

## Tourism - Taking stock of the first Six months

The results achieved for the first six months of the year are indeed encouraging, and in terms of tourist arrivals we are doing better than most of our competitors. These results confirm that Government did well to decide in favour of investing more money for the introduction of new routes and to increase seat capacity. This decision has paid off, and the economy is reaping an immediate and handsome return. Although we have managed to claw back lost ground in 2009; we should not just benchmark our performance solely against the results of last year, which was one of the worst years for tourism in recent history. Without downplaying the positive results achieved so far, it is important to point out that notwithstanding an impressive 10.7% increase in arrivals for the first six months, guest nights are down by 8.2% on 2008, whilst nights spent in hotels dropped by just over 9%. These figures are according to NSO statistics just published.

Tourist expenditure per capita appears to be slowly rising and to date it is up by marginal .5%, which is good for the economy. This is mainly a result of a significant increase in the number of independent travellers and a trend towards a shorter average stay. However, so far, the expenditure pattern does not translate into hotel revenue improvements of anywhere near the same proportions. Our analysis shows that as a result of the changing tourist spending patterns, an increasing proportion of total spend is actually flowing away from hotels to other service providers, and hotel revenue is becoming more and more accommodation based. We are witnessing dramatic changes in market patterns - the volume of tour operator packages will continue to fall this year - probably to around 40% from the near 75% it was just 5 years ago. Meanwhile, the market remains price sensitive with most tour operators demanding zero increases on prices for next year. These trends will, undoubtedly, have a negative impact on the hotels and restaurants sector. Clearly, we need to take heed of these new realities and find optimal ways of revising operating strategies.

These generally improving trends however, have not been sufficient to make up for the rise in the energy costs and other increases in the operating costs imposed on us since the start of the year, making it difficult for hotels and restaurants to make any immediate significant gains to match the performance levels registered pre-2009. Our workings indicate that despite the increase in arrivals for this year, which will probably hit the 100,000 to 120,000 mark, the hotel sector will nevertheless end up with similar bottom line figures as those registered in 2009, which is not very good news. As, as things stand, there is an obvious miss-match between increases in revenue and increases in costs, and it appears that the gap will continue to widen, if the industry is burdened with further increases.

The substantial rises in costs this year, triggered by the increase in the utility rates, are unprecedented. Since the start of the year, we had to cope with the highest COLA increase in recent times, the astronomical increase in utility charges, plus a significant increase on gas and fuel. Food and beverage costs have also gone up, and so have the charges of other service providers. In addition we have had imposed on us other charges by a number of Government institutions. We simply cannot continue to be burdened with any further Government induced costs, as these are rendering this sector of the economy less and less competitive whilst jeopardising the sustainability of the entire tourism industry!

We do recognize the hard work and efforts that took place this year to secure extra seat capacity and new routes. We also note that MTA's marketing efforts are increasingly becoming more proactive; nevertheless, we cannot afford to be complacent, and must

continue to work collectively harder. Undoubtedly, and due to the changing patterns and a higher propensity for a shorter average length of stay, Malta needs to target further growth in arrivals next year to make up for the lost bed nights, and regain sustainable levels of business. This also suggests that we need to continue working to increase numbers in the shoulder and winter months, which is a tough call.

The market conditions are set to continue changing and consequently we need to ensure that we are well armed with the necessary data, statistics and a mechanism that can precisely measure the impact of tourism on the economy as it unfolds, so as to be able to react and reposition ourselves accordingly. The European Parliament has just prepared a draft of a revised EU Directive which stresses that data collection for tourism activity should be of the highest priority. This document further emphasises the need to increase information on tourism spending and tourism satellite accounts. On this point, MHRA has been insisting with Government to adopt a tourism satellite account without any further delay, as this is crucial to the decision making process, considering that tourism contributes to almost a quarter of the GDP.

Clearly, the EU is looking at tourism as a key driver of the European economy, in fact, as a first, the EU has just published a new political framework for Tourism in Europe, which carries a thorough assessment of the competitiveness-related challenges facing the hospitality industry, characterized by highly-volatile markets and constant evolution in product demand.....which is exactly what we are experiencing in Malta at present! The announcement of this new tourism framework is opportune for us as it coincides with the review of our national policy for tourism and the drawing of a strategic action plan for tourism. But a number of tough decisions may have to be taken in the short term if Government wants to retain its lion share of this lucrative sector of the economy!

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