Tourism and Air Transport Policies

20th Session of UNWTO General Assembly - Background paper for the General Debate

Introduction

Air transport is key for tourism. The extraordinary growth of international tourism over the last decades is as much due to advances in air transport as to the rise of the middle class, growing prosperity, appearance of new forms of information and communications technology and forces of globalization. In 2012, over half of all international tourists arrived at their destination by air. Similarly, the growth of air transport - which is the main component of civil aviation - is intrinsically connected to the expansion of tourism. The vast majority of international air passengers are travelling for tourism purposes, whether leisure or professional, and in many countries aviation is key for domestic tourism development.[1]

Furthermore, similar to tourism, aviation has a significant multiplier effect on the economy. Research suggests that aviation generates some US$539 billion of GDP worldwide directly with an indirect effect double that amount.[2] It is estimated that 8.4 million people work directly in the civil aviation industry, with a further 48 million people employed in related tourism industries. The multiplier effect is significant: it is estimated that every US$ 100 of revenue produced by air transport triggers an additional demand of US$ 325 and that every 100 jobs generated by air transport triggers an additional average demand of well over 600 jobs in other industries.[3]

Although it could be argued that tourism acts as a catalyst for air transport rather than *vice-versa,* air transport and tourism are in an interdependent relationship. However, despite this interdependency and the important multiplier effect of both, many countries have separate sectorial policies on air transport and tourism. This results in fundamental and often conflicting disconnects and a lost opportunity to maximize the potential of both for the economy and society.

Administrative dimensions

[1] UNWTO (2011), *UNWTO General Assembly 19th Session, Tourism Towards 2030,* 10 October (Online), available at http://dtxtq4w60xqpw.cloudfront.net/sites/all/files/pdf/unwto_2030_ga_2011_korea_1.pdf
ICAO (2013), *Circular 333, AT/190, Global Air Transport Outlook to 2030 and trends to 2040,* ICAO: Montréal, Canada.

[2] Oxford Economics (2012), *Aviation: Benefits Beyond Borders*, March 2012 (online), available at http://www.aviationbenefitsbeyondborders.org/sites/default/files/pdfs/ABBB_Medium%20Res.pdf

[3] ICAO (2005), Circular 292-AT/124, *Economic Contribution of Civil Aviation,* ICAO: Montréal, Canada.

In some countries, tourism and air transport are administratively part of the same government portfolio. However, the majority of countries have the responsibilities of transport and tourism assigned to different areas of government and generally give transportation a higher hierarchical or de facto importance. This reflects specific geopolitical circumstances in each country and highlights the need for close co-ordination. The establishment of common positions by transport and tourism entities between each other and with third parties should be centred around key areas such as: security and facilitation; investment in infrastructure and safety; crisis management**;** health issues; data collection; forecasting and economic analysis; economic regulation; taxation; consumer protection; and sustainable development.

At the international level, the World Tourism Organization (UNWTO) and the International Civil Aviation Organization (ICAO)[4] are the intergovernmental organizations responsible for each of these areas, respectively. In this framework, and aiming to bridge the gap between tourism and aviation policies, UNWTO has closely collaborated with ICAO since a *Working Arrangement* between the two Organizations was established in 1978. In 2010, this collaboration was strengthened through a *Memorandum of Understanding* identifying a number of areas of mutual interest and action. As a concrete symbol of increased commitment to work together, the Secretaries-General of the two Organizations signed a *Joint Statement in March 2013* aiming to further optimize the benefits of aviation and tourism through maximizing synergies; cooperating for the modernization of the air transport regulatory framework; enhancing air transport connectivity, including visa and other document formalities and issuances; contributing to the protection of passengers, tourists and tourism service providers; reducing greenhouse emissions; addressing air transport for tourism development in long-haul destinations and landlocked or island countries; and assessing the economic impact of taxes, charges and other levies on aviation and tourism. These topics reflect not only global but also national and regional priorities for tourism and air transport co-operation and are further developed below.

Air connectivity and economic regulation

While there is no universally agreed definition of ‘air connectivity’, the general understanding is that it is an overall measure of the level of service - the range and economic importance of origins/destinations, the reliability and frequency of flights and connections - available through a country’s aviation system linkage to the global air transport network. The higher the level of connectivity, the greater will be the level of access to the global economy.

Policies limiting air connectivity present one of the major barriers to growth of travel and tourism. This was recognized by UNWTO’s Executive Council[5] which decided that promoting increased air connectivity shall be one of the priorities of the Organization.

[4] Like UNWTO, ICAO is a Specialized Agency of the United Nations. ICAO sets standards and policies for civil aviation safety, security, efficiency, environmental protection and economic development of air transport.
[5] UNWTO (2012), Executive Council- Ninety-third session, Madrid, Spain.

Recent research shows that the measure of connectivity is closely correlated with important economic variables including the degree of liberalization of air transport markets.[6] Similarly, it has been estimated that replacing the most restrictive bilateral air services agreement with the most liberal agreement may increase traffic by over 75%.[7]

A key factor for the future development of tourism is the continuing need for air transport market liberalization. Air connectivity could be improved through carefully designed regulatory liberalization encompassing market and capital access in the context of tourism and trade, notably in terms of more 'open skies', freeing up air carrier ownership and control restrictions, and developing a framework 'beyond bilateralism'[8]. Although its application is still too limited, the concept of open skies has undoubtedly opened markets and generated new traffic for aviation and new tourism demand for destinations.

In too many countries, however, the concept of air service reciprocity, associated with protection of 'national' carriers, takes precedence over a more rational assessment of the net national economic and social benefits from tourism and trade.

A primary concern on the regulatory front is that air carrier ownership and control are still vested in the interest of single states or, in the case of Europe, a group of states. This puts severe constraints on access to capital (in a capital-intensive industry) and on market access (in a transnational industry). These constraints are the central reason behind the establishment of the global airline alliances, Oneworld, Sky Team and Star, which provide an indirect if by no means ideal way of achieving these ends. Current financial problems of individual alliance members and changing linkages beyond the alliances suggest that the alliance business model is entering a new era. The issues of ownership and control are especially restraining developing countries.

Concern is often raised in traditional aviation markets and by legacy carriers regarding the increasing global reach of rising airlines from the Gulf and China. The host countries of these airlines offer a valuable lesson through seamless integration of trade, tourism and aviation policies. Attempts are being made to emulate this lesson in a few developing countries which are primarily tourism destinations.

In the past, there have been legitimate concerns about continued participation and assurance of service in that a 'foreign' carrier may suddenly withdraw its services. Small countries in particular, live with the risk of foreign carrier withdraws as they are more vulnerable than countries with major economies. Furthermore, in an increasingly competitive global

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[6] World Bank (2011), *Policy Research Paper 5722, The Air Connectivity Index: Measuring Integration in the Global Air Transport Network,* June 2011, World Bank (online), available at http://elibrary.worldbank.org/content/workingpaper/10.1596/1813-9450-5722

[7] World Trade Organization (2008), *Staff Working Paper ERSD-2008-06, Liberalization of Air Transport Services and Passenger Traffic,* December 2008, WTO (online), available at http://www.wto.org/english/res_e/reser_e/ersd200806_e.pdf

[8] International air transport is governed by a bilateral regime based on reciprocity that determines the economic regulatory framework for airline operations internationally.

environment, other carriers will usually only be too willing to move in and, through 'hubbing', even small markets can be made profitable as 'spokes'.[9]

The joint UNWTO/ICAO study on *Essential Service and Tourism Development Routes (ESTDR)*[10] was originally developed to apply to international routes to and from least developed countries (LDCs) and keeping international links to especially Small Island Developing States (SIDS) and Landlocked Developing Countries (LLDCs). This concept is socio-politically equivalent to essential air service schemes in developed countries. Since then, liberalisation of air markets has enabled a number of SIDS to benefit from more routes and carriers and more competitive pricing.[11] It is now important to promote the application of the ESTDR concept more widely.

In general, there is an ongoing need to convince governments of the benefits of air transport liberalization and to move away from the bilateral process towards a more multilateral approach.

Infrastructure: The role of airports for tourism development and current challenges to networks and regional hubs

Countries continue investments in air transport infrastructure to keep pace with traffic growth. However, many countries and airlines face constraints on airport and airspace capacity. Slot allocation[12], for example, has impeded the implementation of air services agreements. As air traffic continues to grow, slot shortages will increase, spread to other airports and impact negatively on tourism and the regional economic development.[13]

In a globalized and liberalized aviation environment, the question arises as to whether existing major airport hubs will be able to maintain their dominant role. Historically, hubs without a substantial local travel originating base have declined as new aircraft have rendered stopovers unnecessary. With the advent of new aircraft such as the Airbus A350 and the Boeing B787, the availability of 'mix-and-match' sizing for long haul routes will enable more point-to-point operations, and may reduce the attraction of hubs.

At the same time, airports are diversifying and changing business models. According to Airports Council International (ACI), 43% of total airport revenues worldwide were generated in 2012 already by non-aeronautical sources.[14] Traditionally, these non-aeronautical revenues have

[9] A hub is a central airport that flights are routed through, and spokes are the routes that planes take out of the hub airport.
[10] ICAO (2005), *A Study on the Essential Services and Tourism Development Route Scheme,* July 2005, ICAO (online), available at http://www.icao.int/sustainability/Pages/Eap_ER_Databases_EssentialRouteScheme.aspx
[11] World Tourism Organization (2012), *Challenges and Opportunities for Tourism Development in Small Island Developing States,* UNWTO, Madrid.
[12] Slot allocation is the process of allocating specific time periods for an aircraft to land and/or take off at an airport under capacity constraints.
[13] ICAO (2005), Circular 292-AT/124, Economic Contribution of Civil Aviation, ICAO: Montréal, Canada.
[14] Non-aeronautical revenues critically determine the financial viability of an airport and tend to generate higher profit margins than aeronautical activities.

been derived from such activities as duty free shopping, restaurants etc. However, this has changed to an integrated concept of 'airport cities'. These not only generate new sources of revenue for the airport operator but also position the airport as a tourism destination in its own right, potentially showcasting the heritage of the region and country.

Security and visa facilitation

The sustainable development of aviation requires uncompromised commitment to safety and security, as well as to facilitation at airports. Aviation is a focus of global safety and security and the standards generally apply effectively worldwide. However, air transport, at times, struggles to cope with the security-driven requirements at airports.

Aviation security has been assisted through ICAO's work on Advanced Passenger Information (API) and specifications for Machine-Readable Travel Documents, which facilitate visa processing. Facilitation is a prerequisite of connectivity and an overall restrictive visa policy means lost opportunities for economic growth and jobs. Travelers regard visas as a formality which entails a cost, which can be deterrent to travel. In 2012, research by UNWTO and the World Travel and Tourism Council (WTTC) demonstrated that improving visa processes could generate an extra US$206 billion in tourism receipts and create as many as 5.1 million additional jobs by 2015 in the G20 economies.[15]

Recent UNWTO research showed that between 2010 and 2012 over 40 countries made significant changes to their visa policies, changing from 'visa required' to 'visa on arrival', 'eVisa' or 'no visa'.[16]This impressive movement translated into more than 5,000 bilateral facilitation measures during this two-year period. To improve facilitation measures at the international level, UNWTO also supports the work of ICAO on document specifications and submitted to the ICAO Assembly Session in 2010 the proposal that ICAO should explore the development of standards and specifications for eVisas, to which the Assembly agreed.

Consumer protection

There are significant differences in consumer protection regulations applicable to air transport around the world, and an insufficiency of existing rules at a global level governing the rights and obligations of tourists/consumers and of travel organizers. This causes problems for air carriers and passengers, particularly where the provisions of two or more jurisdictions are applicable to the same flight. UNWTO is working on tourist/consumer protection with a special accent on the elaboration of a draft convention on the protection of tourists and tourism service providers. The

[15] UNWTO/WTTC (2012), *The Impact of Visa Facilitation on Job Creation in the G20 Economies,* Report prepared for the 4th T20Ministers' Meeting, Mexico, 15-16 May 2012, 20 June, UNWTO/WTTC (online), available at http://dtxtq4w60xqpw.cloudfront.net/sites/all/files/pdf/120731_impact_visa_facilitation_g20_mexico_prot_0.pdf

[16] Implementation of measures that affect positively the citizens from at least 20 or more countries.

subject of consumer protection was addressed at the ICAO Air Transport Conference in March 2013, which gave that Organization a mandate to "develop a set of core principles on consumer protection that strike an appropriate balance between protection of consumers and industry competitiveness and that take into account the needs of states for flexibility, given different State social, political and economic characteristics". In the meantime, while the UNWTO and ICAO work evolves, pragmatic solutions will have to be sought on a bilateral and regional basis.

Taxes and other levies

The number and impact of taxes and duties in the air transport industry and in the tourism sector continue to increase.[17] This trend is in large part due to the growing importance of tourism and the potential source of tax revenues the sector is providing. Properly constituted taxes and duties are a fundamental and legitimate fiscal tool of governments worldwide. Earmarked charges, such as landing charges and passenger fees, provided they are consistent with ICAO guidance, are also sound. However, there is growing concern regarding the proliferation of taxes and duties and their secondary adverse impacts on both air transport and tourism. Due to the nature of the travel and tourism sector, intelligent taxation models are called for as the only way a net damage can be avoided to the economy.

The interdependencies of aviation and tourism have many dimensions when it comes to taxes and duties. The imposition of air transport taxes and levies in originating markets impacts not only on airlines but can have a greater impact on destination economies. The proliferation of taxes and duties and the lack of taking into account secondary impacts hinder the successful development of tourism and air transport and ultimately contradict the aim of building a wider tax base. This issue needs to be addressed through collective positioning of the benefits of air transport and tourism, holistic analysis, and guidance on the impact of taxes and other levies.

The role of aviation within the Green Economy

Another challenge for tourism and aviation co-ordination is that of environmental protection, especially aviation's contribution to climate change.

While the tourism community has been long working on both adaptation to and mitigation of climate change, aviation has been focused almost entirely on mitigation.[18] The aviation mitigation measures are absolutely critical for the long-term development of the tourism sector and call for a stronger engagement by the sector. At present, air transport is directly responsible

[17] ICAO (2013), Working Paper ATConf/6-WP/75, Worldwide Air Transport Conference 28 February, February 2013, ICAO (online), available at http://www.icao.int/Meetings/atconf6/Documents/WorkingPapers/ATConf6-wp075_en.pdf

[18] In the past couple of years there has been recognition of a need for work also on adaptation, for example as regards increased turbulence and flooding of low-lying airports.

for 2% of global man-made CO_2 emissions and just 1% of GDP, a ratio of 2:1.[19] The predicted growth of air traffic would, under a business-as-usual scenario, cause air transport's CO_2 emissions to increase fourfold by 2050.

Travel and tourism, encompassing the air passenger transport component, represent globally about 5% both of global CO_2 emissions and of GDP, a ratio of 1:1. While air passenger transport in isolation may not easily become sustainable, travel and tourism together, in which air transport plays a crucial role, may not only be sustainable but also a driver of green growth. It is estimated that an investment of 0.2% of global GDP per year will produce significant environmental benefits, i.e. decreasing energy use (44%) and decreasing CO_2 emissions (52%) by 2050 over the business-as-usual- scenario and ensure the growth of travel and tourism.[20]

However, airlines continually focus on reducing fuel consumption since fuel represents over 30% of operating costs. This has resulted already in substantial declines in per unit fuel costs which are expected to continue falling in the order of about 1.5% per annum worldwide over the coming years. However, with air transport forecast to grow at over 4.5% per annum, there would still be a substantial increase in absolute emissions. Given desired continuing growth in tourism and air transport, it is widely recognized that some form of market-based measures (MBMs) for air transport emissions, such as carbon pricing or emissions trading, will be necessary to complement the operational, technical and infrastructure improvements.

While ICAO continues to progress, disseminating the action plans of states, and promoting the evolution of alternative fuels, it faces an increasingly uphill task with its work on the MBMs in order to achieve its aspirational goal of "keeping the global net carbon emissions from aviation from 2020 at the same level". The key MBMs issue is a perceived conflict in the uniform application provisions of the Chicago Convention and the principle of "Common But Differentiated Responsibilities (CBDR)" of the United Nations Framework Convention on Climate Change (UNFCCC).

In recognition of this issues and the potential impact of MBMs on tourism, UNWTO developed a *Statement Regarding Mitigation of Greenhouse Gases from Air Passenger Transport* in 2010.[21] The *Statement* calls for an assessment of mitigation measures in the context of broad-spectrum tourism rather than for air transport in isolation. It highlights the importance of alleviating the impacts these measures might have on tourism destinations. UNWTO also calls for a non-duplication of emissions levies on transport and other tourism activities, for example as a result of the application by more than one authority or through different regimes such as taxation and emissions trading.

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[19] Lyle, C. (2012), *Rio, Kyoto, Brussels and Chicago: Reconciling principles related to international air transport emissions*, July 2012, GreenAironline.com (online), available at http://www.greenaironline.com/photos/Rio_Kyoto_Brussels_and_Chicago_Chris_Lyle_July_2012.pdf

[20] World Tourism Organization (2012), *Tourism in the Green Economy- Background Report*. UNWTO: Madrid.

[21] UNWTO (2010), *Statement regarding mitigation of greenhouse gas emissions from air passenger transport*, 07 September, UNWTO, available at (online)**,**http://sdt.unwto.org/sites/all/files/docpdf/unwtoghgaviationpolicy2010.pdf

One approach to dealing with MBMs would be for states to incorporate emissions from international aviation into their emissions trading systems (ETS). Consistent with the UNFCCC process, the European Union (EU) decided to include international aviation in its existing EU ETS, effective since January 2012. However, the EU decided to suspend the application of its ETS to routes from and to Europe (i.e. not within Europe) pending the outcome of the ICAO's 38th Assembly Session in September 2013. If the EU feels ICAO has made sufficient progress towards developing a globally-applicable MBM mechanism it will either extend that suspension or drop the external application entirely. If not, the EU will take some other action, including re-application of its ETS, in full or modified form.

In 2009, the global air transport industry set itself targets of carbon neutral growth by 2020 and a 50% reduction in overall emissions by 2050, as compared to 2005 levels.[22] In June 2013, the International Air Transport Association's (IATA) Annual General Meeting approved a resolution calling for a global market-based measure. IATA encourages governments to adopt a global, single and commonly agreed MBMs framework that offsets the industry's growth in carbon emissions post-2020.

ICAO's coming Assembly Session will be critical. A global MBM that is optimal for aviation in isolation may well not be optimal for tourism or indeed optimal for aviation and tourism together. If the opportunity to reach a substantive agreement is missed, there is a prospect of a complex, overlapping and possibly duplicative patchwork of emissions regimes which could do even more harm, for aviation and tourism alike.

An integrated, collective vision for aviation and tourism

Tourism and aviation play an increasingly important role in the global economy, especially for economic development and job creation. However, the benefits and challenges of both are often dealt with separately, making unclear the interdependencies and the catalytic effect both sectors have on other economic activities and their synergetic impact on growth and development.

The tourism development agenda is inextricably linked with that of air transport. Tourism represents not only air transport's primary end user, but it offers a unique opportunity for economic growth and development for all nations and particularly for least developed countries.

Both UNWTO and ICAO estimate continued growth, with 1.8 billion international tourist arrivals by 2030, 52% of which will arrive at their destinations by air and 6.3 billion scheduled passengers worldwide by 2030.[23] For this to be achieved, and particularly with a focus on green

[22] IATA, (2009), *Global Approach to Reducing Aviation Emissions*, November 2009, IATA (online), available at http://www.iata.org/SiteCollectionDocuments/Documents/Global_Approach_Reducing_Emissions_251109web.pdf;
IATA (2012), *Annual Review 2012*, June 2012 , IATA (online), available at http://www.iata.org/about/Documents/annual-review-2012.pdf012

[23] UNWTO (2011), *UNWTO General Assembly 19th Session, Tourism Towards 2030,* 10 October, UNWTO (online), available at

growth, some **challenges** have to be overcome in the tourism and aviation nexus. For **aviation**, these include: infrastructure capacity and operations; congestion; volatile fuel prices and availability of alternative fuel; predicted pilot shortages; regulatory economic constraints; responsive air transport policies and environmental sustainability. From the **tourism** perspective there is need to focus on: further improving air connectivity through air transport liberalization, more visa facilitation and ongoing infrastructure development; addressing the rights and obligations of tourist consumers and travel organizers; fostering a reduction in unsubstantiated and harmful taxes and duties; and mitigating climate change.

Separately, aviation and tourism will not overcome these challenges on their own. In order to resolve them, closer cooperation and collective action beyond functional 'silos' of tourism and air transport is needed, fostered at national level by appropriate government direction and at the global level by the joint work of UNWTO and ICAO, the UN specialized agencies for tourism and civil aviation, with the support of other international and regional stakeholders.

By addressing the challenges as one, countries will be able to obtain their fair share out of the growing overall opportunities that tourism and aviation are generating and are set to generate in the coming years and decades.

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http://dtxtq4w60xqpw.cloudfront.net/sites/all/files/pdf/unwto_2030_ga_2011_korea_1.pdf
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