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## **REPORT OF THE SECRETARY.-GENERAL**

### **Meeting document**

### **Note by the Secretary-General**

The Council Members will find attached the presentation of the Secretary-General to the Executive Council.

**REPORT OF THE SECRETARY.-GENERAL****Meeting document****PRESENTATION TO THE EXECUTIVE COUNCIL****Madrid, 3 June 2003**

With my written report on the situation of international tourism having been distributed to you, I would like to briefly summarize its content in the form of six observations along with some comments regarding the new characteristics observed in the tourism market as a result of two years of a many-sided crisis, which began with the worldwide economic downturn of 2001 and the events of 11 September.

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First observation: *the successive shocks, of different natures but with convergent effects, have not only slowed down the quantitative growth of flows, but have also accentuated or accelerated qualitative changes that had already begun even before the onset of this difficult period.*

On the demand side, the phenomena of *late booking*, the fragmentation of holidays, the multiplication of short stays, the emergence of strong niche markets such as active, sports and cultural tourism, were first detected and analysed a while ago.

The work carried out by our Recovery Committee shows that on the supply side, as revealed by the research work carried out in conjunction with the University of Quebec at Montreal, the phenomena of mergers, acquisitions and bankruptcies, along with the arrival of new entrants, have been sped up and made more abrupt by the successive shocks, especially in the air transport sector.

Second: *the slowdown of economic growth and apprehensions regarding travel, especially by air, do not take away the desire to travel, although they do make it more difficult for consumers to fulfil this desire.*

The fear is real, but it is only relative. Opinion polls, carried out by CNN among others, show that people are more worried about minor travel incidents (losing a passport, theft of a briefcase...) than about terrorism or war!

In spite of all the obstacles and risks consumers may perceive, they will do what they can in order to travel, even if it means reducing their expenditure, changing their destination, postponing their trip, shortening their stay, fragmenting their travels or favouring domestic tourism to the detriment of international tourism. This intrinsic resilience of travel consumption and the existence of latent demand that expresses itself as soon as circumstances allow, constitute grounds for reasonable confidence, if not optimism, with regard to a sector that on numerous occasions throughout its history has proven its ability to react and its capacity to bounce back.

*Thirdly, it should be pointed out that the microeconomic responses given by businesses are not necessarily suited to a global situation influenced by external factors that are not economic in nature.*

When demand from travel dips due to apprehensions about travelling resulting from security fears, a response based on price is not necessarily the best way to deal with it. But this is what we see in the different kinds of price reductions that have been widely implemented, in the success of budget accommodations to the detriment of luxury hotels, and even in the breakthrough of "low-cost" airlines. In a depressed market, operators try to drum up business by attracting customers through lower prices, even if the main concerns of such customers were never about the old pricing being too high. In doing so, businesses reduce their margins and become even more vulnerable.

Such an attitude is certainly understandable and largely inevitable -- short of advocating the creation of cartels -- but this fact does not make it any more rational. In these particular circumstances, the interplay of market forces deepens the crisis instead of easing it.

*Fourth, the events of the past two years have led to the continuing predominance of a characteristic trait of the world tourism industry: its strongly regionalized nature.*

In 2002, the 715 million international tourist arrivals consisted of 569 million trips within the same region (80 per cent) and 146 million corresponding to long-haul trips (20 per cent). Fears of travelling far from home, especially by air, leads to a preference by travellers for road trips of short to medium distance and for stays within their own country or region of the world.

More than ever, North Americans are staying in North America (including Hawaii, the Caribbean and Mexico), Northern and Western Europeans are keeping to Europe and the shores of the Mediterranean, and the Japanese and residents of other newly-industrialized Asian countries are sticking to destinations on the Pacific Rim. In the same way, the 11% growth in arrivals in 2002 in the Middle East despite the difficult regional context is explained by the fact that consumers in the Gulf have favoured destinations within their own region to the detriment of those in the Americas or Europe.

In the long run, the growth of long-haul trips should be eventually be faster than the overall average, but the evolution, slowed down by recent events, means that it will take a long time for the general pattern to change substantially.

*Fifth: the expectation of conflict in Iraq during the several months before the start of military operations did more damage than the actual fact of the conflict itself.*

Tourism consumers and enterprises are just like other economic operators; when turbulent times are on the horizon, they put off their decisions because there is nothing they dislike more than uncertainty. The Iraq conflict, even before it had begun, had already had a negative impact on our industry in the last few weeks of 2002 and in early 2003, by fuelling fear, creating a wait-and-see attitude, discouraging bookings, and delaying investment plans.

With the relatively brief duration of the military operations, a clarification is already under way, a fact that has been reflected by the evolution of the financial and oil markets.

However, just when the horizon seemed to be clearing up and as consumers and investors alike were set to make decisions that they had postponed until then, a new source of uncertainty of a different kind appeared with the outbreak of SARS. Because of this, the prospects for recovery of world tourism activity, which was expected to be seen by the summer, and which will still happen in certain regions, slipped further away once more.

This leads me to my sixth and final observation: *The SARS epidemic clouds the immediate future and moves back the recovery horizon, although such recovery remains a certainty.*

The seriousness of the impact of SARS on the tourism industry in Asia (where its consequences already far outweigh those of the Iraq conflict), and its repercussions on world tourism activity as a whole, are due mainly to three factors.

Firstly, it is unpredictable. The WHO states that it has never experienced a phenomenon of this nature in its history. The re-emergence of the disease in a destination like Toronto, which had appeared to have overcome the epidemic and was preparing to launch an important promotional campaign to boost business tourism, demonstrates this fact. Secondly, the outbreak has chiefly affected East Asia and the Pacific, which was already afflicted by the sinister attack in Bali. This region, which still posted 8.3% growth in arrivals in 2002, had proven its capacity to act as a driving force of world tourism following the end of the financial crisis of 1997-1998. Lastly, having received intense media coverage leading to fears that are largely unjustified, the epidemic is perceived to be intrinsically linked to tourism. While it is true that the chain of transmission initially involved a hotel in Hong Kong, the data issued by IATA shows that out of the approximately 8,000 reported cases of SARS, only six involved air passengers and that there have been no cases of in-flight transmission. Although the disease has admittedly been spread through travel, it would be unfair to attribute this spread to tourism, since most transmissions occur in a household or hospital context.

At our meeting in Manila next month, we will strive to help our Members in East Asia and the Pacific to fight the effects of this phenomenon, a task which is made all the more difficult as the perception of the problem has been exaggerated and biased to the point of losing all objectivity at times.

The WTO remains convinced, based on our analyses of the behaviour of economic actors and on the experience in past crises, that the SARS epidemic will only delay recovery, which remains inevitable. The expected improvement of the economic situation in the United States and Europe in the third quarter should be accompanied by a noticeable increase in bookings and departures at a rate that is above that of economic activity in general.

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In light of the above considerations, it seems that the international tourism market, which has been shaken and transformed by the successive shocks of the economic downturn, September 11, terrorism, war and the SARS epidemic, can be characterized by three words:

- First of all, volatility: in a globalized market where comparable products (a week in the Caribbean, the Indian Ocean or the Pacific) or competing alternatives (a ski holiday versus a winter cruise) can be found being offered in travel agency windows and computer screens, customers can now easily "zap" from one interchangeable offering to another. They therefore proceed to make last-minute choices and destination changes with no constraints whatsoever.
- Second, availability: with the vast range of choices arrayed before him, the customer is king more than ever before, a concerned and unsatisfied king at that. Customers can afford to be demanding; they want to find the best offer, original opportunities and new destinations. With established companies in danger of disappearing, there is space for new entrants in an industry that is always open, an industry that has lost part of its bearings but none of its capacity to innovate.
- And third, malleability: in such a many-sided crisis, grassroots solutions make it possible to respond to the needs being felt in terms of security and accessibility (both physical and financial); thus, there is a blurring of the line separating traditional tourism consumption, which is linked to travel, from what we could call "circumtouristic" consumption in the form of leisure activities practiced locally in one's usual environment. This increased malleability and flexibility in behaviour are manifested in the already-mentioned phenomena of fragmented stays and delayed departures. Those who shorten their holidays or who take them closer to home due to apprehensions about venturing too far, or simply because of uncertainty regarding their personal financial or professional situation, do not discount a second or even a third opportunity later in the year to travel to a more distant destination or for a long week-end.

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Volatility, availability, and malleability: now more than ever, in a troubled situation in which many other unforeseen events could still occur, it is important that actors demonstrate a capacity for rapid response and a maximal ability to adapt. As for observers, they should avoid making overly definitive predictions or hastily prepared assessments.

In this context, the WTO will have a more decisive role than ever to play. Through our statistical tools and with the tourism satellite account, we should become more effective in monitoring the sector's situation and measuring its activity. Through our actions in the areas of security and communication, we should be able to help our members to better manage crises and to use travel advisories more advisedly. Through our Marketing Committee, we should develop tools that make it possible to read developments more easily and to predict them more accurately. Through our Recovery Committee, we should offer tourism actors, both enterprises and destinations, the possibility to consolidate themselves both as partners and as competitors. Partners we all are in the face of a difficult context that affects us all at different levels and at different times, and in the face of a complex crisis, which like SARS, one of its components, does not choose its victims.