

2016 AVIATION & TOURISM REPORT

THE NEW UNCERTAINTY - HOW TERRORIST ATTACKS WILL AFFECT TRAVEL AND TOURISM

2016

News, Trends and Topics from the Airline
and Tourism Industry

THE NEW UNCERTAINTY – HOW TERRORIST ATTACKS WILL AFFECT TRAVEL AND TOURISM

INTRODUCTION

In this report, aviation consultancy PROLOGIS presents a topic, that deeply affects the aviation and tourism industry these days.

This paper contains official statistics and views from industry leaders and presents influences in the aviation and tourism industry, but also actions of the sector after such an event.

The impact of terrorism on the travel and tourism industry can be enormous. It can lead to unemployment, homelessness, deflation and many other social and economic sufferings. The contribution of tourism for many countries is so great that any downturn in the industry is a major concern for many governments. Particularly affected are companies like airlines, tour operators, hotels and rental car companies in the tourism industry.

Over the last 25 years, the travel and tourism industries have grown by over 500% and it is estimated that in 2030 global arrivals will double compared with 2010 figures.¹ For many countries in the developing world, tourism is the most critical form of income in terms of GDP and therefore a major influence in any economic development.

However, with the September 11 attacks, the tourism industry was at a peak with high passenger numbers and success from the major tour operators and therefore the implications were even more dramatic, not only for the tourism sector in America but globally and arguably cause general economic problems worldwide due to the negative multiplier effect which creates also a negative impact in the primary and secondary sector of industry.



Chart 1: Global tourism revenue (fee-based) in billion dollars from 2000-2014

Source: <http://www.statista.com/statistics/273123/total-international-tourism-receipts/>

¹ www.media.unwto.org (2011)

CURRENT SITUATION

2015 was a record year for tourism. But given the current global development, the situation is anything but positive. More people are travelling worldwide – but less to North Africa. In each case, in Europe, the American continent and the Asia-Pacific region, the tourist share gained more than 5%. And this growth is continuing. But on the contrary, the tourist number decreased in North Africa by 8%.²

The World Tourism Organization (UNWTO) counted 1.18 billion travelers in 2015 and therefore 4.4%³ more than in 2014. This marks a new record for the international tourism sector that accounts directly and indirectly for 9% of employment worldwide and 10% of the GDP.

International travel and tourism is a significant contributor to economic growth and

development with world-wide growth in international tourist arrivals passing by national income growth one out of every two years over the past 30 years.

However, crimes and acts of terrorism committed against the travel and tourism industry effect tourism by damaging the destination or city image and installing fear in potential tourists.

The number of terrorist attacks world-wide has more than quadrupled since September 11, 2001 until today.

Tourism suffers in particular when prolonged terrorist attacks affect tourist images and when terrorist organizations specifically target the travel and tourism industry.

Number of Terrorist Attacks Worldwide from 2001-2014

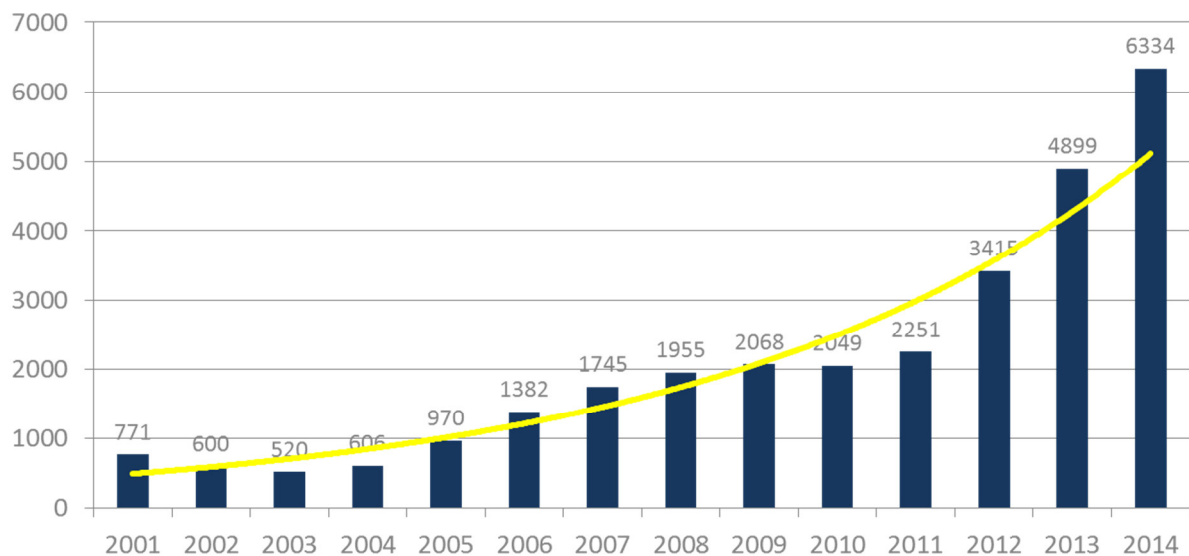


Chart 2: Terrorist attacks world-wide from 2001-20014

Source: <https://nzz.ch>

² www.zeit.de (2015)

³ www.zeit.de (2015)

Killed People in Terrorist Attacks Worldwide from 2001-2014

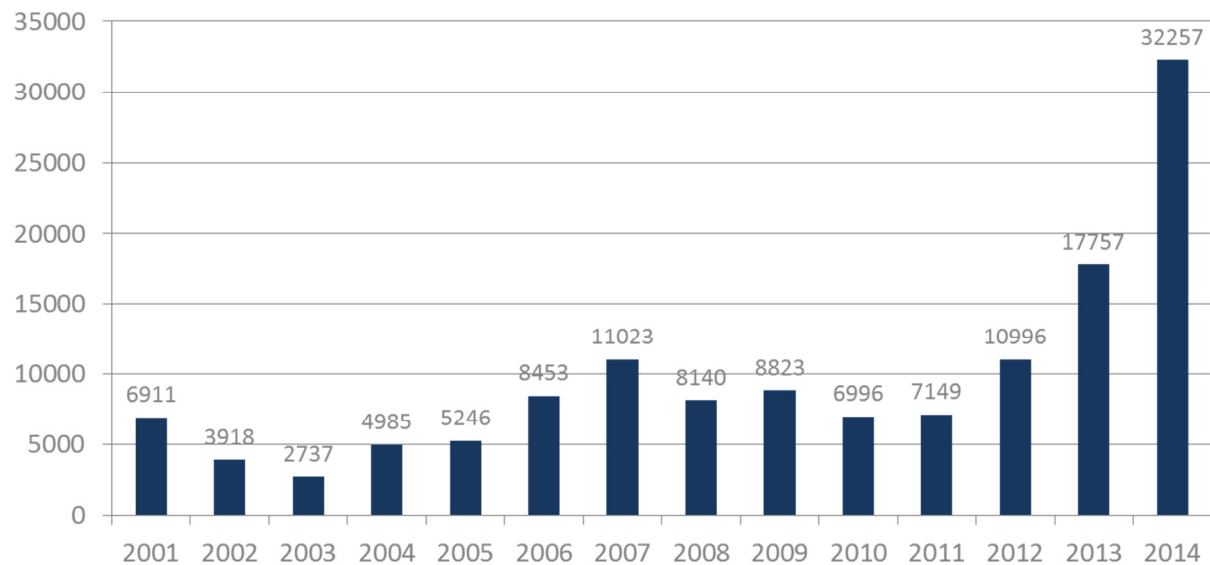


Chart 3: Killed people in terrorist attacks worldwide from 2001 – 2014

Source: <https://nzz.ch>

Quite recently the general secretary of the UNWTO described the terror attacks as a global threat.

But nevertheless it seems, that tourism and airlines are recovering quickly from those attacks in most cases.

Attacks by Region



Chart 4: Countries with Islamic terror attacks between September 11, 2001 and May 22, 2013

Source: https://de.wikipedia.org/wiki/Islamistischer_Terrorismus

IMPACT AND CONSEQUENCES

Recent acts of violence are beginning to take a toll on the travel industry. “About 10% of American travelers have canceled a trip in response to the terrorist attacks, eliminating a potential \$8.2 billion in travel spending, according to a survey of about 1,064 people by the data collection site YouGov. Nearly one quarter of those surveyed said they had delayed travel plans and 18% said they had switched plans to a destination they considered to be safer.”⁴ Even long-standing plans, like annual vacation and holidays to the same location, can be called into question as a result of a major attack.

Immediately following a negative event that introduces uncertainty, like a terrorist attack, people have a tendency to remain in place.

Looking at the different destinations which had suffered from terrorist attacks, the impact can be quite different.

For example, “Egypt, which has experienced several years of political unrest, saw an 18.5% decline in UK visitor number from 2010 to 2014, according to the Office for National Statistics.”⁵

On the other hand, the number of people visiting the UK did not decline and had no notable impact after the London bombings of July 2005, in which 52 people died.

Overall, the figures indicate that the tourism industry suffers more in countries with a continuous history of attacks, such as Egypt, than in countries affected by individual terrorist attacks.

Bali, in Indonesia, is another tourist destination that fell victim to terrorist attacks, in 2002 as well as 2005.



⁴ www.marketwatch.com (2015)

⁵ www.bbc.com (2016)

One year after the 2005 attack, the Indonesian island witnessed a direct 9% decline in tourists. But in both cases – 2004 and 2007 – the tourist figures reached a peak (2007: 21% growth compared to 2005) only two years later.⁶

The Paris Attacks Hit Tourism in France – But it was expected not for long.

The World Travel and Tourism Council (WTTC) said, that based on its analysis of the impact at the country level, “previous large-scale terrorist attacks in major European capitals have had a decidedly limited impact on overall tourism in the country.”⁷

After the train bombings in Madrid in 2004, tourist arrivals to Spain returned to “pre-bombing” levels in a matter of weeks.

Paris was expected to return to the normal visitor levels rather quickly, but tourism

continues to feel the effects of the November attack here, which has cost French hoteliers around €270 million. In addition, Japan Airlines is extending suspension of flights between Narita and Paris - due to low demand. This suspension was extended twice and the airline will start operations again on March 15, 2016. This development is very negative for France, because 9% of its GDP and 10% of total employment are tied to tourism. The country receives 84 million visitors per year, the most in the world. Any lasting damage to French tourism will depress the country’s already shaky economy.

But the explosion in Istanbul’s most prominent tourist attraction is expected to have an even stronger negative impact on inbound flow to Turkey on the short-to even medium term. The tourism industry in Turkey is predicted to suffer from the recurrent attacks on the tourist spots these past years.

TOURIST ARRIVALS IN BALI FROM 2000-2007

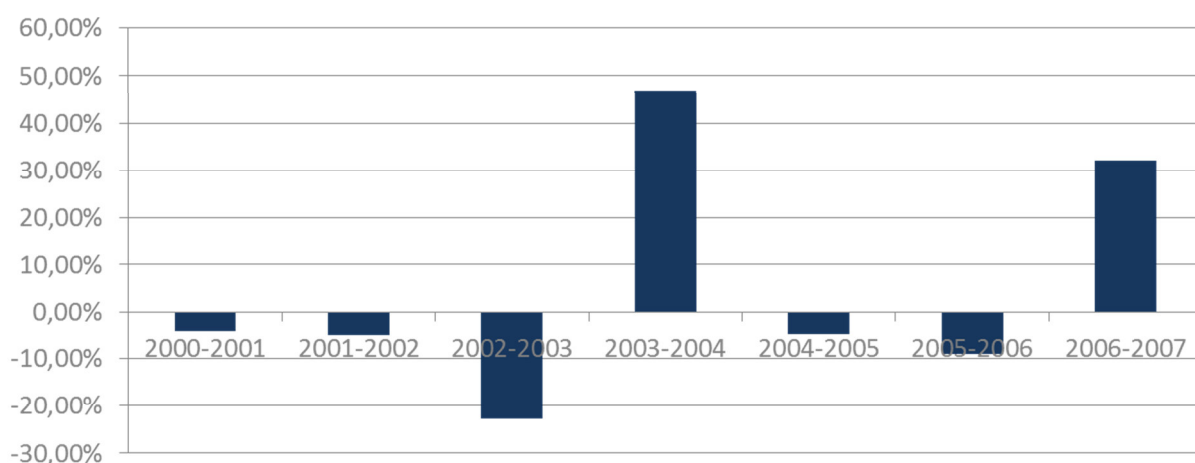


Chart 5: Tourist arrival growth rates in Bali from 2000-2007
Source: <https://nelbaliproperty.com>

⁶ www.nelbaliproperty.com (2016)

⁷ www.fortune.com (2015)

The Turkish economy is suffering greatly from the multiple attacks and geopolitical tension in 2015. “After reaching \$35 billion in total tourism revenues in 2014, Turkey’s tourism profits fell by 4.4% to \$12.29 billion in the third quarter of 2015. Turkey was the world’s sixth most attractive destination, with a record of 34.8 million visitors.”⁸

Reduction and Shift in Passenger Demand

Whenever a terrorist attack is carried out, the government closes airports and cancels thousands of flights directly at a direct cost to airlines. However, even when the airports reopen, passengers remain wary of air travel, and airlines experienced at least a 30% reduction in demand during the initial shock period immediately following the reopening.

In addition, business travel accounts, one of the most profitable segments in the airline business, suspended a significant number of non-essential travel for their employees temporarily.

EasyJet, for example, said the terrorist attacks in France and Egypt would have an impact on sales, though it would be short lived. No-shows on flights to and from Paris were running higher than normal, while future bookings likely would see a decline.

Typically, there is a quick resumption of travel after events like these, though it is too early to tell how long it might take for demand to recover to normal.⁹

Passengers that are avoiding Egypt as well as Tunisia, which was hit by a deadly beach shooting in June 2015, now prefer destinations in Spain, Portugal and Cyprus.

Tour operator TUI took a hit of as much as €40 million from the terrorist attack in Tunisia that led to the deaths of 33 of its customers. Furthermore, current bookings are down 40%¹⁰ for Turkey compared to 2015.

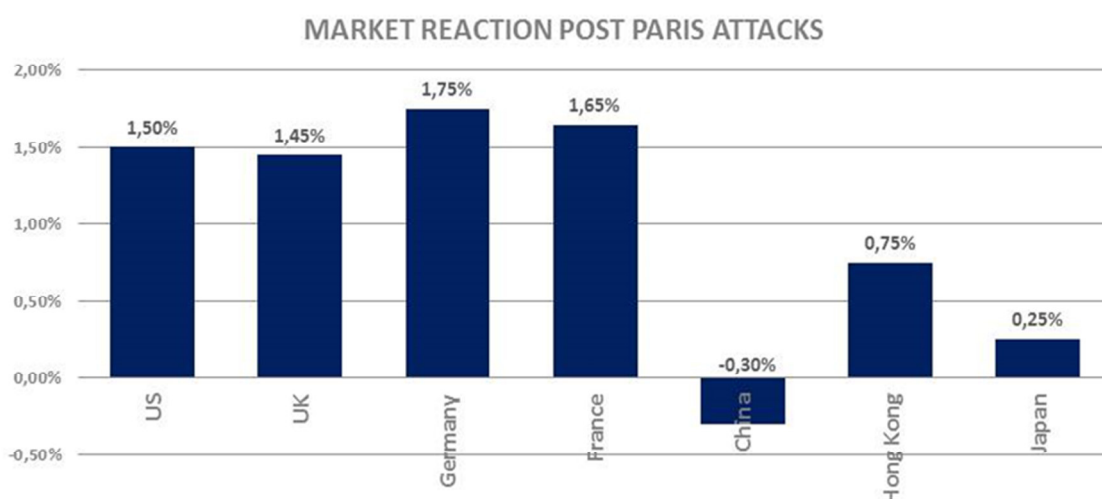


Chart 6: Market reaction post Paris attacks; index set to 0 on November 13, 2015
Source: Market Realist, Indices

⁸ www.blog.euromonitor.com (2016)

⁹ www.wsj.com (2016)

¹⁰ FVW article – Die neue Unsicherheit – February 22, (2016)

Indirect Effects of Air Security Procedures

Airport security has also taken a very serious turn. Airport security procedures do not directly affect airline operations, but the new processes have caused a noticeable number of airline passengers to choose between different ways of transportation or to cancel travel entirely.

An economic study from Cornwell University published in 2007 showed that federal baggage screenings brought a 6% reduction in passenger volume across the board, with a 9% reduction at the busiest US airports, totaling a nearly \$1 billion loss for the airline industry.¹¹

In addition, the US required that armed air marshals be installed on most US-bound international flights, who occupy 1 - 2 first class seats and thereby cost the airlines high revenues.

By comparison, tourism takes longer to bounce back from disease (21 months), an environmental disaster (24 months) and political unrest (27 months) than from a terrorist attack.¹² And tourism's recovery after a natural disaster takes longer because it often requires the rebuilding of infrastructure – often a time consuming task.

In the end, in the “short-term, it will put some people off,” an expert on risk and tourism from Bornemouth University claims. “Longer-term, people have short memories. A lot of people will forget.”¹³



¹¹ www.traveltips.usatoday.com (2016)

¹² www.fortune.com (2015)

¹³ www.bbc.com (2016)

INITIATIVES AND ACTIONS

Several airlines and tour operators have cancelled their programs to Tunisia, Egypt and Turkey after the governments in those countries warned against traveling to these nations.

EasyJet has flown empty planes to Egypt to bring back passengers and said it would suspend operations until the British government approves a resumption of service.

Airlines and Tour Operators are Changing Capacities Due to Shift in Demand

Many tour operators and airlines have offered a refund or the chance to switch to alternative destinations to anyone booked to travel imminently to North African nations. They are also offering the possibility to change the trip until 30 days prior to departure to a different destination free of charge. At the end, the calculation is to get the passenger on board!

Thomas Cook has reduced its country destinations drastically while DER Touristik has quantified its loss to be 25% by the end of January 2016.¹⁴

Following terrorist attacks in North Africa during the spring and summer, Spain had its best summer tourist season ever. A record number of 31.8 million foreign visitors arrived in the four months ending September 30, to surpass the previous record - set in 2014 - by almost a million.

Spanish officials say it is hard to quantify how much of the increase is attributable to the terrorist attacks, which may have driven some tourists to choose Spain over competing destinations such as Tunisia, Turkey and Egypt. Due to this development, it can be predicted, that countries like Spain, Italy, Portugal and also Germany will benefit again in 2016.



¹⁴ FVW article – Die neue Unsicherheit – February 22, (2016)

During high season, these countries will be fully booked very quickly this year. Especially destinations such as the Caribbean, the Indian Ocean or Asia will benefit and further growth is likely.

That is the reason why airlines like Air Berlin are reacting and changing capacities from the North African region to the Caribbean and Balearic Islands. Eurocontrol announced, that airlines increased their capacities to the Balearic Islands by 4.1 million¹⁵ seats compared to 2015. Capacities were increased especially to Menorca by 18%.

But ultimately, sometimes only one thing can help. Finding a simple and good way of getting people to travel to destinations that have suffered at the hands of terrorist attacks is still cutting prices due to low demand. Through this action, several travel companies are hoping for strong last-minute business.

Europe



Caribbean



Chart 7 & 8: Travel trends of Europeans: The winners 2016 - turnover increase 2015 vs. 2016
Source: www.drv.de

¹⁵ www.radioaleman.com (2016)

OUTLOOK

The airline industry looks forward to an improved performance in 2016 on the back of projected higher global GDP growth and lower oil prices. Recently, the International Air Transport Association (IATA), announced its airline industry outlook for 2016, which sees an average net profit margin of 5.1% being generated with a total net profit of US\$ 36.3 billion.¹⁶

In 2016 Challenges Remain Unchanged for the Airline Industry Despite Bright Outlook

In 2016, total passenger numbers are expected to rise to 3.8 billion traveling over some 54.000 routes worldwide.¹⁷

IATA, however, acknowledges that the issue of security, is an integral part of safety and said that “the threat of terrorism is present and active and the sad reality is that the air transport industry – despite being an instrument of peace – continues to be a target.”¹⁸

The outlook for 2016 is less certain; therefore Euromonitor International estimates global growth in arrivals of 2-3% as the best case scenario.¹⁹

In a worst case scenario, the global travel industry may be looking at a similar performance in the years following September 11, 2001, where there was a sharp drop in demand of over 4%, followed by a strong bounce back once the tightened security measures were implemented to reassure the traveling public of a fight against the global threat posed by Al-Qaeda.

¹⁶ www.moodiereport.com (2016)

¹⁷ www.chinaaviationdaily.com (2016)

¹⁸ www.iata.org (2015)

¹⁹ www.blog.euromonitor.com (2015)