

World Tourism Market

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Group TR-B5SE/1

2. Defining and understanding the world tourism market. Supply responding to demand

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Literature

- UNWTO, Tourism Satellite Account – Recommended Methodological Framework, Internet
- Positioning Tourism in Economic Policy: Evidence and Some Proposals; 2nd T.20 Ministers Meeting, Republic of Korea, 11-13 October 2010, UNWTO Statistics and Tourism Satellite Account Programme
- General Agreement on Trade in Services, World Trade Organization
- Directive 2006/123 (EU) on services in the internal market
- REGULATION (EU) No 692/2011 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 6 July 2011 concerning European statistics on tourism

Composition of the world tourism market (additional comments to chapter 1)

- The world tourism market is constituted by demand and supply from national states.
- Demand and supply concern both domestic and international products.
- Domestic and international products are inter-connected: domestic products typically include inputs from abroad – exported and imported - which are of varying coverage and create international linkages.
- Delivery or distribution of supply to demand is done by means of trade (exchange).
- Trade in tourism-related services or products can be either international or domestic, or stand for the combination of both.

The supply side of tourism

- The supply side of tourism on the market is expressed by various concepts:
 - Activities
 - Industries
 - Products
 - Services
 - Tourism sector
- As a result of a joint effort of international bodies, under the leadership of the United Nations (Statistical Commission), the concepts of activities, industries, products and services, have been developed into a Tourism Satellite Account (TSA) with a view of seeking their international comparability.

Relationship between concepts

- International comparability of data is expected from tourism characteristic products, understood to be “the core products for international comparison of tourism expenditure”.
- A product stands for an outcome of an activity for which a specific industry is responsible.
- Tourism activities are also expressed in terms of services (e.g. accommodation services for visitors)

What is TSA:RMF? (or TSA)

Tourism Satellite Account: Recommended Methodological Framework

- A common national accounts methodology agreed upon by the secretariats of (UN)WTO, OECD and Eurostat (European Commission) with the Statistical Commission and the Statistics Division of the United Nations, each seeking to „*measure tourism economic impacts*”, in particular:
 - (1) „*to provide detailed and analytical information on all aspects of tourism*” (to include):
 - *The composition of tourism consumption*
 - *The productive activities most concerned by the activities of visitors (and)*
 - *Relationships with other productive activities*

What is TSA:RMF (for)? (2)

- (2) to measure the quantitative importance of tourism in the country of reference by means of “aggregates”
 - *Main aggregates*
 - *Other aggregates*
- Aggregates are believed “to have an important political impact because they measure the quantitative importance of tourism in the country of reference. This impact cannot be disregarded.” (*Positioning tourism...*)

The supply side defined by TSA

- TSA pursues “credibility in the measurement of tourism’s contribution from the supply side of the economy, i.e. from the perspective of industries”, whereby:
 - “In the traditional sense” industries are classified according to what they produce
 - while
 - Tourism has been defined by the demand for products coming from a special type of consumer, the visitor.

The supply side defined by TSA (2)

- The tourism sector is the cluster of *production units in different industries*, whereas:
 - The SNA 1993 (system of national accounts) defines an industry as “a group of establishments engaged in the same kind of productive activities”
 - The [System of National Accounts, 1993](#) (SNA93) was produced jointly by the OECD, the United Nations Statistical Division, the International Monetary Fund, the World Bank and the Commission of the European Communities.
 - The System of National Accounts was updated in 2008.
 - It was therefore decided that the compilation of integrated tourism statistics be aligned with SNA 2008

The supply side defined by TSA (3)

- Out of all goods and services (consumption products), one can identify:
 - A.1. Tourism characteristic products, including:
 - Internationally comparable tourism characteristic products, which represent the core products for international comparison of tourism expenditure
 - Country-specific tourism characteristic products (to be determined by each country)
 - Products whose supply would cease to exist in meaningful quantity in the absence of visitors
 - Products that represent a significant share of tourism consumption
 - Products whose absence might significantly affect tourism consumption

The supply side by TSA (4)

- A.2. Other country-specific consumption products (to be determined by each country):
 - Tourism-connected products
 - Non-tourism related consumption products comprising all other goods and services
- B. Non-consumption products
 - But including valuables and other “non-consumption products” associated with “Tourism gross fixed capital formation and collective consumption”.

Relevance to ISIC and statistical practice

- Tourism products can be recognized in *the International Standard Industrial Classification of All Economic Activities*, ISIC, a United Nations classification.
- TSA:RMF is not legally binding, it is recommended to be used by national statistical offices. This practice is followed by a number of countries (over 60 reporting to UNWTO), although national practice may vary from country to country resulting in different coverage and scope of the products concerned.
- There was a shift in coverage and specificity of the concepts concerned between TSA 2000 and TSA 2008.

1. Tourism characteristic products defined by TSA 2000

1. Accommodation services
 1. Hotels and similar
 2. Second homes
2. Food and beverage services
3. Passenger transport services
 - All carrying passengers
 - **Cruise services**
 - Transport supporting (e.g. parking)
 - Transport equipment
 - Transport maintenance and repair
4. Travel agency, tour operator and tourist guide services
5. Cultural services
 - Performing arts facility operation, performing artists
 - **Museum** and similar
6. **Recreation and other entertainment services**
7. Miscellaneous tourism services
 - 7.1. Financial and insurance services
 - **Travel insurance services**
 - 7.2. (Other) good rental services
 - 7.3. Other tourism services
 - **Trade fair and exhibition services**
 - Fishing, hunting licence
 - Passport/visa issuing
 - Other guide than “tourist guide” (mountain, hunting, etc) services
 - Escort services (97910.0)

Tourism characteristic products defined by TSA 2008

A. Consumption products

- A.1. Tourism characteristic products
 - (1) Accommodation services for visitors including those associated with all types of vacation home ownership
 - (2) Food and beverage-serving services
 - (3), (4), (5), (6) Railway, road, water, air transport services
 - (7) Transport equipment and rental services
 - (8) Travel agencies and other reservation services
 - **(9) Cultural services**
 - **(10) Sports and recreational services**
 - (11) Country-specific tourism characteristic goods
 - (12) Country-specific tourism characteristic services

- A.2. Tourism connected products
- A.3. Non-tourism related consumption products
- B. Non-consumption products
 - B.1. Valuables
 - B.2. Other non-consumption products

TSA 2008 tourism characteristic products provided by corresponding industries

1. Accommodation for visitors
 - 1.a. Accommodation for visitors other than 1.b
 - 1.b. Accommodation associated with all types of vacation home ownership
2. Food-and beverage-serving industry
3. Railway passenger transport
4. Road passenger transport
5. Water passenger transport
6. Air passenger transport
7. Transport equipment rental
8. Travel agencies and other reservation services industry
9. Cultural industry
10. Sports and recreational industry
11. Retail trade of country-specific tourism characteristic goods
12. Other country-specific tourism characteristic industries

TSA aggregates measured

Main aggregates

- Internal tourism consumption in cash
- Internal tourism consumption (in cash and kind)
- Value added of the tourism industries
- Tourism value added
- Tourism GDP

Other aggregates

- Tourism employment
- Tourism gross fixed capital formation
- Tourism collective consumption
- Total tourism demand

Consumption products to be covered by tourism expenditure

- Countries should quantify separately:
 - Inbound tourism expenditure by products and classes of visitors (tourists + excursionists)
 - Domestic tourism expenditure by products, classes of visitors (personal, business and professional) and types of trips

Observations to TSA 2008

- TSA 2008 appears less specific than TSA 2000 with respect to tourism services (or products), but more specific with respect to concepts (e.g. travel agencies/tour operators are now regarded as reservation systems).
- TSA 2008 considers meetings, conferences and conventions as activities “of any business, in any sector of the economy” and that “its characteristic output is not mostly consumed by visitors, but by their conveners”, therefore, “this strong connection with tourism does not imply that the meetings industry qualifies as a tourism industry”. MICE is therefore excluded, although it is constantly under purview of the tourism sector.
- The TSA term of tourism product is different from the legal, travel industry and marketing term of a tourism product (or package).

TSA 2000 characteristic tourism products left out or silenced from TSA 2008 product classification

- Cruise services
- MICE
- Transport supporting services
 - Parking
 - transport equipment
 - transport maintenance and repair
- Tourist guide services
 - Other guide than “tourist guide” (mountain, hunting, etc)
- Trade fair and exhibition services
- Fishing, hunting licence
- Travel insurance services

2008: IMF takes TSA on board

- Both the United Nations and the International Monetary Fund (IMF) identify tourism as a specific area of economic activity and point to the Tourism Satellite Account as the appropriate tool for deriving key aggregates and internationally comparable indicators on the macroeconomic contribution of the sector worldwide.

Sources: *UN System of National Accounts 2008 (SNA, 2008)*; *IMF's Balance of Payments and International Investment Position Manual, Sixth Edition (BPM6)*

World Travel and Tourism Council (WTTC) adopted its own tourism satellite account (provided for WTTC by *Oxford Economics*)

- “Travel and Tourism” primarily determined by a demand –side approach with a comprehensive definition of its scope, linked by economic models to supply-side concepts
- Relies heavily on economic modelling techniques (not the detailed analyses of national accounts as is the case of TSA:RMF)

World Travel and Tourism Council (WTTC) adopted its own tourism satellite account (provided for WTTC by *Oxford Economics*) (2)

- Provides largely bigger figures than those produced by UN - UNWTO Tourism Tourism Satellite.
- *Accounting methodology (TSA:RMF 2008) quantifies only the direct contribution of Travel & Tourism. But WTTC recognises that Travel & Tourism's total contribution is much greater, and aims to capture its indirect and induced impacts through its annual research...*

Source: WTTC 2011 World Economic Impact Report

Tourism product as a “package” in the European Union

A legally – binding term

- A ready-made package of services, as defined by (EU) 90/314 Council Directive 90/314/EEC of 13 June 1990 on package travel, package holidays and package tours, consisting of a few interrelated services needed for a trip or stay at a destination.
- Its territorial coverage can be variable, from focalized (e. g. cruise) to broad (city, region, country)

Tourism product as a “package” in the European Union

A legally – binding term (2)

- 1. 'package' means the pre-arranged combination of not fewer than two of the following when sold or offered for sale at an inclusive price and when the service covers a period of more than twenty-four hours or includes overnight accommodation:
 - (a) transport;
 - (b) accommodation;
 - (c) other tourist services not ancillary to transport or accommodation and accounting for a significant proportion of the package.

New Package Travel Directive (2015/2302/EU) bringing it up to date with the developments in the travel market

- Three types of packages:
 - pre-arranged packages - ready-made holidays from a tour operator made up of at least 2 elements: transport, accommodation or other services, e.g. car rental;
 - customised packages - selection of components for the same trip or holiday by the traveller and bought from a single business online or offline;
 - linked travel arrangements – looser combinations of travel services, for instance if the traveller, after having booked one travel service on one website, is invited to book another service through a targeted link or similar and the second booking is made within 24 hours. In such cases the traveller has to be informed that he/she is not being offered a package, but that, under certain conditions, his pre-payments will be protected.

Tourism products as a marketing concept

- Conventional mainstream (major) products (hardly coincidental with the TSA or EU classification)
 - Sun & Beach
 - Winter sports tourism
 - Mountain tourism
 - Cruise tourism
 - Niche tourism (a great variety)
- Corresponding to a diversity of travel motivations, largely under “Cultural services” as well as “Sports and recreational services” supplied by “Cultural industry” and “Sports and recreational industry” (TSA)
- As a marketing concept, a tourism product is a combination of services around a major travel motivation or attraction.
- According to ILO (*Toolkit on Poverty Reduction through Tourism*, 2013): “Product concept in general: a tourism product is the set of assets and services that are organized around one or more attractions in order to meet the needs of visitors”. A similar definition is provided by TSA.

Virtual tourism products

- A virtual composite product allowing the consumer's own choice of components out of the services made available to him/her, to accompany the provision of the journey-determining service (s) relating to a specific attraction or purpose (e. g. city or rural tourism, gastronomic tourism, industrial heritage, cultural event) – corresponding to “linked travel arrangements” if purchased in advance (EU).
- “Destinations”, allegedly managed by DMOs (destination management organizations, otherwise known as local or regional tourism organizations), also tend to be considered as virtual tourism products- but they are not.

Tourism destination as a virtual Tourism product (as defined by UNWTO)

UNWTO Education Council:

“ A space having physical and administrative boundaries defining its management, and images and perceptions defining its market competitiveness”

Addition by UNWTO Quality Support and Trade Committee

„..., representing an assembly of private and public suppliers of tourism services and goods within these boundaries (including external suppliers of services and goods to the destination concerned)”

Comment: Management of a tourism receiving area as a destination

- Over past years there has been a focus on the management of tourism receiving areas by so-called *Destination Management Organizations (DMOs)*, i.e., that is termed from the demand side.
- The concept is derived from the experience of regional tourism promotion organizations which are also known as *tourism and convention bureaus* (in the English-speaking countries).

Comment: Management of a tourism receiving area as a destination

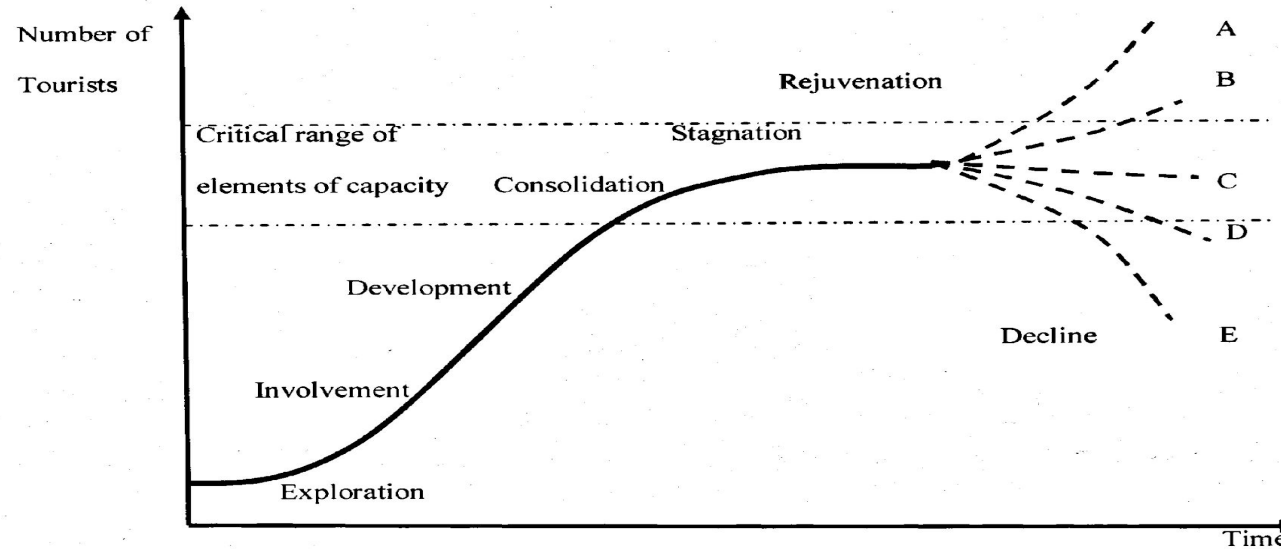
- In fact it is about soft governance, i.e. requiring DMO to play a coordination role with respect to image creation and promotion, as well as operational agreements among tourism-related stakeholders, including government and civil society organizations.
- In Poland we have local tourism organizations (LOT), the regional ones (ROT) alongside the Polish Tourist Organization on top.
- Real, substantial management, in the sense of administration, can be played, however, by local governments.

Conceptual adapting of trade in goods to leisure tourism

Tourism Area Life Cycle (TALC)

(From R.W. Butler)

Figure 1. Evolution of tourist area by the TALC



Tourism and travel related services in the General Agreement on Trade in Services (GATS)

- Services are not defined *per se*, but, as in the case of the EU (Directive 2006/123), they are identified with reference to the agreement application and further enumerated (WTO Secretariat document W/120)
- The term “Services”, therefore, “includes any service in any sector except services supplied in the exercise of government authority” (Article 1: Scope and Definition)

Services sectors identified by the WTO Secretariat for the purpose of GATS negotiations and schedules of national commitments (W/120)

- 1. *Business services*
- 2. *Communication services*
- 3. *Construction and Engineering services*
- 4. *Distribution services*
- 5. *Education services*
- 6. *Environment services*
- 7. *Financial services*
- 8. *Health services)*
- 9. *Tourism and Travel Related Services*
- 10. *Recreational, Cultural and Sporting Services*
- 11. *Transport services*
- 12. *Other services*

Tourism and travel related services in the General Agreement on Trade in Services (GATS) (2)

Sector 9

- Tourism and travel related services
 - Hotels and restaurants
 - Travel agencies and tour operators
 - Tourist guides services
 - Other
- A number of genuine tourism-related services according to TSA and EU have been left behind and attributed to other sectors (the “other” category is not supposed to refer to them)

Dealing with tourism services.

Definition of services by Directive 2006/123 on services in the internal market (Article 4)

- 1) **'service'** means any self-employed economic activity, normally provided for remuneration.

- 2) **'provider'** means any natural person who is a national of a Member State, or any legal personestablished in a Member State, who offers or provides a service;
Comment: both natural (GATS) and legal persons

- 3) **'recipient'** means any natural person who is a national of a Member State or who benefits from rights conferred upon him by Community acts, or any legal person ...established in a Member State, who, for professional or non-professional purposes, uses, or wishes to use, a service;

(Tourism) services covered by EU Directive 2006/123 on services in the internal market

- *(33) The services covered by this Directive concern a wide variety of **ever-changing activities**, including (1) business services such as*
- *management consultancy, certification and testing;*
- ***facilities management**, including office maintenance;*
- ***advertising**; recruitment services; and the services of commercial agents. The services covered are also services provided both to businesses and to consumers, such as legal or fiscal advice; real estate services such as estate agencies; construction, including the services of architects; distributive trades; **the organisation of trade fairs**;*
- ***car rental**; (and)*
- ***travel agencies.***

(Tourism) services covered by EU Directive 2006/123 on services in the internal market (2)

- *(2) Consumer services are also covered, such as those in the field of tourism, including tour guides;*
- *leisure services, sports centres and amusement parks;*
- *and, to the extent that they are not excluded from the scope of application of the Directive, household support services, such as help for the elderly.*
- *Those activities may involve services requiring the proximity of provider and recipient, **services requiring travel by the recipient or the provider***
- *and services which may be provided at a distance, including via the Internet*

(Tourism) services not covered by EU Directive 2006/123 (Article 2)

This Directive shall not apply to:

- services in the field of **transport**, including **port services**,...;
- financial services, such as banking, credit, **insurance** and re-insurance..;
- **healthcare** services;
- **gambling activities** which involve wagering a stake with pecuniary value in games of chance, including lotteries, **gambling in casinos**...;
- private security services;

Commentaries on EU Directive specification

- Specific EU Directive services are not identified with CPC neither ISIC numbers (CPC – central product classification).
- Travel agencies services are enumerated differently from “consumer services in the field of tourism” (such as tour guides) or “leisure services”.
- Healthcare services are nevertheless subject to “health tourism”.
- Terminology excluding transport services is nor consistent with travel package directives 90/314 and 2015/2302/EU) (which cover transport)
 - These, however, were enacted under the category of consumer protection, not tourism

Parallel definitions of product and service in the European Union

- REGULATION (EU) No 1025/2012 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 25 October 2012 on the European standardisation

Article 2, Definitions

(6) 'product' means any industrially manufactured product and any agricultural product, including fish products;

Comment to (6): not in the TSA sense where products encompass services

Parallel definitions of product and service in the European Union (2)

(7) 'service' means any self-employed economic activity normally provided for remuneration, as defined in Article 57 TFEU;

Comment to (7): service defined as in Directive 2006/123

National practice

- The term “tourism” services defined by national laws
 - Legal definition in Poland
 - Polish law on tourism services of 27 August 1997 revised and amended on 29 April 2010

“Tourism services – guide services, hotel services and all other services provided to tourists or visitors”

Further in Poland ...

- Understanding services under *Classification of goods and services*
 - Order of the Council of Ministers of 29 October 2008 on the Polish Classification of Products and Services (*Rozporządzenie Rady Ministrów z 29 października 2008 r. w sprawie Polskiej Klasyfikacji Wyrobów i Usług - PKWiU*)
 - Sections 49 – 51: transport services; section 55: accommodation services; section 56: food and beverage services
- Understanding under tax law (e. g. VAT rate)
 - Preferential rate of 8% for transport, accommodation and entertainment services since January 2011.

Tourism activities and the “other” economy or market

- Tourism activities, i. e. the productive activities done by specific tourism industries are subject to the same market forces as elsewhere in other sectors whereby the economic actors concerned seek maximum remuneration and productivity of their factors of production (i.e. financial benefit).
- The composite nature of tourism products – consisting of inputs from various tourism industries, other connected industries and public services - makes them more vulnerable to market uncertainty than is the case of single-purpose products on the market.
- Over decades we are witnessing a continuous effort to adapt market concepts, management techniques and marketing practice in the economy at large to the specificity of the tourism sector, to apply them directly to this sector, or to develop specific approaches for the sector.

Architecture of the tourism market

Demand/ Consumers	Intermediation (excluding travel agencies and other reservation services under producers)	Purchased Items/Supply	Producers of consumption products
<p>Travellers Visitors (Tourists)</p> <p>Households Accommodation on own account</p> <p>Intermediate consumers as producers</p> <p>Collective consumers (the public at large)</p> <p>Social transfers in kind</p>	<p>Tourist information services</p> <p>NTO/RTO/LTO - DMO</p> <p>Marketers</p> <p>Publicity agents</p> <p>Social media (consumer media)</p>	<p>Goods</p> <p>Services, including services as</p> <p><u>Products</u></p> <ul style="list-style-type: none"> - Characteristic - Connected - Non-tourism related - <u>Composite</u> <u>products</u> <p>Valuables</p>	<p>Tourism characteristic activities generated by “industries”</p> <hr style="width: 20%; margin: 10px auto;"/> <p><i>The Tourism sector</i></p> <p>The public sector</p>

International tourism: operating account for incoming tourism

Source: based on Baretje and Defert, 1972

Outlays/Debits	Proceeds/Credits
<ol style="list-style-type: none">1. Merchandise imports on behalf of tourism<ol style="list-style-type: none">a) Merchandise imports by the tourism sector itself (direct imports);b) Merchandise imports by the supplying sectors (indirect imports)2. Expenses on tourism training abroad3. Expenses on tourism marketing abroad4. Transfer of labour income abroad5. Transfer of capital income abroad (interest and dividend on foreign direct investment in tourism)6. Transfer of amortisation of invested foreign capital	<ol style="list-style-type: none">1. Tourism receipts (expenditure by foreign tourists in host country)2. Payments by foreign tour operators for services bought in host country (accommodation, ground operators, air charter operators, port authorities)3. Fare payments by incoming tourists to air carriers of the host country.4. Foreign direct investment in tourism facilities in the host country
Credit balance = Net foreign exchange effect	Total proceeds = Gross foreign exchange effect

**Defining and understanding the world tourism market.
Supply responding to demand**

End of Chapter 2