

Tourism Industry Intelligence

Strategic Information for Decision-Makers

Prospects for the Russian Market 2003

May 2003

Real disposable income grows at 6% per annum

The stabilization of the political and economic situation in Russia was reflected in the year 2001 with the 52.3% increase in economic activity in 2000. In addition, **real disposable income in Russia has grown at an annual rate of 6% since October 2001**. The unemployment has more than halved in the last three years to 9% and GDP grew by 5.3% in the first half of 2002. The steadily growing Russian economy and rising living standards since the 1998 economic crisis, and the Russians' desire to spend on travel augurs well for this market.

18 million strong

Although the number of Russians travelling abroad dropped slightly from **18.37 million in 2000 to 17.94 million in 2001**, this was still way ahead of the 12.63 million outbound tourists in 1999.

Finland is a leading Russian destination

Finland is a leading destination for Russians. The Finnish tourist board estimates that an average Russian visitor spends US\$133 (EUR 114) a day - more than double the typical European spend of US\$59 (EUR 50) a day. Russian travellers total spending abroad reached US\$ 7.4 billion in 2000.

Turkey, a leader in beach holidays

Of the three leading destinations for Russians, **Finland has become popular for active tourism and winter sports; Lithuania** for spas and health treatment; and China for shopping. Fourth and fifth placed **Poland** and **Estonia** have made their mark for a combination of cultural, business and shopping trips, while sixth placed Turkey is the leader for beach holidays.

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Summer is the best time for travel

The average age of Russian outbound tourists is 35, and three quarters of them are under 44. **The best time for Russian travel is summer as 60% travel in summer** and 20% during the Christmas and New Year period. Moscow accounts for 24% of tourists with other parts of European Russia accounting for 43% and the Urals 12%. Most Russians are in the middle-income bracket (67%) followed by high income at 21%.

Many countries with representation in Russia

The Russian market offers great potential for many a country. In 2001, **South Korea and Malaysia joined other countries like Croatia and Germany in opening representations in Russia**. Countries such as Singapore increased their presence in Russia by working through PR companies to increase their media coverage. The recent **Moscow International Travel and Tourism Exhibition (MITT) held in March 2003 was its 10th consecutive year**, attracting 125,000 visitors from all regions of Russia and neighbouring countries, a total of 106 countries.

Source: ITE Exhibitions, 2003

Market & Consumer Trends

American's Summer travellers indecisive

While domestic intentions continue to be high, many Americans have still not started planning their summer trips, according to the third wave (May 1 –6, 2003) of the *War Impact Survey* produced by the *Travel Industry Association of America* (TIA). **More than 80% (83%) of past-year travellers plan on taking one leisure trip this summer** but just over 40% (41%) have not made any plans. However **as much as 20% have finalized their plans and booked their trips** up from 16% in the last survey (April 110 – 15, 2003).

Consumers demand greener holidays

The trend towards **more environmentally friendly tourism services has steadily increased in recent years**, with consumers becoming more and more demanding in their quest for greener holidays. Satisfying this demand is increasingly seen by the tourism industry as a key to success. **One recent survey (German Traveller Analysis 2002) showed that 42% of tourists prefer to opt for environmentally friendly accommodation.** Around 46% want their holiday destination to actively promote environmental protection, and almost 60% find the problems of outdoor waste and pollution off-putting. Consumers now have the opportunity to turn to “the Flower” to find an environmentally friendly hotel, bed and breakfast, youth hostel, or even mountain hut! From 1 May 2003, companies selling tourist accommodation throughout Europe can apply for **the EU Eco-label to show just how highly they score on environmental performance.**

Destination Watch

Impacts of SARS massive

The impact of SARS will be massive according to *WTTC* estimates, based on *WTTC's* recently released 2003 *Tourism Satellite Accounting* research. *WTTC* has estimated that in 2003: in Vietnam 15 per cent of industry GDP and 62,000 industry jobs will be lost; in Singapore, 43 per cent of industry GDP and 17,500 industry jobs will be lost; in Hong Kong, 41 per cent of industry GDP will be lost, as well as 27,000 industry jobs, representing 38 per cent of total industry jobs in Hong Kong and in China, **25 per cent of the industry GDP will be lost and a total of 2.8 million industry jobs**, or one fifth of total industry employment.

Vilamoura Global Summit on Travel and Tourism

Over 450 business and political leaders from the World of Travel & Tourism attended the *Third Global Travel & Tourism Summit* in Vilamoura, Algarve, Portugal, from May 15 to 17, 2003. The delegates recognized that **we live in an increasingly uncertain world which requires flexibility, understanding and tolerance in the way in which we plan the future of our industry**; that Travel & Tourism is one of the world's foremost economic activities; and that Travel & Tourism creates jobs and opportunities in rural as well as urban areas in regions with few alternative viable industries; and that developed sustainably, Travel & Tourism can contribute towards environmental, cultural and social improvement. Therefore delegates urged business and political leaders to: **work together to devise and implement policies that unleash Travel & Tourism's potential to be an economic and social force for good; and to involve all stakeholders to make Travel & Tourism work for everyone, bringing prosperity to people in local host communities, enriching the experiences of those that visit them,** and strengthening the economies of destinations and outbound markets; and to ensure that all Travel & Tourism contributes to environmental, social and cultural preservation and enrichment.

Focus - Sustainable Tourism Development

Environmental degradation and resource depletion - major challenges

Natural resource depletion and environmental degradation associated with tourism activities pose severe problems to many tourism-rich regions. The fact that most tourists chose to maintain their relatively high patterns of consumption (and waste generation). **The two main areas of environmental impact of tourism are: pressure on natural resources and damage to the ecosystems.** In addition to pressure on the availability and prices of resources consumed by local residents, the main natural resources at risk from tourism development are land, freshwater and marine resources. **Without careful land-use planning, for instance, rapid tourism development can intensify competition for land resources with other uses and lead to rising land prices and increased pressure to build on agricultural land.** Intense tourism development can threaten landscapes through deforestation, loss of wetlands and soil erosion.

Freshwater availability - a critical natural resource issue

Freshwater availability for competing agricultural, industrial, household and other uses is rapidly becoming one of the most critical natural resource issues in many countries and regions. Rapid expansion of the tourism industry, which tends to be extremely water-intensive, can exacerbate this problem by placing considerable pressure on scarce water supply in many destinations. **Over consumption by many tourist facilities – notably large hotel resorts and golf courses – can limit current supplies available to farmers and local populations in water scarce regions and thus lead to serious shortages and rising prices.**

Anchor damage - a serious threat to coral reefs

Rapid expansion of coastal and ocean tourism activities can threaten fisheries and other marine resources. **Anchor damage is now regarded as one of the most serious threats to coral reefs in the Caribbean Sea,** in view of the growing number of small boats and large cruise ships sailing in the region.

Delicate ecosystems lack capacity to cope with waste disposal

Disposal of liquid and solid waste generated by the tourism industry has become a particular problem for many developing countries and regions that lack the capacity to treat these waste materials. The delicate ecosystems of most small islands, together with their increasing reliance on tourism, means that the environmental impact can be particularly damaging since the success of the tourism sector in these islands often depends on the quality of their natural environment.

In many developing and developed countries alike, **tourism destinations are becoming overdeveloped to the point where the damage caused by environmental degradation becomes irreversible.**

Sustainable tourism development is key

The promotion of sustainable tourism development to minimize its environmental impact has therefore been seen as critical to maximize the socio-economic overall benefits at tourism destinations. While environmental sustainability must remain a key component of sustainable tourism strategies, **another challenge for the international community is to devise ways and means to place poverty reduction at the centre of tourism planning, development and management.** This will require, amongst other things, genuine community participation, greater technical and financial assistance, human resource development, and institutional capacity building in many developing countries.

Editorial

The Eastern markets hold a great deal of promise for the travel and tourism industry. Here *Tourism Industry Intelligence* examines the potential of Russia for many European countries. Consider that these formerly 'closed' countries also have their own attractiveness for visitors and they are a bargain — far more price competitive than traditional and euro-based European destinations such as Austria, Germany and Switzerland. Eastern European markets and Russia provide a number of opportunities, but also pose a challenge to other destinations.

Trends to Watch

First no-frills airline for Middle East

December 2003 will see the emergence of **new privately owned no-frills airline, menaJet of the Middle East**. Start-up equity for menaJet is US\$50 million and menaJet will be based at Sharjah Airport in the United Arab Emirates. **menaJet is adopting the business model of Southwest and Ryanair and will provide low fares and target the intra-Arab market.**

Demand for travel will rise fast

In the future, **demand for travel could rise much faster than previously predicted** — largely because of the rise in no-frills carriers, according to a British Government study. The study suggests **that passenger numbers will outstrip previous estimates by the Department of Transport**. The estimates of 2000 suggested that demand would rise from 180 million passengers a year to more than 500 million in 2030. However, these figures could be much more than this prediction as already the 2000 figures suggested that no-frills carriers would attract no more than 30 million passengers before the year 2020 but in fact this figure has already been exceeded.

Travel agents need to become more innovative

With cuts in commissions, travel agents are urged to find new ways to do business. According to **one travel agency owner, embracing the internet was one of the ways that has helped the agency to survive**. In fact, **the California based agency is doing over US\$6 million a year in sales, selling vacation packages and cruises with an average commission of 13%**. In addition the agency urges its clients to shop online via its website as it has developed partnerships with Orbitz, Priceline, Expedia, Travelocity, Onetravel.com, Delta and more.

Technology Update

European online sales increase 61%

In 2002 European online travel sales increased 61% to US\$8.94 billion (EUR 7.6 billion) from 2001. A further increase of about 35% during 2003 to about US\$12.12 billion (EUR 10.3 billion) may be expected. **The UK increased its share of the European online travel market to 38% in 2002, with Germany in second place with 22%**. The share of direct sellers in the European online reached a high of 66% in 2002. The breakdown of online travel sales by type of services shows air travel with the lion's share of 62.3%, followed by hotels 13.6%, package tours 10.6%, rail 8.6%, rental 2.7% and other services 2.1%. Several major no-frills airlines are reaching the ceiling with more than 90% of their sales being sold online during 2002. (*Source: Centre for Regional Tourism Research, Denmark*).