source market) does not favour accuracy – it is very clear from regular checks of the latest data that the apparent trends tend to vary erratically, depending on the number and range of countries and cities surveyed.

Nevertheless, the data does throw up some interesting, if confusing, trends. Out of Germany, for example, arrivals growth was higher for countries than for cities, but conversely cities attracted stronger increases than countries in German overnight volumes. The same trend is apparent for the French and US markets. It is difficult to explain why this might be. Out of Japan and the UK, growth was generally stronger for countries than for cities – whether in terms of arrivals or nights – while the reverse was true for the Dutch market.

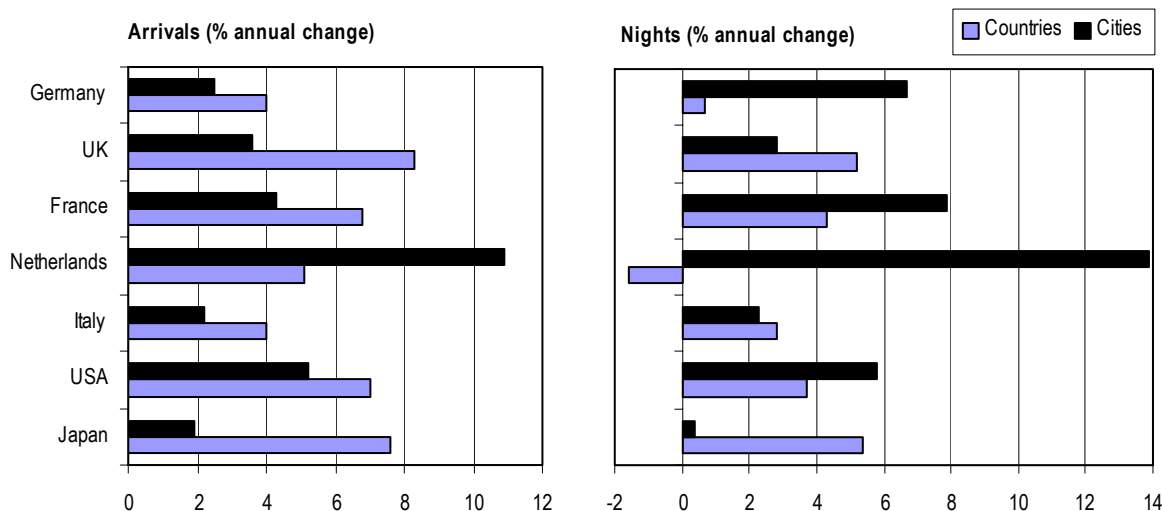
In terms of arrivals, the strongest growth markets in 2005 for Europe overall (according to the data available at present) were the UK, Japan, the USA and France, but the respective growth in nights was much lower in all cases. As far as city tourism was concerned, the Netherlands generated the highest increase of all in terms of arrivals and overnight volume, well ahead of its competitors.

Care must be taken in interpreting the data as it is considered to be incomplete and, therefore, does not provide a wholly reliable picture of actual trends. It is important to note that IPK International's European Travel Monitor points to a 20% rise in city trips in 2005 – five times higher than the European market's overall growth. The vast majority of these city trips would have been for European destinations.

By comparison, sun & beach holidays increased by 3%, winter snow trips were up 12% and summer mountain holidays rose by 8% – clearly all from different levels.

Figure 11
Latest trends in international tourist arrivals and overnights in Europe from key source markets, 2005
 (% annual change^a)

Market	Arrivals		Nights		No. in sample ^b	
	Countries	Cities	Countries	Cities	Countries	Cities
Germany	4.0	2.5	0.7	6.7	21/19	21/24
UK	8.3	3.6	5.2	2.8	20/20	21/22
France	6.8	4.3	4.3	7.9	20/19	22/23
Netherlands	5.1	10.9	-1.6	13.9	20/17	22/23
Italy	4.0	2.2	2.8	2.3	21/19	23/24
USA	7.0	5.2	3.7	5.8	22/19	21/22
Japan	7.6	1.9	5.4	0.4	19/18	20/22



^a Estimates based on actual results from 17-22 countries and 20-24 cities (depending on each market) for the first 6-12 months of the year

^b Arrivals/nights

Source: Data filed by ETC member NTOs on TourMIS by end-February 2006

...but some cities do better than their respective countries

Meanwhile, it is interesting to point out that Europe's best performing cities in 2005 include both capitals and secondary cities. Paris achieved a fairly modest 3% increase in arrivals from abroad, but overnight volume rose 10%. And the respective figures for Budapest were 11% and 10%.

Among secondary cities, Valencia was the big winner, achieving growth of more than 30% in terms of foreign arrivals and overnights – as against 6% in arrivals and 4.6% in nights for Spain overall. This was largely due to a doubling of arrivals from the UK, thanks to a massive increase in low-cost / no-frills airline services – Valencia is now served directly from eight different UK airports by four new low-cost airlines. Barcelona was another city in Spain that did better than average for the country, attracting a 10% increase in arrivals and 9% rise in overnight volume. Dubrovnik, meanwhile, attracted 23% growth in arrivals and 19% in nights – as against a 7% increase in arrivals for Croatia – and there were very good results for a number of German cities. Dresden, for example, saw arrivals grow by 7% and overnight volume by 14%.

It should be noted that many cities have not yet filed their final results with ECT or TourMIS.

European Tourism Demand

Outbound travel trends

A 4% increase in trip volume for the second year

IPK International's European Travel Monitor, which covers outbound travel trends from 36 European source countries, points to a 4% increase in trips of at least one night long by Europeans in 2005, to 370 million. Of these, more than 85% were short haul, ie to other parts of Europe.

The 370 million trips generated 3.5 billion overnights, or an average length of trip of 9.5 nights, down 4% in length over the previous year. As a result of the drop in length of stay, overnights increased by only 2% – at half the rate of trip volume.

Expenditure, meanwhile, increased by an estimated 5% – due in part to an above average rise in long-haul trips – but spending per trip declined by 2% and spending per night showed no change over 2004.

Figure 12
European outbound travel, 2005

	2005	% change on 2004
Trips ^a (mn)	370	4
1-3 nights long	96	10
4+ nights long	274	2
Overnights (mn)	3,500	2
Average length of stay (nights)	10	-4
Spending (€ bn)	330	5
Spending per trip (€)	892	-2
Spending per night (€)	94	0

^a Trips made by adults aged 15 years and over

Source: European Travel Monitor, IPK International

Business travel gains four points in market share

A breakdown of trips by purpose shows that holidays continue to dominate, accounting for more than two thirds of total volume (69%). But while holidays increased by 4% in number, business trips were up 9% in 2005, confirming the recovery in demand after several years in which business travel was in the doldrums. European business trips now account for 15% of total European outbound trip volume, as against 11% in 2004.

Visits to friends and relatives (VFR trips), meanwhile, were less buoyant, growing by 2% last year, which resulted in a two-point loss in share to 17%.

The significance of low-fare / no-frills flights

As already indicated, trends last year were influenced by a number of factors, most importantly the increasing availability of low-fare / no-frills flights. Other important factors influencing travel demand, according to IPK, were the strong

(and appreciating) euro, the improved economic situation in many countries, and differing weather patterns across Europe and the Mediterranean in summer 2005.

The following table highlights the significance of low-fare flights. While 'traditional' air transport (ie, according to the IPK / ETM definition, trips using network carriers and costing over €150 return) increased by a mere 1% in volume in 2005, low-fare flights (those operated by low-cost carriers or simply flights by any airline costing less than €150 return) rose by 28%. As a result, the share of low-fare flights gained nine percentage points in share to 33%.

By way of example, low-fare airline trips to Spain out of the UK have risen 36% in the past 12 months, by 17% out of Germany and by 8% out of the Netherlands.

Figure 13
European outbound travel – low-fare vs traditional flights, 2004-05

Type of flights	% growth	% market share	
	2005/04	2004	2005
Traditional	1	76	67
Low-fare	28	24	33
All flights	7	100	100

Source: European Travel Monitor, IPK International

Booking patterns in Europe

Huge increase in online booking

Anecdotal evidence suggests there has been a sharp rise in use of the internet for online booking, as opposed to simply 'looking' – gathering information on travel options – over the past 12 months, and the European Travel Monitor (ETM) confirms this rise. Online travel generally increased by 22% in 2005, but actual bookings grew by 35% compared with just 1% growth for information gathering.

Figure 14
European online travel, 2005

	% growth	% market share
	2005/04	2005
Booking	35	30
Looking ^a	1	15
All online travel	22	45

^a Use of the internet to research travel options, but not for booking

Source: European Travel Monitor, IPK International

Major source markets

The leaders' ranking To put things in perspective, the five most important markets for European outbound travel are, in order of size: Germany, the UK, France, the Netherlands, and Italy. In 2005, according to IPK's European Travel Monitor (ETM), Germany recorded a 2% increase, or 1.8 million additional trips, and the UK an increase of 3%, or 1.7 million.

However, the best performing markets in 2005, in terms of percentage growth, were Spain (+15%), Russia and Poland (+14%), Denmark and Ireland (+8%).

Where do they go? For European outbound travellers, Spain was the favourite destination in 2005, attracting a 13% share of total trip volume, ahead of France (11%), Germany and Italy (8% each), Austria and the UK (5% each) and Turkey (4%). Among the leading growth destinations, non-European countries – notably the USA, United Arab Emirates (mainly Dubai) and different parts of Asia Pacific – have been gaining ground alongside countries of Central / Eastern Europe.

Germany

A lower than average share for long-haul destinations The good news for Europe is that only about 6% of German outbound trips are for destinations outside Europe – a lower than average share compared with European markets generally. However, Germany has been a disappointing market in recent years for both long-haul and European destinations, and few European countries have seen good growth out of Germany on a consistent basis.

2005 nevertheless saw an improvement, according to the European Travel Monitor (ETM) – albeit only a 2% rise overall – and preliminary estimates point to double-digit growth in arrivals and overnights for a number of destinations. Average length of stay for Germans abroad was just under nine nights.

According to data filed with TourMIS, the fastest growing destinations for German tourists were Ireland, Estonia, Lithuania, Cyprus, Poland and the UK. Growth to the UK, which is very much a short-break destination for Germans, was boosted by the large number of no-frills flights operating between the two countries.

Spain continues to be the favourite destination The favourite destination is Spain, which attracts a 16% share of all German outbound trips. It had a reasonable year in 2005, with a clear recovery in demand, notably for the Balearic Islands, according to Turespaña. Austria, in number two position, was fairly flat, in contrast, and fourth-placed France actually recorded a decline – in part attributable to the riots in the country during the autumn. However, Italy appears to have picked up well after a disastrous 2004, and Turkey, in fifth position, continued to rise in popularity.

Several countries have yet to file final results out of Germany for 2005 and trends to Switzerland can only be compared with 2003 as no tourism data was collected in 2004. To date, the weakest performances seem to have been for Slovenia, the Netherlands, Bulgaria, Hungary and, as already mentioned, France.

Figure 15
Latest trends in tourist arrivals and overnights from Germany
in selected European destinations, 2005
(% annual change)

Destination	Arrivals	Nights	Periods covered 2004-05 (arrivals/nights)
Austria	1.1	-0.1	Jan-Dec/Jan-Dec
Belgium	na	na	
Bulgaria	-2.4	-4.8	Jan-Sep/Jan-Dec
Croatia	-0.5	1.0	Jan-Dec/Jan-Dec
Cyprus	13.1	na	Jan-Dec
Czech Republic	2.0	-0.4	Jan-Sep/Jan-Sep
Denmark	na	-6.9	Jan-Nov
Estonia	28.0	31.8	Jan-Dec/Jan-Dec
Finland	-0.3	-0.1	Jan-Dec/Jan-Dec
France	-3.7	-2.5	Jan-Dec ^a /Jan-Dec ^a
Greece	na	na	
Hungary	-1.1	-4.9	Jan-Dec/Jan-Dec
Iceland	-4.2	na	Jan-Dec
Ireland	33.5	na	Jan-Dec
Italy ^b	8.5	6.0	Jan-Dec/Jan-Dec
Latvia	1.0	41.0	Jan-Dec ^a /Jan-Dec ^a
Lithuania	19.9	28.2	Jan-Sep ^a /Jan-Dec ^a
Luxembourg	na	na	
Malta	0.5	na	Jan-Nov ^a
Monaco	na	na	
Netherlands	-4.0	-6.0	Jan-Dec/Jan-Dec
Norway	4.0	6.0	Jan-Dec/Jan-Dec
Poland	13.0	na	Jan-Aug
Portugal	na	3.8	Jan-Nov
Romania	na	na	
Slovakia	2.9	1.8	Jan-Sep/Jan-Sep
Slovenia	-8.0	-10.0	Jan-Dec/Jan-Dec
Spain	4.1	2.5	Jan-Dec/Jan-Dec
Sweden	na	10.3	Jan-Dec
Switzerland	5.7 ^c	1.8 ^c	Jan-Nov ^a /Jan-Nov ^a
Turkey	6.5	na	Jan-Dec
UK	12.0	na	Jan-Dec ^a
Ukraine	na	na	

^a Estimate ^b Data from the Ufficio Italiano dei Cambi ^c Calculated on 2003 data

Sources: ETC members; TourMIS

Prospects for 2006

Prospects for 2006 are uncertain. Tour operator sales to date this year are down on 2005 – attributed in large part to Germany's hosting of the Football World Cup this summer – and there has been a noticeable shift away from Turkey in favour of Greece, Spain, Italy and even long-haul destinations.

Turkey's fall from favour may be due to the outbreak of avian flu in the country – the only confirmed human case of the disease so far in Europe – but the results of a special survey by IPK International suggest that fear of health risks linked to avian flu will have a negligible impact on Germans' travel behaviour. Less than 1% of respondents said that it would affect their travel plans – unless a full-scale epidemic among humans occurs – while 2% said they would wait and see, and 3% said they simply planned to avoid destinations affected by avian flu.

UK

A dynamic market going from strength to strength

Although official outbound figures from the UK Office of National Statistics' International Passenger Survey suggest the British market only grew by 3% in 2005 – and this trend was in line with IPK's ETM results – other data sources, such as the Association of British Travel Agents (ABTA), were more bullish about the market's performance. Moreover, preliminary results for ETC members filed on TourMIS also contain some very strong performances for certain countries, as the following table shows.

Figure 16
Latest trends in tourist arrivals and overnights from the UK
in selected European destinations, 2005
 (% annual change)

Destination	Arrivals	Nights	Periods covered 2004-05 (arrivals/nights)
Austria	4.9	5.2	Jan-Dec/Jan-Dec
Belgium	na	na	
Bulgaria	36.1	25.7	Jan-Sep/Jan-Dec
Croatia	23.1	32.9	Jan-Dec/Jan-Dec
Cyprus	4.4	na	Jan-Dec
Czech Republic	5.6	3.6	Jan-Sep/Jan-Sep
Denmark	na	1.6	Jan-Nov
Estonia	62.0	67.6	Jan-Dec/Jan-Dec
Finland	-4.0	2.5	Jan-Dec/Jan-Dec
France	0.3	0.6	Jan-Dec ^a /Jan-Dec ^a
Germany	5.0	5.4	Jan-Dec/Jan-Dec
Greece	na	na	
Hungary	37.0	38.3	Jan-Dec/Jan-Dec
Iceland	-3.3	na	Jan-Dec
Ireland	3.7	-1.6	Jan-Dec/Jan-Sep
Italy ^b	10.6	15.9	Jan-Dec ^a /Jan-Dec ^a
Latvia	na	89.3	Jan-Dec
Lithuania	48.9	25.2	Jan-Sep ^a /Jan-Dec ^a
Luxembourg	na	na	
Malta	7.7	na	Jan-Nov ^a
Monaco	na	na	
Netherlands	8.0	5.0	Jan-Dec/Jan-Dec
Norway	6.0	4.0	Jan-Dec/Jan-Dec
Poland	47.0	na	Jan-Aug
Portugal	na	5.3	Jan-Nov
Romania	na	na	
Slovakia	36.6	45.2	Jan-Sep/Jan-Sep
Slovenia	19.0	19.0	Jan-Dec/Jan-Dec
Spain	3.1	2.9	Jan-Dec/Jan-Dec
Sweden	na	8.2	Jan-Dec
Switzerland	14.6 ^c	10.5 ^c	Jan-Nov ^a /Jan-Nov ^a
Turkey	26.7	na	Jan-Dec
Ukraine	na	na	

^a Estimate ^b Data from the Ufficio Italiano dei Cambi ^c Calculated on 2003 data

Sources: ETC members; TourMIS

Many destinations were winners ... Estonia appears to be the big winner in the UK market, recording an increase of 62% in British arrivals and 68% in overnights in 2005. But preliminary data for the other Baltic States also shows strong growth from the UK, and most of Central / Eastern Europe, as well as Turkey, recorded similarly high increases.

Among the favourite British holiday destinations, France stagnated, according to preliminary estimates, and Spain attracted fairly modest growth overall. Italy confirmed its renewed popularity among the British, with new destinations such as Puglia attracting increasing interest – low-cost airline services from the UK to Bari and Brindisi were inaugurated in 2004.

... but not to the benefit of tour operators Even if the continued growth in the UK outbound holiday travel market keeps destinations smiling, the trend has not necessarily benefited UK-based tour operators. On the contrary, traditional tour operators have been losing out in the fast-changing holiday marketplace.

According to a survey by Trip Vision, Spain is still the leading destination for the British on holiday, generating a 26% share of all trips, ahead of France and Greece with 11% each, the USA with 7% and Italy with 5%. However, the general trends are not necessarily reflected in tour operator sales.

In 2005, tour operator sales to Spain were down 15% – reflecting the shift away from inclusive packages to independently tailored holidays. Similarly, sales to Greece fell by 12%, yet British arrivals in the country rose by a reported 4.5%. The USA was down 12% for tour operators, but managed a 1.3% increase in arrivals from the UK. Italy, which recorded a 1% drop in sales by the travel trade, actually had a record year out of the UK, with double-digit growth in arrivals and overnights.

Prospects for 2006 Europe's second largest travel and tourism source after Germany, the UK has been a much more dynamic market over the past ten years than its continental European neighbour, and this dynamism is expected to continue. Come rain or come shine, regardless of the national unemployment level, inflation, interest rates or declines in disposable incomes, the British seem determined to go on holiday at least once a year. And many make multiple trips, even if a lot of it is managed on credit. Travel now, pay later seems to be a motto for many within the lower to middle socio-economic groups.

The fact that the UK has the largest number of low-cost / no-frills airline services is also a major reason why the market has been so buoyant, and why Europe should continue to benefit from growth in UK short-break travel abroad. However, in terms of annual holidays, Europe does stand to lose out as the British look further afield. Long-haul travel already accounts for a higher share of main holidays than for Europeans generally, and the share could rise further at the expense of European destinations.

France

Very mixed performance from one destination to another

France was one of the best performing European outbound markets in 2005, growing by 7% or 1.8 million additional trips abroad. While a significant, if as yet unidentified, share of these benefited long-haul destinations and the French DOM-TOM (overseas dominions and territories), some parts of Europe also enjoyed good increases. However, results were very mixed from one destination to another.

Figure 17
Latest trends in tourist arrivals and overnights from France
in selected European destinations, 2005
(% annual change)

Destination	Arrivals	Nights	Periods covered 2004-05 (arrivals/nights)
Austria	-3.7	-4.1	Jan-Dec/Jan-Dec
Belgium	na	na	
Bulgaria	24.5	22.6	Jan-Sep/Jan-Dec
Croatia	50.4	54.6	Jan-Dec/Jan-Dec
Cyprus	12.8	na	Jan-Dec
Czech Republic	1.2	-0.1	Jan-Sep/Jan-Sep
Denmark	na	7.0	Jan-Nov
Estonia	12.0	17.4	Jan-Dec/Jan-Dec
Finland	14.0	6.7	Jan-Dec/Jan-Dec
Germany	4.3	3.9	Jan-Oct/Jan-Oct
Greece	na	na	
Hungary	-5.7	-4.7	Jan-Dec/Jan-Dec
Iceland	-7.0	na	Jan-Dec
Ireland	3.0	na	Jan-Dec
Italy ^b	-2.0	6.9	Jan-Dec ^a /Jan-Dec ^a
Latvia	na	33.2	Jan-Dec
Lithuania	19.1	14.0	Jan-Sep ^a /Jan-Dec ^a
Luxembourg	na	na	
Malta	-5.6	na	Jan-Nov ^a
Monaco	na	11.0	Jan-Aug
Netherlands	4.0	0.0	Jan-Dec/Jan-Dec
Norway	2.0	-6.0	Jan-Dec/Jan-Dec
Poland	14.6	na	Jan-Aug
Portugal	na	1.6	Jan-Nov
Romania	na	na	
Slovakia	12.6	22.4	Jan-Sep/Jan-Sep
Slovenia	11.0	7.0	Jan-Dec/Jan-Dec
Spain	13.3	4.3	Jan-Dec/Jan-Dec
Sweden	na	7.9	Jan-Dec
Switzerland	9.2 ^c	4.0 ^c	Jan-Nov ^a /Jan-Nov ^a
Turkey	27.8	na	Jan-Dec
UK	4.0	na	Jan-Dec ^a
Ukraine	na	na	

^a Estimate ^b Data from the Ufficio Italiano dei Cambi ^c Calculated on 2003 data

Sources: ETC members; TourMIS

Croatia attracted the strongest growth – in fact, France has been one of the most promising markets for the destination over the past few years already. Central / Eastern Europe and the Baltic States also recorded good increases, according to

preliminary estimates, as did the Nordic countries – although overnight volume in Norway fell by 6.0%. The UK and Ireland recorded increases in arrivals of 4.0% and 3.0% respectively – a satisfactory performance in both cases – but anecdotal evidence suggests that most of the growth was for short breaks.

Turkey was another big winner, as was Spain, but trends to other Mediterranean destinations are far from clear. Results are not yet available for Greece, Portugal appears to have had a fairly lacklustre year out of France, and Italy seems to have suffered a drop in arrivals, despite a healthy increase in overnights by the French.

Prospects for 2006

The last few years have seen a steady rise in foreign trip-taking by the French, whose propensity to travel abroad nonetheless remains below the European average. The growing interest in foreign travel is attributed in large part to the increased cost of a holiday in France – or, at least, the perceived higher costs since the euro was introduced.

The fact that costs are now transparent, and therefore easily comparable, across the eurozone – coupled with the increased facility of booking travel through the internet – has encouraged many more French to look beyond France's borders for holiday travel options.

Nevertheless, as for the British, the share of long-haul travel in total trip volume is high among the French – probably the highest in Europe – and European destinations may not benefit as much as they expect from the trend. This is not the case as far as the short-break sector is concerned, however, as France is finally catching up fast in terms of no-frills airline capacity, after lagging behind the European leaders for a number of years.

Netherlands

Contradictory results for Dutch outbound travel

ETM data suggests that the Netherlands increased by 3% in terms of outbound trip volume in 2005, and this result is pretty much in line with trends identified by local travel surveys. However, when it comes to detailed trends by destination, the different statistical sources show contradictory results.

France remains number one for the Dutch outbound travel market but, while French Government data points to healthy growth of 7.0% in arrivals and 7.2% in overnights, Dutch outbound statistics point to a decline of 4.5%. Italy, meanwhile, is reported to have stagnated, yet inbound data from the Ufficio Italiano dei Cambi shows growth of 8.8% in arrivals and 10.3% in nights.

Meanwhile, there is consensus on trends to Spain and Germany, both important destinations for the Dutch that performed well in 2005. A number of smaller destinations also turned in impressive performances. These included Croatia, Bulgaria, Estonia, the Czech Republic, Poland and Norway.

However, while arrivals in Norway shot up by 18.0%, overnight volume was down, and two of Norway's Nordic neighbours, Sweden and Finland, had a disappointing year out of the Netherlands.

Figure 18
Latest trends in tourist arrivals and overnights from the Netherlands
in selected European destinations, 2005
 (% annual change)

Destination	Arrivals	Nights	Periods covered 2004-05 (arrivals/nights)
Austria	4.1	2.7	Jan-Dec/Jan-Dec
Belgium	na	na	
Bulgaria	47.6	58.1	Jan-Sep/Jan-Dec
Croatia	15.1	13.0	Jan-Dec/Jan-Dec
Cyprus	-8.5	na	Jan-Dec
Czech Republic	10.0	19.4	Jan-Sep/Jan-Sep
Denmark	na	5.1	Jan-Nov
Estonia	21.0	20.1	Jan-Dec/Jan-Dec
Finland	-4.8	-5.3	Jan-Dec/Jan-Dec
France	7.0	7.2	Jan-Dec ^a /Jan-Dec ^a
Germany	7.7	5.1	Jan-Dec/Jan-Dec
Greece	na	na	
Hungary	-4.5	-6.1	Jan-Dec/Jan-Dec
Iceland	1.4	na	Jan-Dec
Ireland	4.5	na	Jan-Dec
Italy ^b	8.8	10.3	Jan-Dec ^a /Jan-Dec ^a
Latvia	na	na	
Lithuania	4.4	29.1	Jan-Sep ^a /Jan-Dec ^a
Luxembourg	na	na	
Malta	-3.1	na	Jan-Nov ^a
Monaco	na	na	
Norway	18.0	-3.0	Jan-Dec/Jan-Dec
Poland	26.2	na	Jan-Aug
Portugal	na	12.0	Jan-Nov
Romania	na	na	
Slovakia	5.0	1.6	Jan-Sep/Jan-Sep
Slovenia	-5.0	-11.0	Jan-Dec/Jan-Dec
Spain	8.4	-1.6	Jan-Dec/Jan-Dec
Sweden	na	-6.2	Jan-Dec
Switzerland	8.8 ^c	3.9 ^c	Jan-Nov ^a /Jan-Nov ^a
Turkey	5.3	na	Jan-Dec
UK	5.0	na	Jan-Dec ^a
Ukraine	na	na	

^a Estimate ^b Data from the Ufficio Italiano dei Cambi ^c Calculated on 2003 data

Sources: ETC members; TourMIS

Prospects for 2006

One of the most important trends to watch in the Dutch market is the sharp rise in online travel. Some 41% of all trips were reportedly booked online in 2005, up from 33% in 2004 and 25% in 2003.

Outbound travel forecasts for this year are fairly modest, due to increasing economic concerns at home, and it is likely to be a difficult year for tour operators specialising in Turkey, the industry says. Meanwhile, the Dutch travel market could be affected by the Football World Cup. According to a recent media report, some 2% of the Dutch say they will not go on holiday because of the World Cup and 1% say they will choose Germany as their holiday destination. However, decisions regarding summer holidays may be delayed until after the event.

Italy

A year of slower growth in 2005

Europe's fifth biggest outbound travel market, Italy registered slower growth in outbound trip volume in 2005, according to IPK International's European Travel Monitor. And the market's performance, in terms of arrivals at destinations, was very mixed. Destinations recording the highest increases out of Italy included Turkey, Slovakia, Poland, Lithuania and Bulgaria – reflecting once again the emergence of Central / Eastern Europe. Yet Hungary, long viewed as a favourite destination, suffered a decline in the market.

Figure 19
Latest trends in tourist arrivals and overnights from Italy
in selected European destinations, 2005
 (% annual change)

Destination	Arrivals	Nights	Periods covered 2004-05 (arrivals/nights)
Austria	0.1	2.1	Jan-Dec/Jan-Dec
Belgium	na	na	
Bulgaria	13.8	19.8	Jan-Sep/Jan-Dec
Croatia	1.7	6.0	Jan-Dec/Jan-Dec
Cyprus	-2.3	na	Jan-Dec
Czech Republic	5.0	1.1	Jan-Sep/Jan-Sep
Denmark	na	0.5	Jan-Nov
Estonia	4.0	13.4	Jan-Dec/Jan-Dec
Finland	2.6	-10.1	Jan-Dec/Jan-Dec
France	-1.8	-0.1	Jan-Dec ^a /Jan-Dec ^a
Germany	8.6	8.3	Jan-Dec/Jan-Dec
Greece	na	na	
Hungary	-3.4	-1.9	Jan-Dec/Jan-Dec
Iceland	-5.6	na	Jan-Sep
Ireland	1.9	na	Jan-Dec
Latvia	na	47.8	Jan-Dec
Lithuania	11.6	24.9	Jan-Sep ^a /Jan-Dec ^a
Luxembourg	na	na	
Malta	-9.4	na	Jan-Nov ^a
Monaco	na	5.0	Jan-Aug
Netherlands	3.0	0.0	Jan-Dec/Jan-Dec
Norway	-12.0	-4.0	Jan-Dec/Jan-Dec
Poland	12.5	na	Jan-Aug
Portugal	na	-2.4	Jan-Nov
Romania	na	na	
Slovakia	17.0	16.3	Jan-Sep/Jan-Sep
Slovenia	8.0	8.0	Jan-Dec/Jan-Dec
Spain	7.3	6.9	Jan-Dec/Jan-Dec
Sweden	na	2.8	Jan-Dec
Switzerland	4.9 ^b	4.4 ^b	Jan-Nova/Jan-Nova
Turkey	26.3	na	Jan-Dec
UK	-12.0	na	Jan-Dec ^a
Ukraine	na	na	

^a Estimate ^c Calculated on 2003 data

Sources: ETC members; TourMIS

In addition to Turkey, Spain also performed well out of Italy, but this was not the case with other traditional Southern / Mediterranean European destinations such as Malta and Portugal. The UK also suffered a double-digit drop and growth from Italy to Ireland was very modest.

Germany showed good growth, but it was a disappointing year for the Nordic countries overall, with Norway and Finland registering sharp declines in nights in registered accommodation. (Finland nevertheless showed an increase in arrivals at frontiers.)

Prospects for 2006 The outlook for Italian outbound travel is unclear, mainly because of the impact of the uncertain economic and political situation. Long-haul travel seems to be buoyant, but much of the current growth appears to be for travel that was postponed after the December 2004 Indian Ocean seaquake and tsunami. One other sector of interest to Europe that looks promising is the city-break market which, according to anecdotal evidence, is booming.

Other European markets

Spain continues to impress ... The fastest growth market in Europe for the second consecutive year, according to IPK's European Travel Monitor (ETM), Spain is certainly worth monitoring closely by European national tourism organisations (NTOs), especially as the level of foreign trip taking is still fairly low among Spaniards. This makes its future growth prospects even more exciting.

Spaniards are more likely to choose cultural or city trips on their travel abroad as they still prefer Spain for their sun & beach holidays. However, long-haul destinations are seen as increasingly competitive, especially given the increase in airline capacity to Latin America and, increasingly, Asia.

... and Russia and Poland confirm their promise Both Russia and Poland recorded a 14% increase in trips abroad in 2005 – second only to Spain, with 15%. For Poland, demand has been stimulated by the country's membership of the European Union and the increasing numbers of Poles moving abroad to work – mainly in the UK and Ireland. The growth in no-frills airline capacity has of course facilitated low-fare travel and further whetted the Poles' appetite for foreign climes. Nevertheless, for the time being, much travel out of Poland is still for what is commonly called 'shuttle trading' or 'suitcase travel' – trips to buy goods for sale back in Poland.

Poland is certainly a market worth watching closely for the future, but Russia is already making a reputation for itself as a high-spending, desirable source market. While sun & beach destinations such as Turkey and Egypt currently dominate Russians' holiday wish lists, Western Europe has been gaining share thanks to aggressive marketing and promotions by European NTOs and industry suppliers, as well as the growing number of airlines serving Russia.

Cumbersome visa procedures are still a deterrent for some destinations, but measures have already been taken to ease visa processing by a number of countries and the prospects for growth remain excellent.

Central / East European markets offer best growth prospects

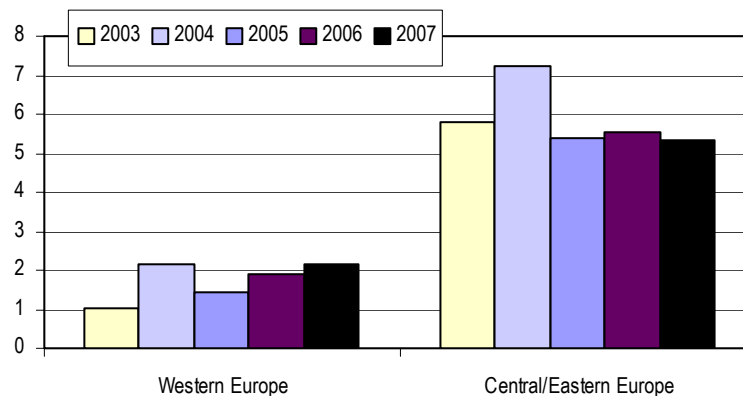
Recent national accounts data highlight the fact that Western Europe did not recover as fast as expected in 2004-05 – in a period in which the world as a whole enjoyed record rates of economic growth. In December 2005 OECD projected growth for the eurozone of 2.1% in 2006, after just 1.4% in 2005, and the latest consensus forecast published by The Economist (April 2006) does not disagree. Faster growth is expected of Ireland and, more moderately, Spain and perhaps some of the Nordic countries.

Consumer spending has been weak for several years in a number of key tourism markets, such as France, Germany, the Netherlands, Belgium and Italy. It remains above average in the UK, but is thought to be overdue for a downwards correction.

In contrast with Western Europe, many markets in Central Europe (as distinct from the Commonwealth of Independent States in Eastern Europe) are growing much more robustly, with real GDP growth rates in the 4-6% range. The risks of an interruption to growth are, of course, higher (Hungary seems particularly vulnerable in 2006), but this more rapid economic growth is underpinning the emergence of these countries as significant tourism sources within the EU.

Meanwhile, Russia and Turkey are also expected to continue to grow relatively rapidly, with real GDP increasing by close to 6.0% in 2006.

Figure 20
Economic growth in Europe, 2003-04 and forecasts 2005-07
(% change in real GDP)



Source: Global Insight

Non-European Markets

USA

Secondary destinations generally show the best results ...

The US Tour Operators Association (USTOA) claims that 2005 was a record year for outbound leisure travel to Europe, yet preliminary data from the Office of Travel & Tourism Industries (OTTI) in the US Department of Commerce points to just 12.4 million trips to Europe – up 2% over 2004, but still well below 2000's peak.

Figure 21
Latest trends in tourist arrivals and overnights from the USA
in selected European destinations, 2005
(% annual change)

Destination	Arrivals	Nights	Periods covered 2004-05 (arrivals/nights)
Austria	0.4	-2.0	Jan-Dec/Jan-Dec
Belgium	na	na	
Bulgaria	12.8	34.6	Jan-Sep/Jan-Dec
Croatia	17.3	15.0	Jan-Dec/Jan-Dec
Cyprus	21.2	na	Jan-Dec
Czech Republic	2.9	3.7	Jan-Sep/Jan-Sep
Denmark	na	8.2	Jan-Nov
Estonia	0.5	-0.3	Jan-Dec/Jan-Dec
Finland	8.8	-1.1	Jan-Dec/Jan-Dec
France	6.1	7.2	Jan-Dec ^a /Jan-Dec ^a
Germany	1.3	2.4	Jan-Dec/Jan-Dec
Greece	30.0	na	Jan-Sep ^e
Hungary	8.7	9.1	Jan-Dec/Jan-Dec
Iceland	12.1	na	Jan-Dec
Ireland	-2.8	na	Jan-Dec
Italy ^b	-4.8	-2.2	Jan-Dec ^a /Jan-Dec ^a
Latvia	na	-8.5	Jan-Dec
Lithuania	0.0	10.8	Jan-Sep ^a /Jan-Dec ^a
Luxembourg	na	na	
Malta	-1.3	na	Jan-Nov ^a
Monaco	na	17.0	Jan-Aug
Netherlands	11.0	4.0	Jan-Dec/Jan-Dec
Norway	-12.0	-2.0	Jan-Dec/Jan-Dec
Poland	22.2	na	Jan-Aug
Portugal	na	0.6	Jan-Nov
Romania	na	na	
Slovakia	15.2	3.0	Jan-Sep/Jan-Sep
Slovenia	7.0	-2.0	Jan-Dec/Jan-Dec
Spain	-1.4	2.2	Jan-Dec/Jan-Dec
Sweden	na	10.5	Jan-Dec
Switzerland	9.4 ^c	6.3 ^c	Jan-Nov ^a /Jan-Nov ^a
Turkey	92.8	na	Jan-Dec
UK	-5.0	na	Jan-Dec ^a
Ukraine	na	na	

^a Estimate ^b Data from the Ufficio Italiano dei Cambi ^c Calculated on 2003 data

Sources: ETC members; TourMIS

ETC members' arrivals data for 2005 from the USA – for those that do have full- or even partial-year results available – reflect the differing performances from one destination to another. While the UK – Americans' favourite destination in Europe – suffered a 5% decline from the USA, and Ireland and Italy were also down on 2004's levels, France staged a solid recovery, to the surprise of many in the industry. The Netherlands, Iceland and Finland also regained significant share – at least in terms of arrivals.

... both in Mediterranean countries ...

In Mediterranean Europe, there were again some contrasting results. Spain's growth out of the USA was modest, and Portugal and Malta showed little change over 2004, but Turkey recorded a massive 92.8% rise in US arrivals, Greece was up 30% – a direct result of all the positive publicity and media coverage during the 2004 Summer Olympics – and Cyprus also attracted double-digit growth.

Among other West European destinations, Sweden and Denmark achieved good growth out of the US market, unlike neighbouring Finland and Norway.

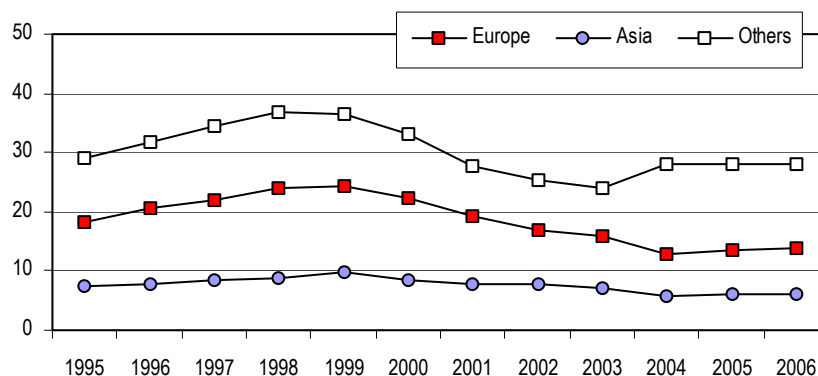
... and in Central / Eastern Europe

However, the best performing sub-region was Central / East Eastern Europe – the most fashionable part of Europe today for American travellers, to quote the USTOA. For many of these countries, results are not yet finalised, but the strong sub-regional performance is expected to be confirmed at a later date.

Yet not all measures are positive

As already indicated, part of the problem in trying to decipher trends are the different methodologies used to measure demand. DK Shifflet & Associates' (DKS&A's) Performance Monitor – one of the more reliable sources of trends in the US market – is actually rather pessimistic, both about 2005 performance and prospects for the coming year. DKS&A measures roomnights booked and paid for by American travellers in hotel accommodation in the USA and abroad. This means that, if a party of five all stay in one room to save on costs, it counts as one roomnight. And this is a trend that could well have been intensifying over the past ten years.

Figure 22
Total international roomnights (in paid hotels) by US residents, 1995-2004 and forecast 2005-06 (mn)



Sources: Office of Travel & Tourism Industries (OTTI), US Department of Commerce; DK Shifflet & Associates (DKS&A)

During the 2005 Pisa Forum, DKS&A reported that the international share of total hotel roomnights booked had fallen from 9% in 2000 to 5% in 2003, and that this share has been flat since 2003. International roomnight volume only increased by about 1.6% in 2005.

More importantly, Europe's share fell from 36% in 2000 to 30% in 2004 and, according to DKS&A, appears to have stagnated in 2005. For individual countries in Europe, the trend has been similar. The UK's share fell from 10% to 7%, and that for France and Italy from 5% to 4%. Only Germany bucked the trend, up to 4% from 3% in 2000.

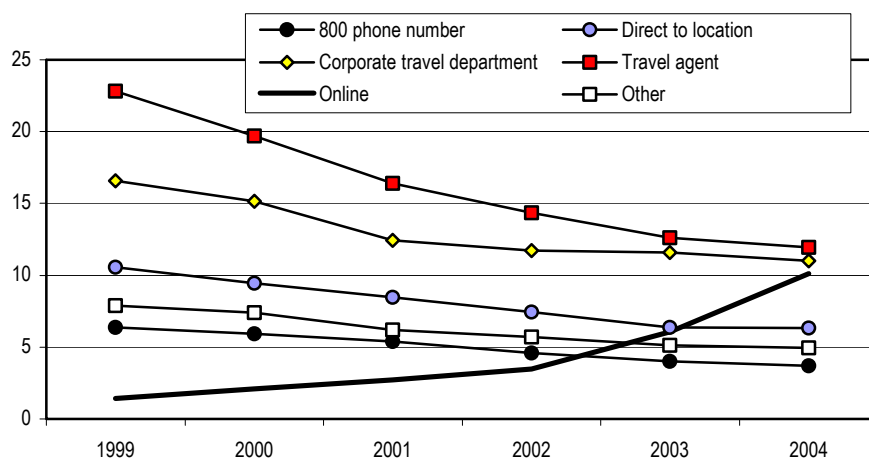
Leisure travel growth is thanks to Generation X

Worse still, leisure travel is the only sector showing growth in the US market, according to DKS&A, and most of this is thanks to a growth in travel demand among the Generation X age group – those born between 1965 and 1980. Baby boomers, on whom expectations were so high a few years ago, actually recorded a decline in international hotel roomnights – due to a case of 'American Angst'.

Online travel is booming

The DKS&A research, which is also in line with a recent survey conducted by the Travel Industry Association of America, also suggests that there is only one sector of the US international travel market showing growth in terms of distribution channels – the internet. The number of roomnights booked by US residents using all other booking methods, or distribution channels, has fallen steadily since 1999, but online travel is really booming.

Figure 23
Booking methods used by US residents for making international hotel reservations, 1999-2004
(mn roomnights)

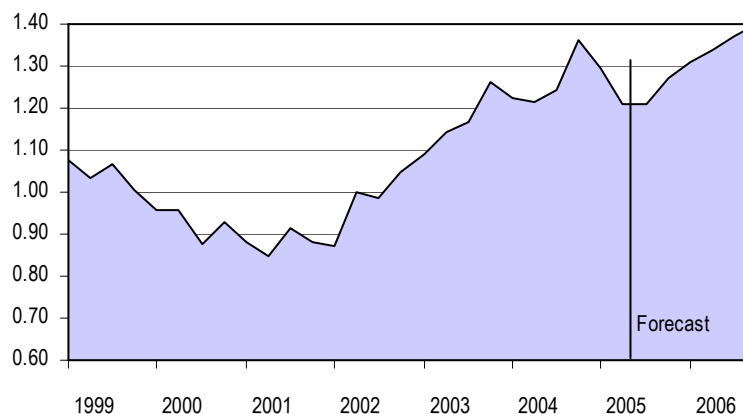


Sources: OTTI; DKS&A

Prospects for 2006 Although some countries are very optimistic about growth prospects from the US market, there are a number of uncertainties. On the positive side, the recent launch, by the European Commission in collaboration with ETC, of the new European tourism portal, www.visiteurope.com, is expected to stimulate US online travel bookings to Europe.

However the weakening of the US dollar, which has so far only had a modest impact – probably encouraging more travel to the Caribbean and South America – is of major concern. According to Global Insight's forecast presented at the 2005 Pisa Forum (see the following chart), the euro is forecast to gain significantly against the US currency in 2006 and 2007 and demand for outbound travel by Americans tends to track exchange rate fluctuations very closely, albeit with a clear time lag.

Figure 24
Exchange rate of the euro, 1997-2005 and forecast 2005-2006
(US\$ per €)



Source: Global Insight

Meanwhile, the outcome of the proposed Western Hemisphere Travel Initiative (WHTI) is still unclear. It was originally due to be launched in December 2006, but has been postponed a number of times – the US Senate has just approved an amendment to delay implementation until June 2009 (although this still needs to be ratified by the US House of Representatives). The WHTI would require all travellers to and from the Caribbean, Bermuda, Panama, Mexico and Canada, including US citizens, to carry a passport or other approved document to enter/re-enter the USA. Americans currently do not need passports to visit these countries.

The main concern within the industry is the impact of the proposed WHTI on travel between the USA and Canada, in both directions. However, some in the industry believe that it may be good for Europe, as Americans might well be tempted to travel further afield if they have to obtain a passport, anyway, for all foreign travel.

In response to strong opposition from the Canadian and Mexican governments, a cheaper passport-substitute document, the PASS Card (People Access Security Service) is now being considered for US citizens' travel to Canada and Mexico, as long as they return to the USA by land border crossings.

Japan

A maturing market, presenting more of a challenge

Like the USA, the Japanese market to Europe has declined from its peak in 1999-2000, although a number of mainly smaller destinations achieved good growth in 2005. Most of the winners were from the former Eastern Europe, including Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Poland, Slovakia and Slovenia.

Figure 25
Latest trends in tourist arrivals and overnights from Japan in selected European destinations, 2005 (% annual change)

Destination	Arrivals	Nights	Periods covered 2004-05 (arrivals/nights)
Austria	8.6	6.6	Jan-Dec/Jan-Dec
Belgium	na	na	
Bulgaria	16.8	22.0	Jan-Sep/Jan-Dec
Croatia	43.5	24.3	Jan-Dec/Jan-Dec
Cyprus	-1.1	na	Jan-Dec
Czech Republic	22.8	19.7	Jan-Sep/Jan-Sep
Denmark	na	3.4	Jan-Nov
Estonia	10.0	8.0	Jan-Dec/Jan-Dec
Finland	2.7	4.6	Jan-Dec/Jan-Dec
France	6.5	5.0	Jan-Dec ^a /Jan-Dec ^a
Germany	2.1	2.1	Jan-Dec/Jan-Dec
Greece	na	na	
Hungary	26.6	29.0	Jan-Dec/Jan-Dec
Iceland	-6.8	na	Jan-Dec
Ireland	-38.8	na	Jan-Dec
Italy ^b	12.4	2.8	Jan-Dec ^a /Jan-Dec ^a
Latvia	na	na	
Lithuania	3.2	10.2	Jan-Sep ^a /Jan-Sep ^a
Luxembourg	na	na	
Malta	na	na	
Monaco	na	-41.0	Jan-Aug
Netherlands	-1.0	-1.0	Jan-Dec/Jan-Dec
Norway	17.0	1.0	Jan-Dec/Jan-Dec
Poland	17.9	na	Jan-Aug
Portugal	na	18.8	Jan-Nov
Romania	na	na	
Slovakia	34.8	26.8	Jan-Sep/Jan-Sep
Slovenia	35.0	20.0	Jan-Dec/Jan-Dec
Spain	20.0	1.8	Jan-Dec/Jan-Dec
Sweden	na	-2.3	Jan-Dec
Switzerland	4.1 ^c	4.1 ^c	Jan-Nov ^a /Jan-Nov ^a
Turkey	81.9	na	Jan-Dec
UK	5.0	na	Jan-Dec ^a
Ukraine	na	na	

^a Estimate ^b Data from the Ufficio Italiano dei Cambi ^c Calculated on 2003 data

Sources: ETC members; TourMIS

However, the best performing destination was Turkey, albeit from a low base, and a number of more traditional favourites, such as France, Italy, Spain and Portugal, also turned in good results. Most importantly, the market has changed and is now

much more sophisticated than it was even five years ago. The independent travel share of outbound trips, for example, rose to 45% in 2004 – from only 20% in 2000 – and an increasing number of Japanese travelling to Europe book online.

More mono-destination trips of less than one week

According to research conducted by Japan Travel Bureau (JTB) Foundation, average length of stay in Europe has fallen, with 22% of trips – up from 12% in 2000 – lasting less than seven nights. Some 60% (64% in 2000) are 7-10 nights long and only 18% (22%) 11 nights or longer. Around 60% of Japanese also visit just one country in Europe.

Tighter budgets mean that average spend per trip to Europe has dropped from nearly €4,000 over the period to less than €3,000, JTB says. But this excludes shopping, which adds a further €2,400 to the average budget (down from €2,800).

Carefully targeted marketing brings greater success

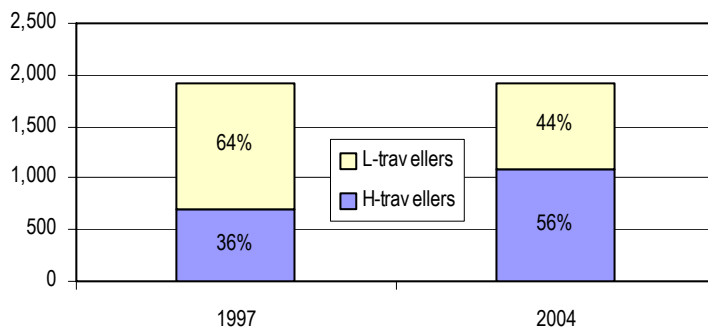
As reported by the JTB Foundation at the 2005 Pisa Forum, tour operators in Japan have succeeded in developing successful tour programmes targeting niche markets that offer better than average growth potential. These different tours offer Japanese the opportunity to experience the lifestyle of local people at the destinations they visit – a new requirement of the more mature Japanese traveller.

Among the most successful programmes have been tours to various Christmas-market cities in Germany, which have become increasingly popular with Japanese tourists. Even during the crisis years of 2001-03, when Japanese outbound travel declined and Europe lost share, these tour programmes attracted growing numbers of participants.

Prospects for 2006

As indicated, structural changes in the Japanese outbound travel market have also been a major force dictating trends and are likely to remain important drivers of future trends. In 1997, experienced Japanese travellers – ie those having made more than ten overseas trips and travelling overseas a minimum of once a year – accounted for just 36% of Japanese travellers to Europe. This share has now grown to 56%. H-travellers, as they are called by JTB (see below), represent a majority of Japanese in many destinations.

Figure 26
Proportion of leisure travellers to Europe (L-travellers vs H-travellers), 1997 and 2004 (%)



Note: L-travellers = low-frequency travellers; H-travellers = high-frequency travellers (see text)

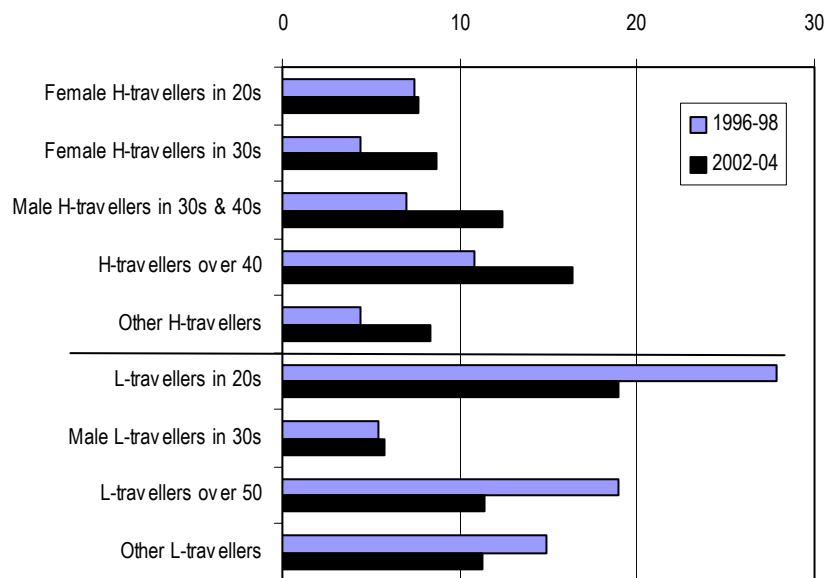
Source: JTB Foundation

Meanwhile, L-travellers – those who only travel once every three years and have been overseas less than nine times, and who used to be the driving force of the outbound market – have lost share. Japanese travellers to Europe today are led by H-travellers aged over 50.

Nevertheless, there are differences from one destination in Europe to another. The Italian market is dominated by L-travellers aged over 50 or in their 20s, most of whom are visiting Italy for the first time. So an increase in travel to Italy – as has occurred this year – tends to be from less experienced travellers.

As far as France is concerned, the share of L-travellers aged over 50 is very small. France either attracts H-travellers in their 50s – most of whom are repeat visitors – or L-travellers in their 20s looking to shop.

Figure 27
Breakdown of L-travellers and H-travellers to Europe, 1996-08 and 2002-04
 (%)



Source: JTB Foundation

New emerging markets

Teething problems with China, but prospects remain bright

China overtook Japan as Asia's leading outbound source in 2002 and has continued to gain share ever since, with outbound trip volume up 43% in 2004. Preliminary estimates for 2005 point to more modest growth, but the market has increased its lead over Japan yet again.

Most European countries now have 'approved destination status' (ADS) from China, but teething problems with the system in the first full year of operation meant that the outcome for many ETC members was disappointing. The competition is increasingly tough – around 100 destinations around the world have ADS – and yields in this sector of the market are low. The increasingly affluent

Chinese are looking for the most attractive, value-for-money destinations among the growing choice of options open to them.

Clearly, it will be some time before China's full potential is realised. But prospects remain good, especially in non-ADS sectors of the market.

Other emerging markets like India and South Korea may generate faster returns

Apart from China, there are a number of other markets with excellent growth prospects in Asia, including India and South Korea. Brazil and Argentina have also rebounded over the past 12-18 months. As each of these so-called emerging markets becomes more accustomed to travel, Europe is also seeing a shift from demand from package tours to independent travel. And this, in turn, means greater internet usage and more online bookings.

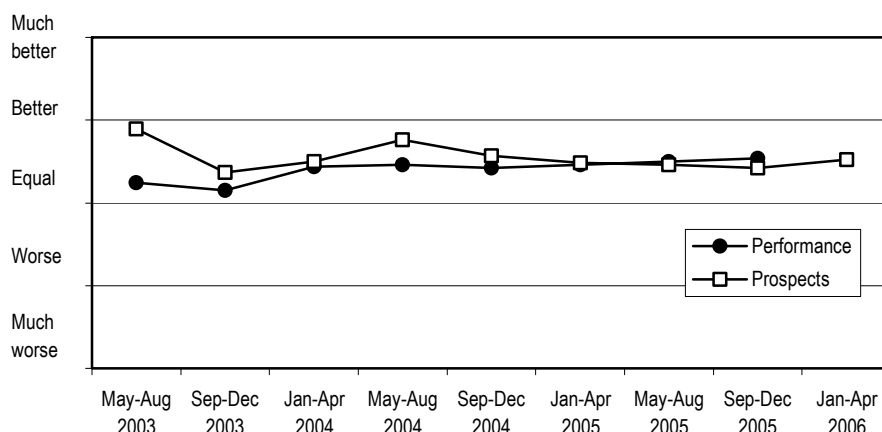
Outlook for 2006

Quiet confidence

A survey of European Travel Commission (ETC) members for the purposes of this report, *European Tourism Insights 2005 – Outlook for 2006*, shows that the majority of European countries are quietly confident about tourism prospects for 2006.

This fairly widespread optimism was also reflected in the responses by the World Tourism Organization's (UNWTO's) European Panel of Experts – many of whom are ETC members – quoted in the January 2006 edition of the *UNWTO World Tourism Barometer*. 2005 was rated by the Panel as "better than expected" and prospects for 2006 are seen as slightly better again.

Figure 28
Evaluation by UNWTO's European Panel of Experts of Europe's tourism performance and outlook, May 2003 to April 2006
(average)



Source: UNWTO World Tourism Barometer, Jan 2006

The economic situation in key outbound travel source markets looks better than anticipated in Western Europe and is extremely robust in some emerging markets such as Central / Eastern Europe and Asia. Interest rates are still at a historic low, and inflation is also low in advanced economies. While currency fluctuations invariably affect tourism flows, often with a lagged effect, current and forecast foreign exchange trends do not point to a more difficult situation for Europe in 2006. The US dollar is currently falling, but experience teaches us to be wary of currency forecasts.

The outlook for individual source markets in 2006 is discussed under 'Major Source Markets', on pages 23-40.

The industry faces a number of challenges in 2006 ...

Of course, a number of uncertainties remain. To quote Rob Franklin, ETC's Executive Director, speaking at the 2005 Pisa Forum: "*There is no such thing as a normal year any longer. Terrorism threats and prospects of natural disasters need to be managed as part of our daily lives.*"

The first major floods of this year occurred in April, when the Danube burst its banks in Serbia, Romania and Bulgaria, causing widespread destruction and raising fears of massive evacuations. And Egypt has suffered a further bomb attack in the South Sinai resort of Dahab.

... and health concerns are probably top of mind ...

Perhaps the biggest cloud on the horizon is avian flu, which has spread – almost exclusively within bird populations – to a number of European countries. Clearly, there is a risk that the H5N1 virus might mutate into a form that can spread easily from human to human. While there has been no sign yet of such a mutation, governments are developing contingency plans to ensure they are ready for a human pandemic.

Under the leadership of UNWTO and other UN agencies, such as the World Health Organization (WHO), industry associations and federations have grouped together to form the Tourism Emergency Response Network (TERN) to ensure that the tourism sector fulfils its role in this initiative and in national preparedness plans. The organisations have agreed that planning for the potential evolution of the virus to a pandemic form is a common concern and are committed to:

- working closely with the UN System Influenza Co-ordinator, the WHO and other involved UN agencies;
- sharing real time information and ideas; and
- giving clear, concise and geographically specific public messages.

... followed by concerns about the rising price of oil

Other challenges facing the travel and tourism industry in 2006 include the continuing rise in the price of oil, which has now exceeded US\$70 a barrel. This will certainly add to the cost burden of Europe's – and the world's – airline industry, which is also facing the possibility of new taxes on aviation fuel, as well as environmental taxes or climate-change levies. It could also directly affect demand for travel, both because of rising air fares and the impact of higher fuel prices on households' disposable income.

But the positive factors are seen to outweigh the negatives Despite the ever-constant threats of terrorist attacks and natural disasters, alongside oil price rises, the positive factors likely to influence travel and tourism demand in and to Europe far outweigh the negatives.

A year packed with exciting mega events ... It is too early to judge the full impact of the Winter Olympic Games centred in Turin, Italy, in February 2006 – the first of this year's many exciting events for Europe's travel and tourism industry. The next big event is the Football World Cup taking place in Germany in June and early July. Both mega events should boost tourism numbers and revenues for their respective countries in 2006.

However, past experience has shown that big events often have the opposite impact. Traditional visitors stay away because they anticipate congestion and high prices. Other destinations can suffer, too, since people hold back from making travel plans during those events, just in case their national teams win their matches or races and go on to play in the next rounds.

Neither Greece nor Portugal benefited from hosting, respectively, the 2004 Summer Olympics and the Euro2004 football championships, although the positive publicity surrounding both events seems to have stimulated increased tourism demand since the events took place.

... and anniversaries of Europe's world-famous artists and musicians In 2006, year-long celebrations of Rembrandt's 400th anniversary are taking place in the Netherlands and Mozartmania is spreading across Europe and beyond. The 250th anniversary of Mozart's birth is a big tourism event in a number of countries that have a claim to part of his life, including Germany, the Czech Republic, Hungary and, of course, Austria – Mozart was born in Salzburg and died in Vienna.

Not to be outdone by Mozartmania, Spain is also celebrating the 125th anniversary of the birth of Picasso, with exhibitions in many of Madrid's and other cities' museums and art galleries. It is also the 25th anniversary of the return of Picasso's masterpiece, Guernica, to Madrid's Museo del Prado.

Among the other numerous events being hosted this year in Europe, Patras in Greece is Cultural Capital of Europe and Hungary has named 2006 its Year of Gastronomy. It is also the 800th anniversary of Latvia's medieval town, Cesis – located 90km from the capital, Riga.

The new European tourism portal should help the industry ... One of the most exciting developments for European tourism is the new European tourism portal, www.visiteurope.com, launched in early 2006 (see page 36). Designed to provide a platform for ETC's e-marketing and enhanced customer relationship management by its members, the portal offers a wealth of information and practical help for visitors to Europe. In addition to giving direct access to national websites, the portal also facilitates self-tailoring of holidays, thereby helping destinations and suppliers adapt the region's tourism products to the changing needs of the marketplace.

Most importantly, the portal is also expected to encourage greater co-operation between national tourism organisations and between the public and private sectors of travel and tourism – a trend that is growing in many parts of Europe. One such example is the joint campaign undertaken by VisitBritain, Maison de la France, Visit London and the Paris Tourist Office to promote the new film, *The Da Vinci Code*.

... especially in terms of understanding the customer

To quote Rob Franklin, ETC's Executive Director, again: "*Customers have more time and more money. They are more discerning, better educated and more knowledgeable, and they are looking for life-enriching experiences. And they want the best value for money they can find.*"

The new European portal will, hopefully, help Europe's travel and tourism industry understand better the needs of their customers, as well as raising awareness of Europe's attractions among potential visitors and facilitating online travel.

Continued importance of no-frills airlines

As for no-frills airlines, there is little doubt that capacity will further increase in 2006, expanding to more secondary airports in more remote parts of Europe, as well as to competitive destinations such as Morocco.

The problem for European destinations now is that many believe they cannot afford not to have them, because it makes them look much less attractive to potential holidaymakers. However, this could be a very short-term view.

Some destinations are also concerned that, since no-frills airline travellers tend to stay in the cities, outlying rural areas are losing business. Others fear that the low-cost airlines may use them simply as a hub, diverting tourists who might have stayed in the country to destinations further afield. Countries with good domestic markets, like Hungary, are increasingly seeing their citizens lured by foreign shores. Clearly, the situation will need to be monitored closely by ETC and its members.

ETC Member Organisations

(April 2006)

Austria	Austrian National Tourist Office (ANTO)
Belgium	Flanders : Tourist Office for Flanders (TV) Wallonia : Office de Promotion du Tourisme Wallonie-Bruxelles (OPT)
Bulgaria	State Tourism Agency
Croatia	Croatian National Tourist Board (CNTB)
Cyprus	Cyprus Tourism Organisation (CTO)
Czech Republic	CzechTourism
Denmark	VisitDenmark
Estonia	Estonian Tourist Board (EAS)
Finland	Finnish Tourist Board (MEK)
France	Maison de la France (MDLF) / French Government Tourist Office
Germany	German National Tourist Board (DZT)
Greece	Greek National Tourist Organization (GNTO)
Hungary	Hungarian National Tourist Office (HNTO)
Iceland	Icelandic Tourist Board
Ireland	Tourism Ireland Fáilte Ireland
Italy	Italian State Tourist Board (ENIT)
Latvia	Latvian Tourism Development Agency
Lithuania	Lithuanian State Department of Tourism
Luxembourg	Luxembourg National Tourist Office (ONT)
Malta	Malta Tourism Authority (MTA)
Monaco	Monaco Government Tourist Office
Netherlands	Netherlands Board of Tourism & Conventions (NBTC)
Norway	Innovation Norway
Poland	Polish Tourist Organization (POT)
Portugal	Portuguese Tourism Institute (ITP)
Romania	Ministry of Transport, Construction and Tourism
Slovak Republic	Slovak Tourist Board
Slovenia	Slovenian Tourist Board
Spain	Spanish Tourist Office (Turespaña)
Sweden	VisitSweden
Switzerland	Switzerland Tourism
Turkey	Ministry of Culture and Tourism
UK	VisitBritain
Ukraine	National Tourist Organization