

TWinsight

from **travelweekly**

Comment

Instability is now the norm

A buoyant start to the year for bookings obscures the fact that we appear to be in a new phase of economic and political instability, manifest on a number of fronts but most apparent in North Africa.

The overthrow of the Ben Ali regime in Tunisia and the unrest in Egypt raise the possibility of a fundamental realignment in the region.

There is an industry tendency to view such events as a setback. In reality, travel and tourism has no reason to fear popular regime change, although bookings may suffer in the short term amid fears of violence engulfing visitors. Real problems only arise when instability and a repressive response to it become prolonged.

Rising global food prices may spark unrest in other destinations as in 2008. *The Financial Times* reports: "Governments across the developing world are stockpiling food staples in an attempt to contain . . . social unrest."

In Europe, the Irish government fell amid the continuing fallout of the debt crisis, Portugal remains on the cusp of a bailout by the IMF, and the euro could be a crisis away from collapse.

In the UK, the coalition government looks suddenly shakier in the light of the GDP figures and forced departure of the prime minister's press secretary. Student protests are set to resume. Trade union leaders are discussing strikes against public-sector cuts and plan a national demonstration in the week of the Budget. Expect pressure on the government – and tensions within it – to intensify.

Financial markets stormed ahead in the weeks before Christmas but remain capable of being spooked. Meantime, the Moscow bomb shows the terror threat remains as strong as ever.

Ian Taylor

January sales surge belies tough outlook

A double-dip UK recession moved a big step closer with news the economy contracted by 0.5% in the last quarter of 2010.

No one foresaw the contraction. The most pessimistic forecast was that the economy had reached a "virtual standstill" represented by 0.2% growth in the last quarter. The snow before Christmas will have been a factor, but does not adequately explain the decline. Indeed, the government's GDP figures present a disturbing picture of decline in construction, business services, finance and other sectors which cannot be attributed solely to snow (see page 3).

Yet in other respects the year began as brightly for travel as anyone might wish, with companies reporting double-digit sales growth and industry analyst GfK Ascent recording an 18% surge in bookings year on year in the first week and 9% in the second (see page 4).

The same source recorded a 5% increase in summer 2011 sales for the season to date.

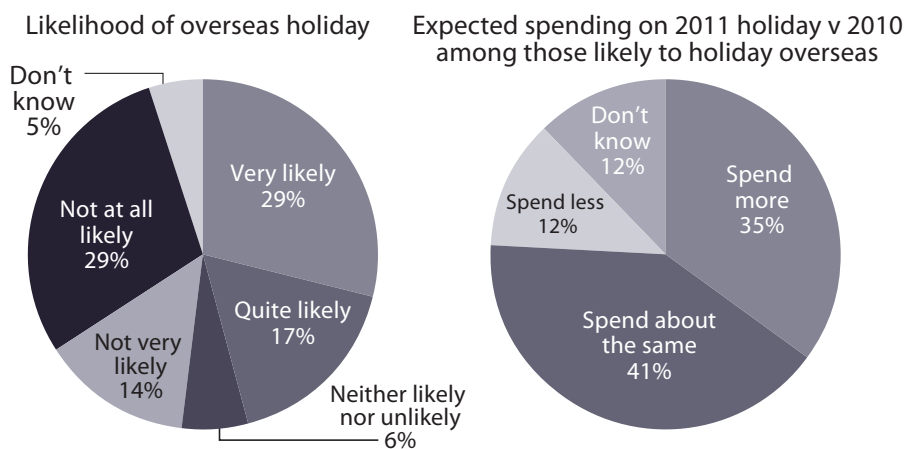
The question is will this last? The economy, the oil price and the gap between income and inflation will be crucial.

But the intention to travel, and to spend on it, appears strong. An exclusive consumer survey for *Travel Weekly* by research firm TNS suggests 46% of UK adults are "likely" to holiday outside the UK this year – a higher proportion than took overseas holidays last year (42%).

More than one-third of those who will holiday abroad expect to spend more on it this year than last, with only 12% intending to spend less (see below and page 5).

The line that "overseas holidays are no longer a luxury" cannot be upheld with conviction when TNS research suggests 58% of adults did not go abroad in 2010. However, holidays are clearly not a luxury for large numbers. While falling household income will be endemic this year, the burden will fall heaviest on those who do not travel overseas anyway.

UK HOLIDAY INTENTIONS 2011



Source: TNS (1,000 UK adults, Dec 29-Jan 2)



JANUARY 2011



APD looks less likely to be replaced by PPD

The government will announce proposals on the future of Air Passenger Duty on March 23, amid indications the Per Plane Duty (PPD) sought by Abta, easyJet, Tui Travel and Thomas Cook to replace APD may be pronounced dead.

Transport minister Theresa Villiers confirmed an announcement would form part of the Budget at a London aviation conference on January 26.

Liberal Democrat MP Don Foster, a member of the government coalition, told a Tourism Society debate a day earlier: "APD is at a sensitive stage of discussion." He suggested: "Look at the words of the coalition agreement on this issue." This commits the coalition to "the replacement of APD with a per-flight duty". Then he warned: "You may be disappointed by what the government does."

Virgin Atlantic chief executive Steve Ridgway appeared confident APD would not give way to a Per Plane Duty when he told the same aviation conference: "The last government got scared of the impact of a PPD on the UK economy. The new government is running into the same issues. We are talking to the government about reforms

to APD, although the government may call it something else."

EasyJet continues to fight for APD to be replaced. Head of regulatory affairs Chris Gadsden argues "long-haul and medium-haul flights are under-taxed" and suggests APD on short-haul passengers is "subsidising transfer passengers to use Heathrow" as they don't pay APD.

The Treasury is notoriously tight-lipped, so it's unlikely anyone in the industry knows the outcome for certain. Any change will most likely be to the APD banding system.

The Caribbean Tourism Organization wants a rise in APD on short-haul flights to allow a cut in duty on long-haul. Virgin Atlantic has proposed similar. There is broad acceptance tax on aviation will not come down in the current climate and the fight now is to prevent further increases.

Early evidence suggests the new rates of APD may be having a negative impact, although other factors will also be at work.

Government figures for overseas trips in November, the first month higher APD rates applied, show a sharp decline in the biggest long-haul market, to North America.

Protection proposals set to be outlined

Detailed proposals for reform of consumer financial protection are to appear imminently, according to transport minister Theresa Villiers.

This may be just as well, because support for the anticipated new 'flight-plus' Air Travel Organiser's Licence (Atol) for travel agents and online retailers appears fractured. Abta criticised industry figures this month for denouncing the reform ahead of plans being unveiled. The association has lobbied for the change, but is split within its own ranks on the issue.

The aim of revising the regulations would be to extend protection for operators' packages to holidays dynamically packaged by retailers.

Abta head of public affairs Luke Pollard said: "Until we see the proposals, we don't know the impact. They might make good sense for the majority of the sector."

On Holiday Group chief executive Steve Endacott has led criticism of the changes, arguing a budget airline failure could bankrupt many businesses not currently required to hold a licence. Endacott has said: "We should refuse to accept flight-plus."

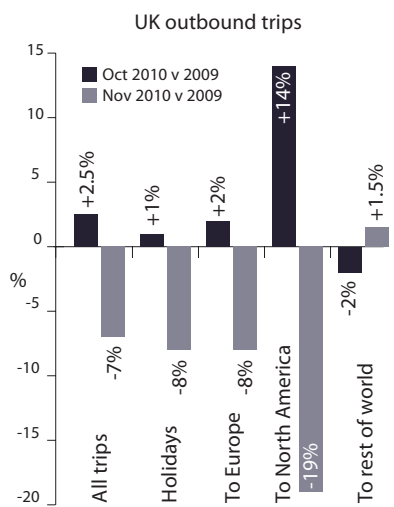
Villiers told an aviation strategy conference in London that confusion among holidaymakers had to be addressed, and referred explicitly to retailer Travel Republic.

She said: "The court's interpretation of a package holiday in the recent Travel Republic case has compounded the problem." That case involved Atol regulator the CAA, which argued Travel Republic breached the regulations by not holding an Atol. The court rejected this.

Villiers declined to say whether businesses like Travel Republic would need an Atol following the changes. She told *Travel Weekly*: "We are still looking at it."

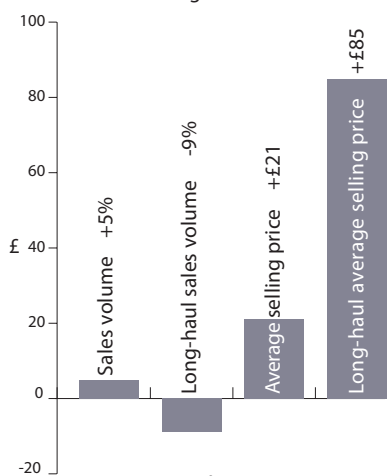
The proposals will be subject to consultation and should come into force next January. Abta board member Noel Josephides, who runs tour operator Sunvil, welcomed the reform saying: "The tougher it is the better." He warned it would change many travel businesses.

DID NOVEMBER'S APD RISE AFFECT SALES?



Source: Office for National Statistics

Summer 2011 bookings: season to date v 2010*



Source: GfK Ascent (to Jan 15)
* To same stage 2010



Trade awaits fallout from GDS conflict

A confrontation between American Airlines and technology corporation Travelport, which owns the Galileo and Worldspan GDSs, has barely troubled the leisure trade up to now, but the fallout surely will.

The conflict threatens to reshape airline sales distribution, as American attempts to transform its relations with GDSs. The carrier says: "We need a new system." Its director of distribution strategies, Cory Garner, insists: "Ultimately, we will see all travel agency volume going through Direct Connect [the airline's own system]."

The airline aims to eliminate the cost of appearing on GDSs and require retailers to pay for access to fares other than direct. In the words of a senior GDS source: "If American gets away with this, United and Continental will be next and then British Airways."

BA head of sales Richard Tams downplayed this prospect, saying: "We have full-content deals with the GDSs and, as long as those deals make sense, they will continue."

However, travel management companies fear otherwise and many appear to be boycotting American. Travel by Appointment chief executive Maurice Veronique told *Travel Weekly*: "If we lose full-fare content and have to go from one site to another, it will take away price parity and comparison."

A second court case between American and Travelport appeared likely as this bulletin appeared – with a first case still pending. However, American and rival GDS Sabre agreed to halt a similar legal wrangle until June 1 while they attempt to reach a settlement.

Meanwhile, American is poised to seek payments from agents via Automated Debit Memos (ADMs) for the Booking Source Premium it has added to fares booked on Galileo and Worldspan since late December. Abta and the GTMC corporate travel association believe the ADMs will breach Iata rules and members should refuse to pay. American is also engaged in a related row with Expedia.

Decline in wages bodes ill for holiday spending

The downturn in UK GDP in the last quarter of 2010 dampens the outlook for tourism.

A PricewaterhouseCoopers analyst labelled the 0.5% contraction "shocking".

The wholesale failure of economists to foresee it might be described the same way. One of the few economists to predict the 2008 crash, Nouriel Roubini, bracketed the UK with the "eurozone periphery" – meaning Greece, Ireland and Portugal – following news of the GDP fall.

The UK certainly appears out of step with the global economy, despite Bank of England governor Mervyn King's attempt to explain the GDP figures by saying: "There will be ups and downs as squalls from the global economy blow us around." The International Monetary Fund simultaneously raised its forecast for world growth.

King was more on the button with his remark that real wages would fall again this year to the level of 2005, adding: "One has to go back to the 1920s to find a time when real wages fell over a period of six years."

This, remember, is before government spending cuts truly bite. Separately, former chancellor Kenneth Clarke, now home secretary, noted a UK recovery would take three years.

Official unemployment now stands at 2.5 million and includes 950,000 people aged 16

to 24 years old, or one in five of that age group – the highest figure since reporting began in 1992.

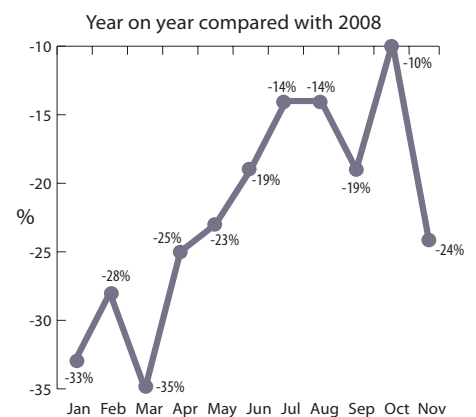
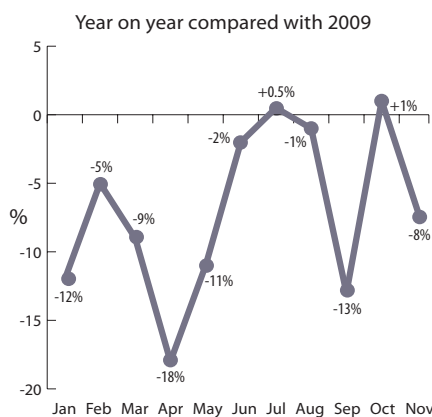
There are significant regional variations. The Centre for Cities annual index identified Leeds, Bristol, Milton Keynes, Reading and Aberdeen as "best placed" for recovery, but Sunderland, Liverpool, Swansea and Newport as "vulnerable" and the northwest as worst affected by cuts.

The Consumer Price Index inflation rate rose to 3.7% in December, and the Retail Price Index to 4.8%, while average earnings in the year increased by 2.1%. Retail sales in December were down on the month before – extraordinary in the approach to Christmas – but will have been hit by the weather. However, food stores suffered their 11th monthly fall in succession and the biggest on record. The noted GfK NOP Consumer Confidence index hit its lowest for a year and its biggest fall since 1992.

Sterling was at \$1.59 and €1.16 in January, in line with rates at the end of last year, but the stability may prove momentary. Jet fuel cost 27% higher than a year ago, even before events in Egypt drove the price of oil up to \$100 a barrel.

The graphs below show the latest Office for National Statistics figures on overseas trips. It will be interesting to see whether the decline in November proves an aberration.

UK OVERSEAS HOLIDAYS IN 2010 BY MONTH



Source: Office for National Statistics



Tui braced for agm, Cook for probe by OFT

The two giants of tour operating and travel retail, Tui Travel and Thomas Cook, have to confront challenges they might not have expected – unrelated to difficulties in destinations, consumer sentiment or the state of the economy.

Tui Travel faces a potentially tricky annual general meeting in early February after re-stating its accounts to the tune of £117 million following a failure over several years to account accurately for discounted holidays sold through agencies. The error was first revealed last August.

The problem arose at Thomson, before the merger with First Choice in 2007 to form Tui Travel, when the company introduced a new retail booking system. The group has now revealed: “Discounts on the price of holidays, cancellation fees and admin fees for changes to bookings were inaccurately recorded.”

It dismissed reports the affair had caused tension at the top following the resignations of two non-executive directors and the group’s auditor KPMG.

A spokeswoman also denied the company was now subject to investigation by the Financial Reporting Council, the UK regulator for corporate governance. The FRC refused to comment, but *Travel Weekly* understands it is examining the company, while sources in the City suggested German parent Tui AG was “unhappy”.

Meanwhile, the Office of Fair Trading is poised to investigate the proposed retail merger between Thomas Cook, The Co-operative Travel and Midlands Co-operative. The planned tie-up, announced in October, would create the UK’s largest agency chain of 1,300 shops.

It will be several weeks before the investigation begins. The OFT then has 45 days to decide whether to allow the merger to proceed, request parts of the business be sold or refer the deal to the Competition Commission. The last option could extend the process by up to two years, although the second option is more likely. The OFT has said: “The proposed joint venture threatens significantly to affect competition.”

Trade buoyed by 5% lift in sales for year to date

If this bulletin displays a degree of schizophrenia in presenting booking figures as opposed to economic data it is because these point in opposite directions.

Analyst GfK Ascent recorded an 18% surge in bookings year on year for summer 2011 in the first week of January, although heavy snow through the first weeks of 2010 should temper the comparison.

The year-on-year rise in bookings was +9% in the second week of January and +1% in the third as the impact of snow the year before wore off. However, that still left the season-to-date increase in volume for the summer at 4%-5%, according to GfK Ascent, and the average selling price £20-£21 higher.

The Advantage agency consortium reported average selling prices up 12% on a year ago, a rise chief executive John McEwan attributed to “price inflation and families booking more all-inclusive holidays”.

GfK Ascent reported short-haul destinations the major winners at +10% on sales for the season to date and Spain back to 32% of the UK market – three percentage points up on a year ago – at the expense of Turkey and Egypt.

Sales of medium-haul holidays were 5% up

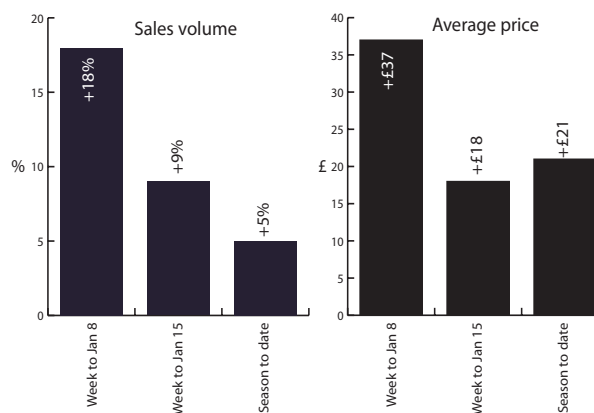
by mid-January, but long-haul down 9% year on year – almost certainly due to high rates of APD and rising fuel costs. The average selling price of long-haul holidays is £79 up on last year.

Industry giant Tui Travel UK appears to be out-trading the market. It reported season-to-date bookings for the summer up 8% on last year to mid-month. However, its increase in average sales price, at +4% on last year, was only in line with inflation. Thomas Cook does not issue an update until February.

Tui’s UK winter trading was also up on the market as a whole and at a better price, the group reporting sales up 3% and prices up 10% on the season to January 16. GfK Ascent put season-to-date sales for winter 2010-11 at +1% on last year.

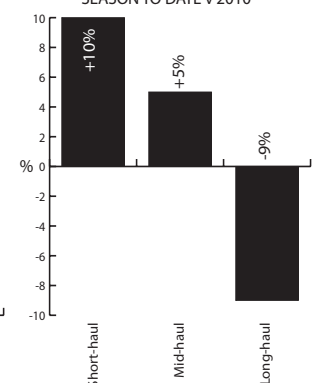
There are few signs of a surge in bookings for the week of the royal wedding (April 29), despite speculation large numbers of people might take off the days between Easter Friday (April 22) and the May Day bank holiday (May 2). A *Gazetteers* poll of agents found just 12% reporting more enquiries than last year for the dates and 74% no change. Employers’ demands for people to be in work and the return of many schools the day after Easter Monday could be factors.

SALES FOR SUMMER 2011 v 2010*



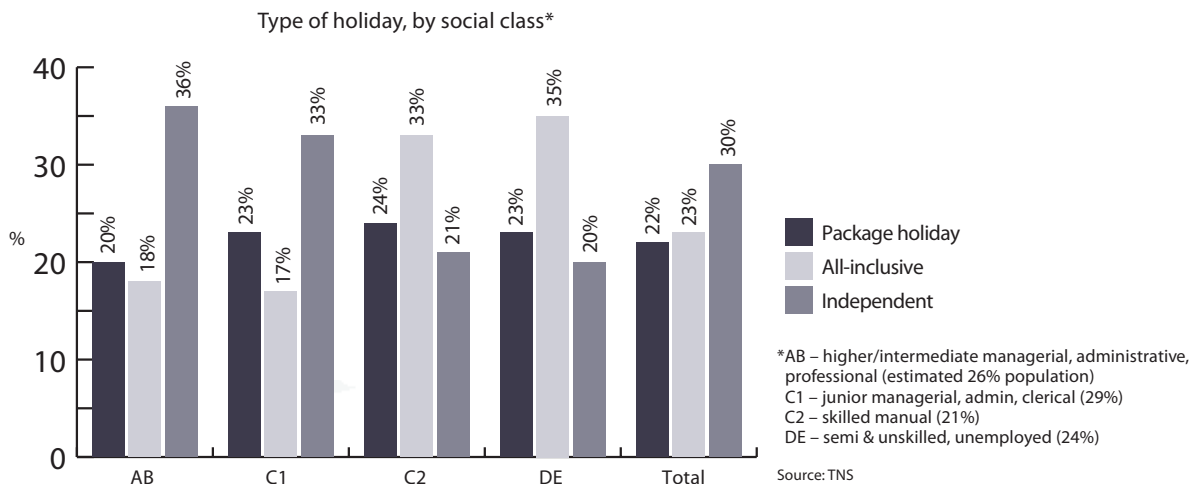
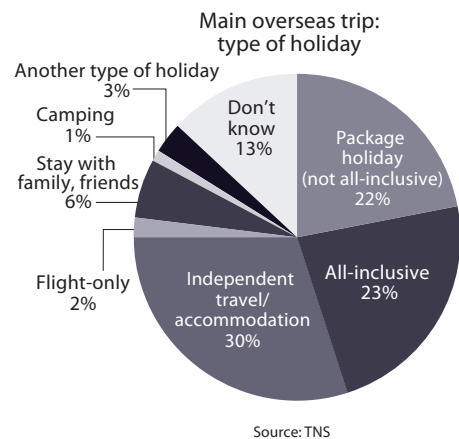
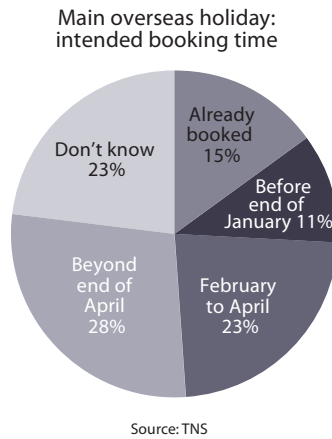
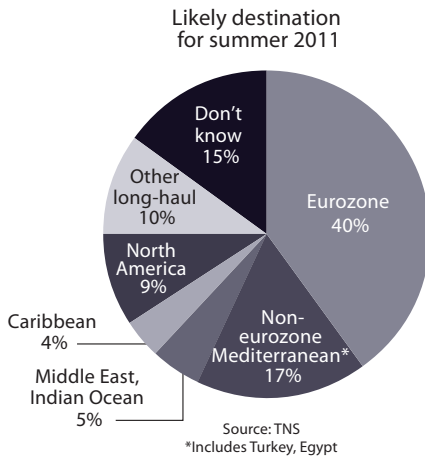
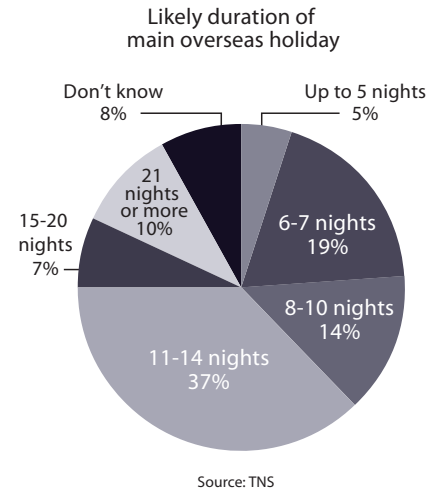
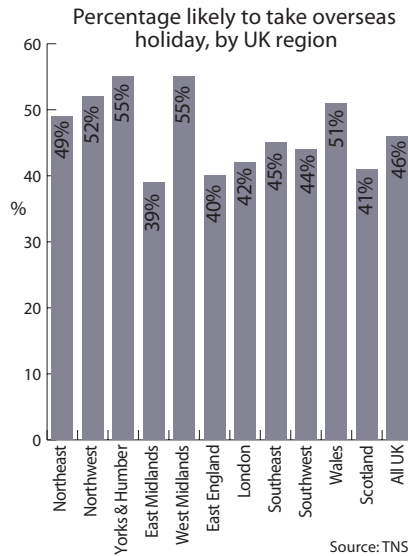
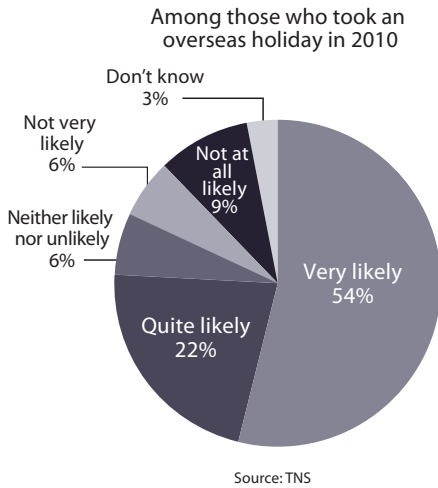
Source: GfK Ascent * Year-on-year comparison

BOOKINGS BY TRIP LENGTH: SUMMER 2011 SEASON TO DATE v 2010*



AT A GLANCE: UK CONSUMER HOLIDAY INTENTIONS 2011

INTENTION TO TAKE OVERSEAS HOLIDAY IN 2011



Crises in Tunisia and Egypt disrupt tourism

Protests in Egypt and a state of emergency in Tunisia severely affected tourism to both countries at the end of January.

The UK Foreign Office advised against all non-essential travel to Cairo, Alexandria, Suez and Luxor and warned British nationals to leave the first three cities. It also continued to advise against non-essential travel to Tunisia, noting: "The situation is calmer . . . [however] incidents of violence are still possible."

Egypt: BA's flights to Cairo were departing but at changed times to fit a night-time curfew. Passengers with flights in the next few days could amend bookings to delay their departure.

Operators' programmes to Sharm el-Sheikh, Hurghada and Marsa Alam continued as normal, although some excursions were cancelled. However, Thomson pulled flights to Luxor and Aswan. Prior to the upheaval, there had been signs Sharm el-Sheikh had bounced back from a fall in interest following shark attacks. Agents' research of the resort on Gazetteers.com in mid-January was twice as high as in December.

Tunisia: Airports were open and most scheduled flights, including BA's, operating normally. Thomas Cook had cancelled all departures until the end of February, Thomson and First Choice all flights up to February 16.

UK set for £100m for marketing

The government has announced a public-private fund of £100 million to market the UK as a destination over the next four years, aiming to build on events such as the royal wedding and the 2012 Olympics.

British Airways, P&O Cruises, Radisson Edwardian, lastminute.com and DFDS Seaways were among companies to pledge support.

The announcement generated good headlines, but the £50 million in public funds pledged

by VisitBritain is not new money and the reality is the government is cutting tourism spending at the same time as raising taxes [APD and VAT] on visitors. Mario Bodini, head of leading inbound operator JacTravel, said: "The government message is not consistent. Tourism funding is being cut to the bone."

The government's commitment to the sector will be analysed in February when tourism minister John Penrose unveils a UK Tourism Strategy.

DESTINATIONS

> TUI LIABLE FOR BUG

A Birmingham County Court judge extended tour operators' liability for holidaymakers infected by the stomach bug cryptosporidium after finding Tui Travel responsible for 49 clients who suffered diarrhoea at a Majorca hotel, ruling the company had a duty to warn guests of the risk. The bug is resistant to normal levels of chlorination in pools.

> AIRLINES TAKE A HIT

Major airlines have had a difficult month. Ryanair announced a quarterly loss of €10 million despite a 15% rise in average fares. EasyJet suffered a 16% fall in its share price after announcing plans to expand its fleet. And British Airways blamed the weather for an 11% fall in traffic year on year in December.

> DREAMLINER DELAY

Boeing announced a fresh delay in development of its 787 Dreamliner, pushing back delivery of the first to All Nippon Airways to the third quarter of 2011 following an inflight fire on a test aircraft in November. Thomson Airways will be the first UK carrier to fly the 787, with its first aircraft now due at an unspecified date in 2012.

> EURO OWNERS 'TO SELL'

More than half the 400,000 Britons who own holiday homes in the eurozone may be preparing to sell up this year because of falling rental occupancy and income, according to a survey by foreign exchange broker Currencies.co.uk.

DESTINATION DIARY

| DATE | EVENT | VENUE |
|-----------|--------------------------------|--------------------|
| Feb 24 | SPAA Dinner | Glasgow |
| Mar 9-13 | ITB | Berlin |
| Mar 17 | Destination Connect Seminar | Soho Hotel, London |
| Apr 15 | Abta Travel Matters Conference | Millbank, London |
| May 3-5 | Ace UK Cruise Convention | Southampton |
| May 21-25 | International Pow Wow | San Francisco |

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