European Travel & Tourism: Where are the greatest current and future investment needs?

Executive Summary

April 2015
The Travel & Tourism sector makes a substantial contribution to European economies. In 2014, including its direct, indirect, and induced impacts, Travel & Tourism supported 33.5 million jobs and made nearly €1.6 trillion in contribution to gross domestic product (GDP), or 9.3% of total European GDP. By 2025, the Travel & Tourism sector's total economic contribution is expected to grow to 38 million jobs and €2.1 trillion in contributions to GDP (9.9% of total European GDP). In addition, Travel & Tourism will be a key to recovery for countries hit hardest by recession and the Eurozone crisis, including Greece, Spain, and Portugal.

The sector’s growing GDP and jobs contribution depends on supportive infrastructure and investment. While investment must be smart, there is a strong historical link between the magnitude of Travel & Tourism investment spending and the quality and capacity of European countries’ Travel & Tourism infrastructure. The success and size of the economic contribution from Travel & Tourism is directly linked to the amount of investment in the sector. Travel & Tourism is forecast to grow as fast, if not faster, than the economy overall in every major European region, putting pressure on infrastructure capabilities and increasing the need for additional infrastructure investment. For example, Western and Northern European countries are expected to experience average annual growth in their Travel & Tourism sectors of 2.7%, compared to whole economy growth of 1.9% per year. In Eastern Europe, Travel & Tourism growth of 3.3% is expected to marginally outstrip economy-wide growth of 3.2%, while Southern Europe’s Travel & Tourism sector growth of 2.8% per year will outpace economy-wide growth of 2.6%.

Compared to baseline forecasts, however, poor existing infrastructure quality and capacity or inadequate future investment could slow growth in Travel & Tourism GDP and jobs contributions between 2015 and 2025. This report shows that several countries could fail to achieve baseline forecasts for Travel & Tourism GDP and jobs, and fall behind in global competitiveness terms, due to limited infrastructure and underinvestment relative to Travel & Tourism demand. This report uses three categories to identify country typologies, ranging from those that are at risk of losing Travel & Tourism infrastructure competitiveness over the next decade, to those that are well-placed to benefit from forecasted investment spend between 2015 and 2025 (Figure 0.1):

- **Well-placed**: This group of countries, exemplified by Austria, Germany, and the United Kingdom, has high existing quality and capacity of Travel & Tourism infrastructure which they expect to maintain and improve between 2015 and 2025. With investment growth expected to outstrip demand over that period, these countries are well-placed to capture the full benefits of forecasted Travel & Tourism demand.

- **Well-placed, but with key risks**: France, Italy, Switzerland, Ireland, and Greece are one set of countries included in this category. Each of them has existing Travel & Tourism quality and capacity that is greater than the European average. Yet their strong positions are likely to deteriorate somewhat over the next decade, since Travel & Tourism demand growth is forecast to outstrip Travel & Tourism investment growth over the period. Similarly, Denmark and Finland have better than average Travel & Tourism infrastructure quality and capacity; however, weak historical investment growth presents risks to the forecast that investment growth will exceed demand growth in the next decade. Slovenia and Latvia are also “well placed, with risks”. Their key strength is that they are expected to see investment growth that is stronger than demand growth over the next decade; their key risk is their existing infrastructure quality and capacity, which is below the European average.

- **At medium or high risk**: This category includes countries like Albania, Bosnia and Herzegovina, and Moldova, which are considered to be at high risk because they have the poorest existing infrastructure quality and capacity of the 41 countries analysed in this report. Croatia, Serbia, and Slovakia are also considered at risk, because Travel & Tourism investment growth is expected to lag behind demand growth over the next decade, and their starting infrastructure quality and capacity today is average — in the case of Croatia — or low — in the case of Serbia and Slovakia. Portugal, having relatively strong existing infrastructure capabilities, is a special case: because demand growth is expected to outpace investment growth by such a wide margin, the country faces a risk that its current infrastructure quality and capacity will degrade over the next decade. Unlike Spain, Portugal did not have the same high level of Travel & Tourism investment in the period before the global recession.

Few countries can claim a high ranking across all three major Travel & Tourism infrastructure “pillars” analysed in this report, comprising tourism, air transport and ground transport infrastructure. Southern and Eastern European countries tend to have weaker air transport capabilities, while a number of Western and Northern European countries — including the UK, Germany and Denmark — need to improve their tourism infrastructure before being ranked “best in class” for that pillar. Several Southern and Eastern European countries, including Albania, Poland, Romania, and Serbia, fall short on all three infrastructure pillars.

The 41 European countries analysed in this report are expected to invest €2.1 trillion in Travel & Tourism between 2015 and 2025. That is 5% of all forecasted European investment over the period. The 14 Western and Northern European countries analysed in this report will contribute the largest amount, at €1.3 trillion, or 62% of the European total and €210 per foreign visitor and domestic resident. The 14 Southern European countries analysed in this report will contribute €570 billion, or 27% of the European total and €100 per foreign visitor and domestic resident. And the 13 Eastern European countries analysed in this report will contribute nearly €240 billion, which is 11% of the European total and equivalent to a little over €50 per foreign visitor and domestic resident.

Future investment in the European Travel & Tourism sector must be smart. Government deficits, strained corporate balance sheets, and strong competition among major world regions for foreign direct investment mean that future investment spend must be well-targeted. A recent report by the European Court of Auditors highlighted the dangers of poorly targeted spending: of €460 million in Cohesion policy funds spent on 20 airport infrastructure projects in Estonia, Italy, Greece, Poland, and Spain, 28% was deemed to have gone to projects that were “not needed at all”. Seven of the 20 airports which received funding for expansion projects are unprofitable, and will likely be closed in the absence of permanent public funding. Indicatively, only half of the airports analysed had more passengers post-expansion, suggesting significant underutilization of the newly built infrastructure.

Government and financial sector constraints on funding suggests that European countries should seek opportunities for cross-border collaboration and creative funding options. Europe’s relatively small geographic size and existing integration means cross border Travel & Tourism infrastructure collaboration can be uniquely effective. For Europe, smart investment, especially in periods of fiscal austerity, may come in the form of creative funding options like public-private partnerships or even crowdfunding.
A report prepared by Oxford Economics for the World Travel & Tourism Council