

DESTINATION: CEE

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“Our research from a year ago, which highlighted the economic potential of tourism in the new EU countries, estimated that if tourism in these countries grows at the same level as in those of the old EU countries, the economic impact will be something in the region of €46 billion within those countries,” according to Olivia Ruggles-Brise, Policy Coordinator, World Travel Tourism Council.

FLYING HIGH, FLYING CHEAP

The significance of the travel and tourism sector in Central and Eastern Europe and its potential are gaining worldwide recognition. “The tourism sector growth in CEE is probably faster than in any other country in the world, except for China,” says Terry Coates, chairman of Central European Countries Travel Association (CECTA).

The first months of 2005 show a continuation of the overall positive trend in arrivals witnessed in 2004, when international tourist arrivals



Thirteen percent of total Czech employment and rising.

worldwide grew by more than 10% and to an all-time record of 763 million, according to the World Tourism Organization's (WTO) most recent report. Central and Eastern Europe's travel and tourism industry significantly contributes to this global trend. In fact, last year CEE accounted for a share of more than 10% of all arrivals.

“In many respects, in tourism terms, CEE is a fairly new destination,” says Coates. “But it has been driven by the low cost airlines which are now flying into Central Europe. The low cost airlines like Ryanair, EasyJet, Wizzair, SkyEurope and other carriers are coming from other European countries. This has changed the market. If you take Slovakia, for example, since you could fly low cost into Bratislava there has been unbelievable growth. Another example, out of London, the Hungarian Tourist Office claims this year they have 50% growth in arrivals over last year. It is as dramatic as that.”

The low cost airlines (LCAs) have done more for the CEE's travel and tourism industry than simply attracting more travelers with low cost fares. The LCAs have also made substantial investments to advertise the market, according to Coates.

The impact of the LCAs on the number of arrivals and on travel and tourism growth is felt throughout the

CEE region. Danubius, the Hungarian based regional hotel and spa operator, for instance, reported a 17% jump in guest nights in Budapest last year, with British visitors up 60%, all down to the LCAs. Business looks set for a similar climb this year (*for more details on how this growth has helped the Danubius Group see the article on page 32*).

This is an exceptional year for Poland as well, according to Alex Kloszewski, Head of Hotel Department, Colliers International in Poland: “There has been a noticeable increase in arrivals to most cities in Poland in the last 12 months. The increase, depending upon the region, is up 24% in Poland compared to last year,” says Kloszewski. “Hotels are also doing better compared to last year. Cities like Krakow are running at 85% occupancy which is about 20 points better than last year.”

THE “NEW EUROPE” EFFECT

“The industry cannot continue growing at 24 % per year,” says Kloszewski. “The reason for the big year over year increase is due to the fact that Poland joined the European Union and the fact that seven different discount airlines started operating in Poland. Those are unique [developments]. We are expecting our industry to grow the



Prague's famous "Orloj".

next 10 years between 3.5% and 4.5% a year. This is the worldwide forecast from the WTO."

That tourism enhances prosperity by boosting business activity and creating jobs is hardly news. The full economic impact and potential of the sector, however, is not always recognized, and it can add up to astounding figures. Travel and Tourism is "the world's largest generator of wealth and jobs", according to the World Travel &

Tourism Council (WTTC), whose researchers recognize not only the direct benefits of the travel and tourism sector, but also its indirect spillover effects which amplify economic activity.

"The travel and tourism sector growth is affecting the economy quite positively," says Kloszewski. "And there are also other spillovers due to the fact that we have more arrivals. Since we have joined the EU there is more FDI activity and some regions in Poland are doing quite well with the new investments. There are three cities that are doing quite fine – Wroclaw, Krakow, and Lodz. Those three cities in the past 12 to 18 months have received a lot of FDI. The more people that visit our country, the more awareness there is, and the more business people look at that country as a good place to invest. In terms of investment, one always looks at factors such as the cost of labor and the availability of skilled labor force, including intellectual labor as well. A lot of the outsourcing from Germany and from the Scandinavian countries is coming to Poland. Tourism has a way to peg itself to the foreign investment cycle and there's also an indirect impact through bringing FDI."

More and more visitors are willing to visit CEE nowadays. For many of

them CEE tourism has also become much more affordable and easier. And it is not only the LCAs, but it is the fall of various border restrictions as well, that drive the upward trends. "Tourism is becoming more and more important in [CEE], especially since the EU enlargement," says Olivia Ruggles-Brise, Policy and Communications Coordinator at WTTC. "Many Central and Eastern European countries are now part of the EU which makes much easier the movement of people between these and other EU countries. Tourism has huge growth potential in that area. We did some research about a year ago, which highlighted the economic potential of tourism in the new EU coun-



Lining up in droves.

Travel & Tourism (T&T) in CEE

Country/ Region	Expected Economic Activity 2005 (Total Demand USD)	T&T Economy* Percentage of GDP 2005**	T&T Economy* Percentage of Total Employment 2005**	T&T (Demand) Growth 2005**	T&T Real Annual (Demand) Growth 2006-2015**
Czech Republic	24.7bn	13.8%	12.9%	1.8%	7.5%
Estonia	3,337.5mIn	20.3%	17.7%	1.7%	6.4%
Hungary	15,260.9mIn	9.3%	8.9%	3.1%	7.1%
Latvia	1,804.6mIn	6.2%	5.3%	4.9%	6.7%
Lithuania	3,985.1mIn	8.5%	7.2%	6.5%	7.0%
Poland	34.5bn	7.6%	7.1%	-0.5%	6.5%
Slovakia	9,195.3mIn	12.4%	11.0%	7.0%	6.4%
Slovenia	6,810.1mIn	12.4%	14.4%	5.2%	5.1%
Average***		11.3%	10.6%	3.7%	6.6%
World	6,201.49bn	10.6%	8.3%	5.4%	4.6%

* The estimation includes both the direct and the indirect impact of T&T

** Expected Figures

*** The average for the 8 CEE new EU member states above

Source: WTTC/Oxford Economic Forecasting (OEF)

tries, and estimated that if tourism in those countries grows at the same level as that of the old EU countries, the economic impact will be something in the region of €46 billion within those countries."

WHAT LIES AHEAD

"All CEE countries are growing their tourism and they are all interested in it, because of the economic benefits," says Coates. The average GDP contribution generated directly and indirectly by the travel and tourism economy is estimated to be 11.3% in 2005 in the eight CEE new EU member states, compared to the 10.6% world estimate, according to WTTC. The estimated annual demand growth for the sector in CEE during the next decade is higher than the estimated world demand growth (see table on previous page). This implies that both the public and the private sector will continue to nurture all kinds of opportunities within the sector.

"Policies and industry reaction has to be subject to this growth actually being maximized," says Ruggles-Brise. "Within the EU there is a real push within these countries and many of these countries have realized that tourism is very important and are probably looking at policies which will help to enhance it."

The full potential of tourism in the region is still to be realized and niche markets seem to be the way of the future. "We are hoping that niche markets, such as golf, fishing, and horse riding, will help to develop rural tourism across the whole of Central Europe," says Coates. "Our expectations are that golf will develop in the long-term, and we think we can have great interest out of the UK for golfers taking golfing holidays. Rural tourism, we think will grow on the back of what we call niche markets. When it comes to rural tourism it is slower, but it goes longer term. It's the specialist areas like golf, wines, chateaus, palace hotels,

fishing and horse riding they will be small markets, but they will be the attractions to grow the tourism sector in rural areas. This is a slow process but that is the long-term future because the hotels in Prague, for example, during the high season in particular, are full and, of course, the prices are going up."

The CEE travel and tourism business community has already spotted the future growth opportunities. Danubius Hotels, the largest Spa Hotel chain in Europe, for instance, is pushing to add value by popularizing and expanding its 'Wellness' services. "We decided to expand a lot more on what we do. Many of our medicinal services were also good for relaxation and leisure, so we introduced a lot more emphasis on these, and beauty services, while at the same time making the traditional medicinal courses more customer friendly," says Mike Wallace, in charge of Spa and Fitness Development at Danubius Hotels, in an interview with FNE. According to Wallace, the extra revenue from these services will be between 200% and 300% higher this year.

There are opportunities not only for the hoteliers but also for tour operators. "The opportunity for the tour operators is to package the extensions to the city breaks policies," says Coates. "I think there is also an area for what the trade calls 'fly-drive'. Buying an airline ticket and renting a car all in one package. These are the things which are developing and will grow."

Various opportunities with the EU candidate countries are also being exploited. With the high probability of a future EU expansion to include Bulgaria and Romania, the CEE pattern of travel and tourism boom will likely repeat. "I think the word 'Eastern Europe' is now becoming more acceptable, sounding almost romantic to the traveler. Six years ago Eastern Europe was almost perceived as a dangerous place," says Coates.

The growing popularity of Eastern Europe, where LCAs still have not

reached, has been recognized as an excellent expansion opportunity by the traditional airlines. This year Austrian Airlines has further developed its short and medium distance network to include more destinations and more flights 'to the East'. With its two new destinations, Varna and Sibiu, in Bulgaria and Romania respectively, the total number of destinations served by the Austrian Airlines Group under its 'Focus East' strategy grew to 41, ac-



ording to the company statements (see page 30 for a full interview with **Dr. Josef E. Burger**, Chief Commercial Officer of the Austrian Airlines Group).

Terrorism has become, however, a marring factor, and unfortunately no longer an avoidable consideration, in the travel and tourism discussion. CEE is still unaffected by terrorist attacks and hopefully it will remain this way. "Tourism is becoming a little dangerous with all the bombings and Central Europe is still very much a safe heaven," says Coates. "There's no fear of traveling to Central Europe. When you go back to the days of communism, there was a perception that it was dangerous. It was not a reality, it was a perception, and now this is changing."

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