travelweekly

insight

In partnership with

Deloitte.

Annual Report 2017-18

Resilience, investment and innovation in uncertain times

Produced in association with Kantar TNS

Contents

Travel Weekly Insight Report 2017-18

TRAVEL WEEKLY INSIGHT ANNUAL REPORT 2017-18

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Executive summary

Deloitte.

Resilience amid uncertainty

UK consumer income is starting to feel pressure. Despite high employment levels, slow wage growth and rising levels of inflation have squeezed real incomes. Over the past year, growth in consumer credit has been stable, suggesting that spending has been sustained through credit card borrowing and other consumer debt.

The Deloitte Consumer Tracker has found that overall confidence has seen three continuous quarters of decline since the end of last year and even though net confidence improved quarter-on-quarter in Q3 2017, it is still down compared with last year.

Confidence in the level of disposable income has dropped the most, falling from -12 in Q3 2016 to -21 in Q3 2017. This suggests consumers are seeing living costs eat a bigger share of their income, leaving them with less to spend on discretionary items.

Indeed, many discretionary categories have already seen a drop in consumer spending. In a sign that consumers are delaying bigger non-essential purchases, the Society of Motor Manufacturers and Traders reported in October that sales of new cars fell for the seventh consecutive month and were down 12.2% from the year before.

According to Deloitte Leisure Consumer research, consumers are spending less on leisure activities such as eating out and culture and entertainment, and plan to continue to cut back on this.

However, luckily for the travel sector, spending on holidays has not yet seen a significant change. Consumers value their holidays, possibly perceiving them as an "essential" and often ring-fence that spending in advance, or forgo or delay other discretionary spending instead. For instance, they might postpone upgrading their car for another year or have fewer meals out to ensure they still get their trips away.

Travel sector continues to perform well

As consumers have prioritised their holiday spending and remained confident about travelling, the UK travel sector has continued to perform well.

Pressure on consumer income has forced a prioritisation of discretionary spending, says **Alistair Pritchard** of Deloitte

Airline association Iata reported global air passenger numbers growing at the fastest rate in years in the six months to June 2017.

Strong UK demand has largely been attributed to the falling value of sterling attracting more inbound visitors. However, as UK consumers get less for their money abroad many have been opting for domestic travel, which has reinvigorated regional tourism.

At the same time, many UK outbound companies have posted strong performances. Niche travel specialists in areas such as solo or adventure travel aboard as well as cruise have performed particularly well as these are growth markets and consumers in these segments tend to have relatively more money to spend.

Investment appetite in the UK travel sector has held up well. The mergers and acquisitions pipeline appears strong. Private equity investors still need to invest their money and make returns in a given fixed period, while many corporates have healthy balance sheets allowing them to seek investment – so there is competition for good assets when they become available.

While the consolidation in the airline industry has reduced capacity, overcapacity continues to cause issues with yields. The industry needs to work on finding a better balance between capacity and demand in the future, especially as consumer demand will continue to be susceptible to economic and other world events.

There are still many unknowns related to Brexit and uncertainty about how the UK travel sector will operate in a post-Brexit world. While this might complicate future planning, the sector is used to being agile so it should be well-positioned to respond. Nonetheless, to reassure consumers it is critical for the sector to get clarification as soon as possible on whether the UK can reach a deal that continues to allow easy movement of aircraft in and out of the country, and establishes an immigration system that does the same.

More, more, more: technology, collaboration and personalisation

Technology is now a key part of the travel industry. Use of mobile technologies while travelling (eg mobile tickets) is now commonplace as it fits with consumers' preferences and habits.

However, mobile bookings and use in travel planning has yet to reach its full potential as the experience of booking a holiday with multiple components offered by various providers can still be cumbersome.

Improving collaboration and interoperability through setting up common standards would help travel companies to work together in offering a hassle-free, smooth booking experience. Concierge services, providing the consumer with one gateway to manage their plans and bookings across multiple providers, is one successful example of encouraging consumers to shift more bookings to mobile.

More collaboration and improving data sharing between travel companies is also key to unlocking the benefits of personalisation. There has been more momentum in personalisation in the last year but companies can still improve by thinking how they can work together to combine the data they have on customer interests and preferences, and build a more holistic, personalised offer to them.

However, the challenge is to make sure the right set of permissions are obtained from customers to share their data. The General Data Protection Regulation (GDPR) comes into effect in 2018 but the sector still has some work to do to be fully compliant with it. Ultimately this change will be a positive opportunity for the industry as standards for privacy and security will be built into systems from the outset.

The sector is becoming more comfortable in adopting more innovative technologies to serve the consumer better and to operate more efficiently.

The Deloitte report on The Connected Worker shows that for 84% of employees it is important for their company to use the latest technology. The appetite within organisations to use more technology is not limited to decision-makers.

The use of chatbots and robotics to automate processes has also increased. More companies are looking at opportunities to use cognitive learning, facial recognition and artificial intelligence both internally as well as in engaging consumers, but this is still fairly nascent.

While travel companies have generally more money to invest in technology, investment has tended to be fairly small-scale, in 'bite-sized' projects and focused on value and proven technologies. This is driven by travel businesses preferring to try out technologies and finding a balance between being innovative and making big bets that might backfire.

Clouds on the horizon?

Looking ahead to 2018, consumers are likely to see holiday and travel prices rise as the cost base of travel companies has risen, but also because holiday demand has had to concentrate on a smaller number of European countries perceived to be "safer destinations".

Although there are worries around consumer spending slowing down, demand for travel is expected to remain strong, particularly in the short run, due to consumers valuing their holidays above other major purchases.

However, travel businesses need to monitor closely how consumer confidence develops in the medium term as the high levels of personal debt, combined with the recent hike in interest rates, might gradually influence confidence as well as the economic circumstances of UK consumers.

The uncertainties around Brexit could mean some businesses are slightly more cautious in the immediate future, but it is unlikely to have a significant impact on how the sector plans and operates in the short term. The sector is used to dealing with a range of unpredictable events and setting up contingency plans, and this is another case of doing that.

An aviation deal between the UK and the EU is likely as both sides have a lot at stake. However, the earlier the deal on aviation market access is reached, the more chance there is to keep the consumer confident and travelling.

In the longer term, the sector is likely to continue to focus on applying a wide range of technologies and increase personalisation which will drive more pan-industry co-operation. New and innovative areas of technology such as blockchain might start to see more investment as fast movers look to make their mark. That could have a big impact on distribution models and finance in the sector.

It is also important that the industry looks ahead to the longer term and assesses how consumers' travel preferences might change in 15-20 years' time. This will help companies focus beyond the temporary challenges and prepare for disruptive paradigm shifts in technology, policy or consumer behaviour.

Alistair Pritchard
UK lead partner, travel, Deloitte

Key findings

1 2017 TRAVEL SECTOR PERFORMANCE STRONG

- UK consumers continue to travel abroad despite fall in sterling
- Half the UK adult population reports taking at least one overseas holiday in 2017, +4 percentage points (pts) on 2016

Half the UK adult population **reported taking at least one** overseas **holiday**

2 IMMEDIATE FUTURE LOOKS POSITIVE

- Continued appetite for holidays – Deloitte Leisure Consumer Q3 2017 research shows consumers intend to continue spending on holidays
- 50% of UK adults intend to take an overseas holiday in 2018, +3pts up year on year
- But a -4pt fall among consumers in London, potentially driven by inflationary pressure on incomes
- +6pt increase in adults intending to take a beach holiday

4 point fall in holiday **intention** among consumers **in** London

3 SIGNS OF TIGHTENING IN DISCRETIONARY SPENDING

Income pressure on consumers starting to change behaviour:

- Rising inflation and low wage growth putting consumer income under pressure
- Some spending behaviours already changing: notable decline in car purchases as bigger discretionary expenditure postponed
- Deloitte Leisure Consumer Q3 2017 shows spending on eating out and entertainment reducing

6pt increase in adults intending to take **a beach holiday**

Overall consumer **confidence** in economy shows signs of **weakening**

4 CONSUMER CONFIDENCE AND TRAVEL

- No significant change in concerns around terrorism
- Recent airline failures have brought fear of being stranded front of mind, with +8pt growth in concern about cancelled flights and travel company failure.
- Travel unlikely to remain immune to changes in household economics. Early signs of traveller behaviour changing and a downshift in spending
- Greater interest in shorter breaks: +4pt increase in holidays of seven nights; -3pt fall in 14 nights
- Preference for cheaper hotels
- All-inclusive retains popularity, especially among less well-off consumers

5 TRAVEL TECHNOLOGY

- Mobile bookings increasing: +7% rise in smart device bookings. However, mobile booking not yet at a tipping point
- Greater industry collaboration and sharing of data required to provide easier access on mobile platforms and develop personalisation
- Consider the GDPR a benefit

+7% increase in **smart device** bookings

6 OUTLOOK FOR 2018

- M&A pipeline good – some deals already set to materialise in 2018
- Cost and consumer prices to rise, but demand to hold up
- Reassurance on easy movement for people and aircraft after leaving EU is critical

+8pt overall increase in **travellers concerned** about being **stranded**

Consumers intend to travel more in **peak summer and** spring season

Introduction

Travel remains in demand

Resilience increasingly defines the UK travel industry. The ability to recover quickly from difficulties, to spring back into shape, has become core to its everyday practice.

At the worst, this can mean dealing with the aftermath of an appalling attack, such as on the Manchester Arena in May, the Las Vegas strip in October or the beach in Sousse in 2015. At a more routine level, it can mean coping with a plunge in the pound or a wholesale switch in demand from one end of the Mediterranean to the other.

It will be a surprise to many that the past 12 months have seen increases in outbound, inbound and domestic holiday traffic. Growth in inbound and UK domestic holidays were widely predicted given an 18% fall in the value of sterling, but the increase in the overseas holiday market has come despite this and even as incomes are squeezed by inflation.

The details are spelled out elsewhere in this report, but a 3% rise in holiday departures for the year to August and a 7% increase in summer 2017 bookings through the trade suggest a sector certainly able to recover from difficulties.

When the last edition of this report appeared in November 2016, the industry awaited clarity on the terms of Brexit and Britain's new relationship with the EU. We wait still.

I suggested in the introduction to that earlier report: "Clarity seems a forlorn hope when UK-EU relations can only be fraught [and] every step by the government will be contested." How unfortunate that these lines remain so apt in November 2017.

Yet there is reason to believe the sector's resilience should again reap reward going into 2018. Research for this report by Kantar TNS suggests not only an increase of two percentage points in UK consumers' intention to take a domestic holiday next year, but a three-point rise in their intention to travel abroad.

The research suggests, among other things, a move towards beach holidays, an increase in shorter breaks and a shift to cheaper accommodation. It detects increased concern about cancelled flights (thank you, Ryanair) and airline failure, but no travel-halting concern about terrorism.

> There is reason to believe the sector's resilience should again reap reward going into 2018

The exchange rate may affect the choice, style and duration of holidays, but the industry will meet the demand. It will do so while dealing with the abolition of card charges in January under the Payment Services Directive 2, while preparing to comply with the General Data Protection Regulation from May, and while conforming with the new Package Travel Directive from July. I'll wager the sector will even deal with the government's failure to abolish Air Passenger Duty.

I am once again indebted to Deloitte for partnering *Travel Weekly* in producing this report and providing so much valuable insight. Thanks are due to industry analyst GfK for the latest booking trends which confirm the enduring appeal of overseas holidays. And I am particularly grateful to Kantar TNS and head of travel Tom Costley for the invaluable research on consumer attitudes and intentions.

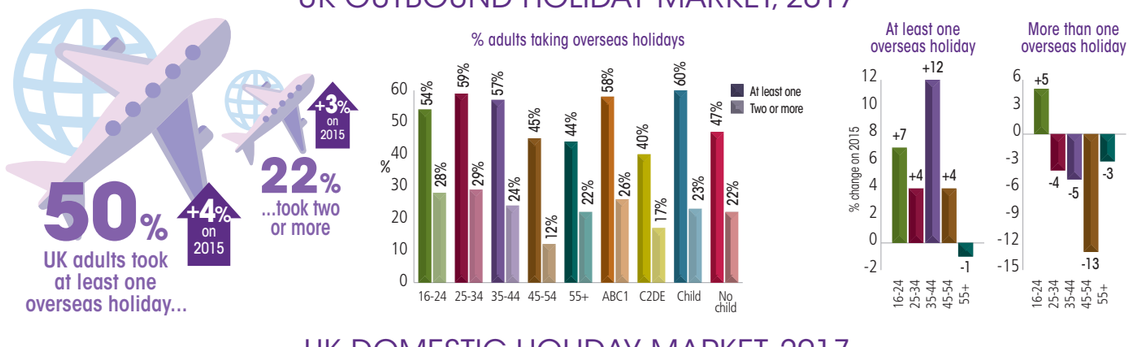
Ian Taylor
executive editor,
Travel Weekly
ian.taylor@travelweekly.com

UK holiday market

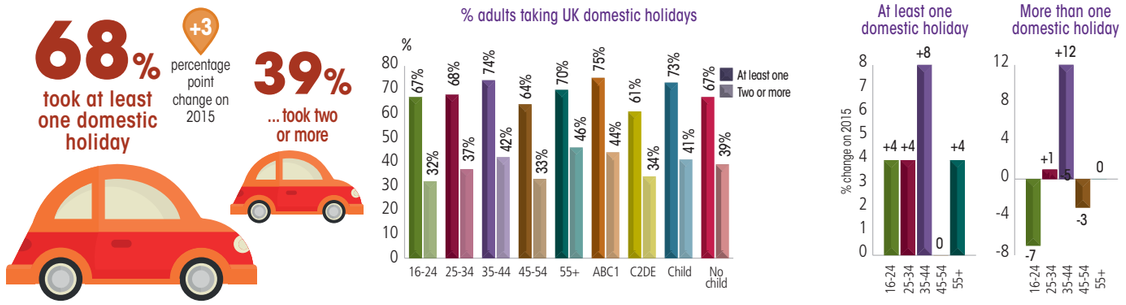
Kantar TNS consumer research

UK HOLIDAY MARKET, 2017

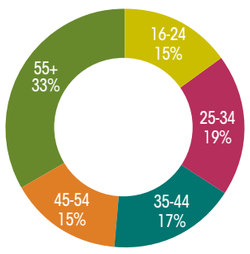
UK OUTBOUND HOLIDAY MARKET, 2017



UK DOMESTIC HOLIDAY MARKET, 2017



AGE OF UK OVERSEAS HOLIDAYMAKERS 2017



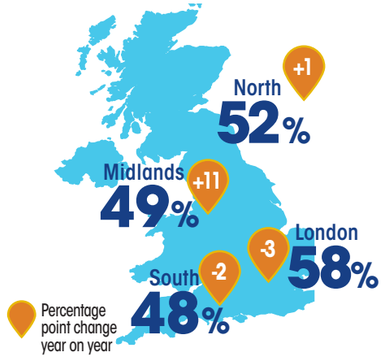
Figures rounded (not 100%)

WHO TAKES HOLIDAYS

% of UK holidaymakers who take...

	Two or more overseas holidays	Two or more domestic holidays
with children	27%	30%
Over-55s	35%	42%
Social class ABC1	64%	61%

PROPORTION OF UK ADULTS TAKING AT LEAST ONE OVERSEAS HOLIDAY, BY REGION



Base: 1,269 UK adults, October 2017 Source: Kantar TNS

Overview

Triumph in adversity

UK travel and tourism can reflect on a remarkably successful 12 months. Office for National Statistics figures published in November showed outbound holiday departures to August 2017 up 3% year on year, and 5% up in the previous 12 months.

Inbound holidaymaker numbers were up 17% on 2016 over the same period (January to August), and domestic holiday numbers between January and July increased 6%.

This was despite a series of terror attacks on the streets of London and mass bomb fatalities at the Manchester Arena in May. It was despite an 18% fall in the value of sterling, which made Britain more attractive to overseas visitors but placed a burden on outbound holidaymakers.

It was despite the uncertainty around the future parameters of business and trading as negotiations on Britain's exit from the EU proceeded but largely appeared to go nowhere. And it was despite an increasing squeeze on UK household income from rising inflation and amid growing signs of consumers reining in spending.

In the wake of the Brexit referendum vote to leave the EU in June 2016, the World Travel & Tourism Council had forecast a 3% decline in UK outbound travel as an immediate consequence.

In fact, summer 2016 saw the UK outbound holiday market return to the pre-financial crisis level of 2006-08, and summer 2017 appeared to have surpassed it, with provisional ONS figures suggesting 45.6 million people took overseas holidays from Britain in the 12 months to August, compared with 45.5 million in 2008.

> UK outbound travel has grown alongside inbound and domestic, in defiance of all forecasts to the contrary

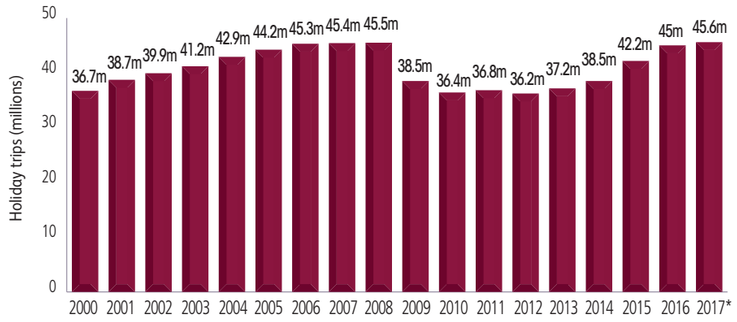
The economic outlook

The state of the economy has a clear impact on demand. The UK saw a 20% decline in overseas trips between the crisis and recession of 2008-09 and its bottoming out in 2010, with the market only returning to something approaching its former level in 2015. So the economic outlook now is crucial.

Real wages, taking account of inflation, fell for a sixth consecutive month in September 2017, leaving inflation-adjusted average wages no higher than in 2006. UK retail sales fell as a consequence, although there was doubt about the extent of the decline. Office for National Statistics figures put the year-on-year decline in spending at 0.3% in October, while credit-card and payment provider Visa put it at 2%.

Graham Pickett, Deloitte global lead partner for travel and aviation, said: "It's an uncertain, difficult period." He forecast: "Things will be more volatile. There is definitely a tightening in the UK economy. It has taken a time for the negative aspects [of the Brexit vote] to work through, but things are slowing up in the consumer and corporate markets.

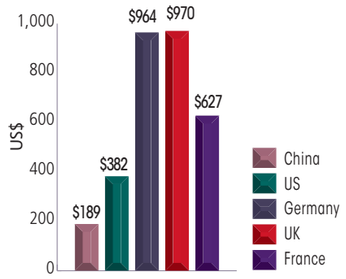
UK HOLIDAYS ABROAD, 2000-17



*12 months to August 2017 Source: ONS

TOP-FIVE INTERNATIONAL SOURCE MARKETS

Spending per head



Source: UNWTO

Overview
Triumph in adversity

"There are a number of factors. Investment is beginning to slow. People are beginning to sit on their cash wondering what will happen in the short and medium term. There is definitely a little hesitancy beginning to appear about the timing on Brexit and what the outcomes of the negotiations will be.

"Inflation is back. The cost of living is higher than a year ago and the real value of wages is lower, so households are under a bit more pressure. You have a softening housing market in the south. Economists are beginning to talk about unemployment again, although it is not seen in the statistics. Put that together and it is making consumers uneasy. We're still looking at 3.5% growth overall in the world economy [in 2017]. Pretty well every area is showing some growth, but it's all a bit lacklustre.

"The Chinese economy is doing OK, but there is still a risk there if credit dries up. The strong dollar is causing pain in some countries. You have the changes in the US driving some volatility in exchange rates. Europe is looking a lot better – unemployment has fallen, there is a bit of growth. But there are still all the uncertainties around politics in Europe, the latest being with Spain and Catalonia. The French economy has come back, but the honeymoon for Macron is over.

"In the UK, we'll see growth easing further and real wages decline and there will be increasing pressure on the consumer.

> People are having their holiday, but they are being more particular about value for money and not spending any more than they have done in recent years

"Unsecured debt in the UK increased £1,000 per person between December 2015 and July 2017. Now interest rates have risen for the first time since 2007. This could start to put a dent in household budgets. Rate rises come through on the mortgage market and on card debt. Business failures might rise. The capital markets will be impacted and that will add to the unease."

He said: "People are having their holiday, but they are being more particular about value for money and not spending any more on the holiday experience than they have done in recent years. If they booked a four-star hotel last year they are looking to pare back or go for a shorter period, looking to spend certainly no more than last year. There is a definite tightening of the purse strings, and summer 2018 pricing will be higher following the 18% depreciation of sterling."

However, Pickett added: "Consumers are definitely spending more on experiences and less on goods, as our Deloitte Leisure Consumer research shows."

Lack of clarity on Brexit

The uncertainty associated with Brexit overrides all else. The outcome will affect the economic outlook in all sorts of ways, but the uncertainty itself has an impact – being the prime reason for the plunge in the pound's value.

The quest for clarity is not helped by the government's loss of an overall majority in Parliament following June's snap general election, and with a cabinet split several ways on what kind of Brexit to pursue.

This would be difficult enough if the process was simple. But Deirdre Wells, chief executive of industry association UKinbound and a former senior civil servant, warned Brexit would be "ferociously complex". She told the Abta Travel Matters conference at the end of June: "Coming out of the EU will be not unlike un-baking a cake."

Pickett said: "Brexit is in the headlines every day and businesses are looking for some degree of certainty as to what is going to happen in terms of transitional and longer-term arrangements. However, as yet negotiations have not advanced to the point where any certainty can be offered.

"Business is concerned about the potential Brexit outcomes and beginning to worry about trading, about the UK labour force and decelerating growth in the UK economy. As a result it could be more difficult to estimate what business will be like in 12 months. A number of businesses are in 'wait and see' mode – delaying strategic decisions until there is more clarity."

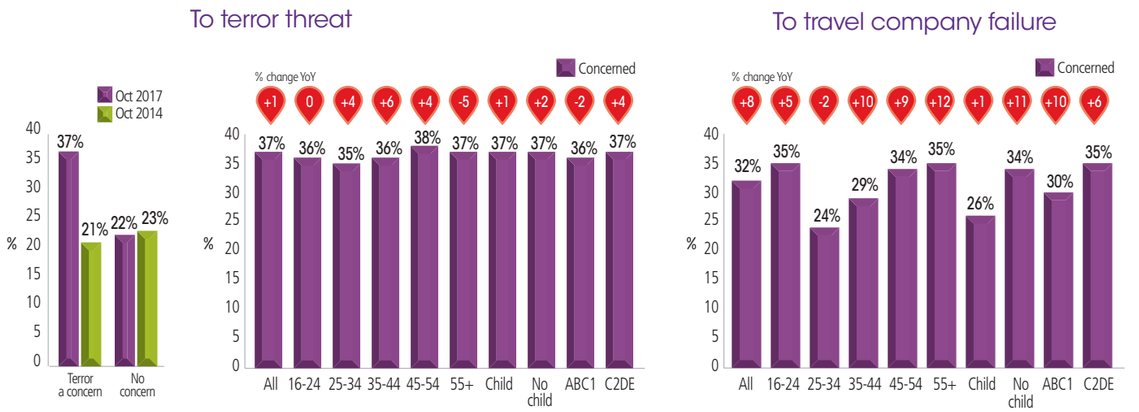
However, Pickett does expect the UK and EU to agree an aviation deal – a central issue for the industry. He said: "A deal will get done. Everybody has too much to lose. If UK airlines don't have access [to the EU] it will equally impact EU airlines, some of which have pretty profitable routes across the Atlantic. There is a balance of costs and benefits for everyone. But it would not surprise me if it goes to the wire and the EU could use the aviation agreement as a bargaining tool.

"The government understands aviation is a key issue. The problem is that the UK does not own the agenda and the final outcome largely depends on the EU."

He added: "EU labour is also a massive concern. The UK needs immigrant labour in significant numbers. A lot of businesses in the

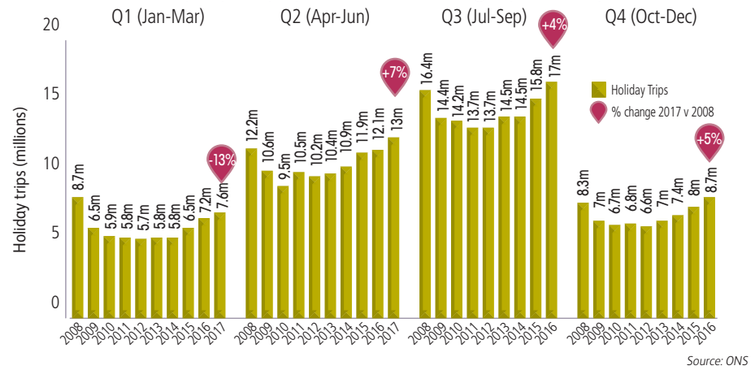
THE CHARTS (below) show consumer concern about terror threats on holiday largely unchanged from a year ago, although considerably up on 2014 (left). However, concern about travel company failures and flight cancellations has risen markedly – but note the survey was conducted two weeks after the failure of Monarch.

UK HOLIDAYMAKER ATTITUDES



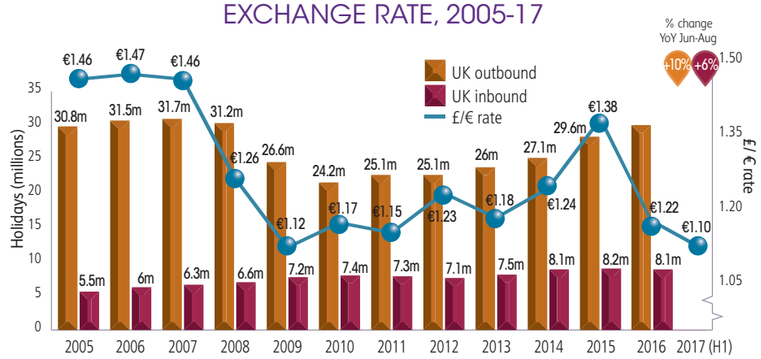
Base: 1,269 UK adults Source: Kantar TNS, October 2017

OVERSEAS HOLIDAYS FROM UK, 2008-16
Holiday trips by quarter & % change year on year



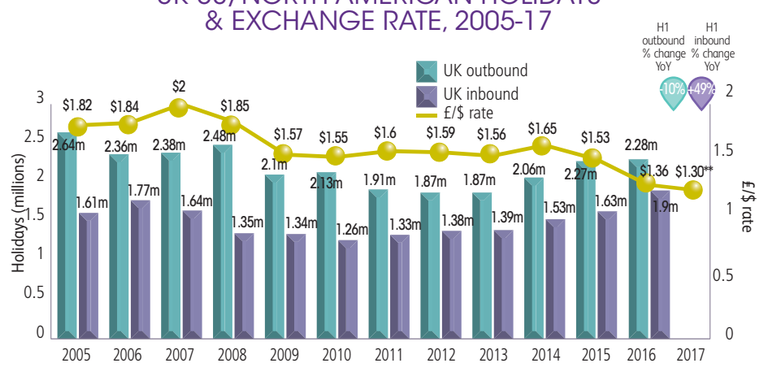
Source: ONS

UK-EUROZONE* HOLIDAYS & EXCHANGE RATE, 2005-17



**EU15 states, includes main eurozone holiday destinations but excludes Cyprus, Malta & Slovenia*
***August rate Figures to nearest decimal point Source: ONS/UK Treasury*

UK-US/NORTH AMERICAN HOLIDAYS & EXCHANGE RATE, 2005-17



**Outbound to US, inbound from N America **August rate Source: ONS/UK Treasury*

Overview
Triumph in adversity

sector are concerned about this. There have already been departures [by EU workers] and as uncertainty prevails, we may see higher numbers go. Transitional proposals would help."

'This is a successful industry'

It appears inevitable the next 12 months will prove a rollercoaster ride of sorts. The business newspaper *The Financial Times* captured the exchange rate implications of the political situation in a headline – 'Year of cliff-edge moments looms for sterling' – in November.

UKinbound chief Wells, who sits with tourism minister John Glen and other industry leaders on a revamped tourism industry council, set out the primary task for the sector when she said: "All we can do is set out what we want for our industry.

She told *Travel Weekly*: "We can't control what happens in political discourse. We've been good as an industry in grouping around some key issues, in particular regarding customs, visas, jobs and skills. We have workforce concerns that align with other industries. We're realistic enough to know free movement is going to be difficult. [But] if we move to a new immigration system it needs to be business-friendly.

"The political reality is ministers come and go. Civil servants are the continuity people. We need to reinforce simple messages so ministers say 'This is a successful industry'."

To emphasise the point, industry analyst

> We need to reinforce simple messages so ministers say 'This is a successful industry'

GfK produced a remarkably upbeat appraisal of the outbound sector's summer 2017 performance in its Market Update to the end of October. The season saw a 7% increase in passengers on 2016 and a 12% rise in revenue, coming on top of a 4% rise in passenger numbers last year.

Bookings began well and held up thereafter. Summer 2017 bookings were up 13% year on year to the end of December, January bookings were up 4% on January 2016, and even the later months of the season saw an average 5% growth.

Family bookings for the summer rose 13% year on year – a performance GfK hailed as "exceptional given the uncertain market background" – package bookings rose 8% year on year, and all-inclusive bookings saw 10% growth.

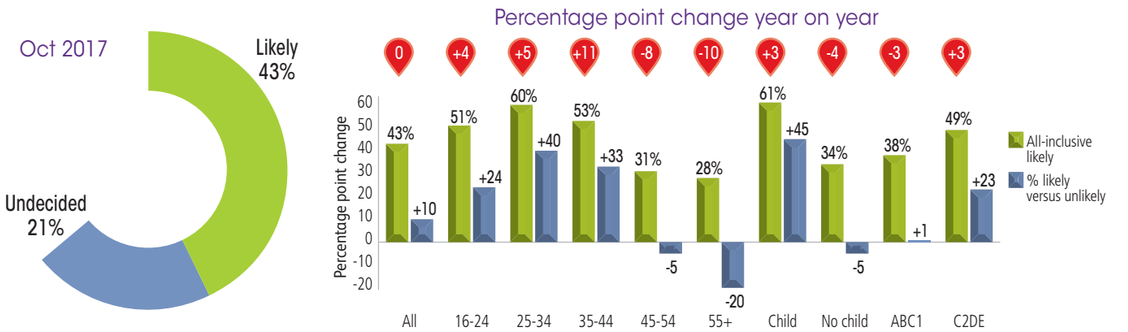
There was growth "in line with the market" in short, medium and long-haul bookings, but with a "decline in all durations over 12 nights". GfK noted: "Consumers are increasingly wanting quality over quantity and willing to trade down in duration."

Summer 2017 does not appear to have been any kind of swansong for this period of growth. GfK reported winter 2017-18 bookings up 5% year on year to the end of October and early bookings for summer 2018 also up 5%.

Whatever the next year holds, there is no reason to believe it will fundamentally dampen the UK population's desire to travel.

THE CHART (below) shows continued strong interest in all-inclusive holidays, but suggests a divergence by age, with young adults (aged 25-44) showing an increased likelihood to book all-inclusive and a significant proportion of older adults switching away.

LIKELIHOOD OF BOOKING ALL-INCLUSIVE OVERSEAS HOLIDAY FOR 2018



Base: 1,269 UK adults Source: Kantar TNS, October 2017

UK holiday market
Kantar TNS consumer research

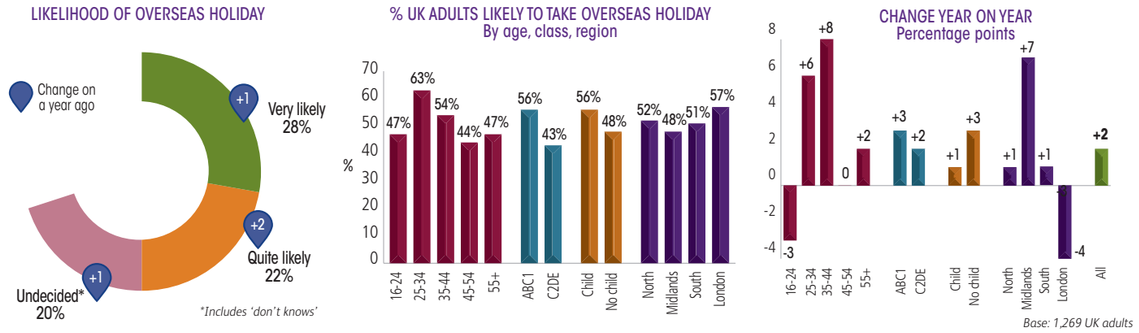
HOLIDAY INTENTIONS, 2018

26.6m UK adults intend to take an overseas holiday in 2018

11.4m UK adults intend to spend more on overseas holidays in 2018

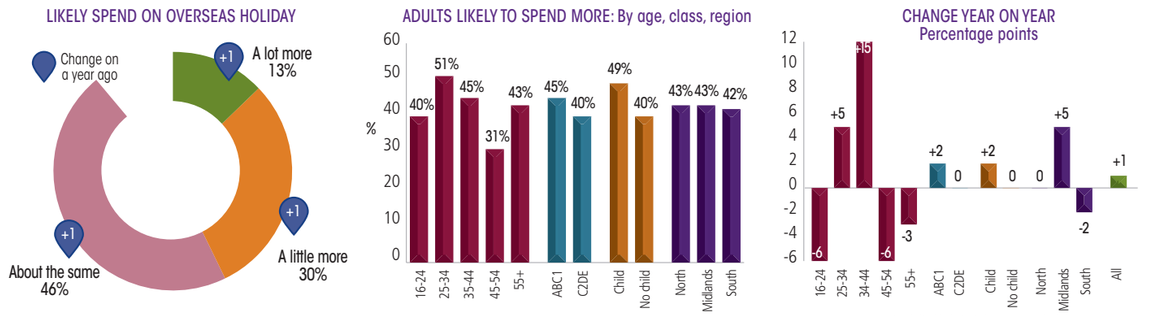
34m UK adults intend to take a UK domestic holiday in 2018

HOLIDAY DEMAND, 2018



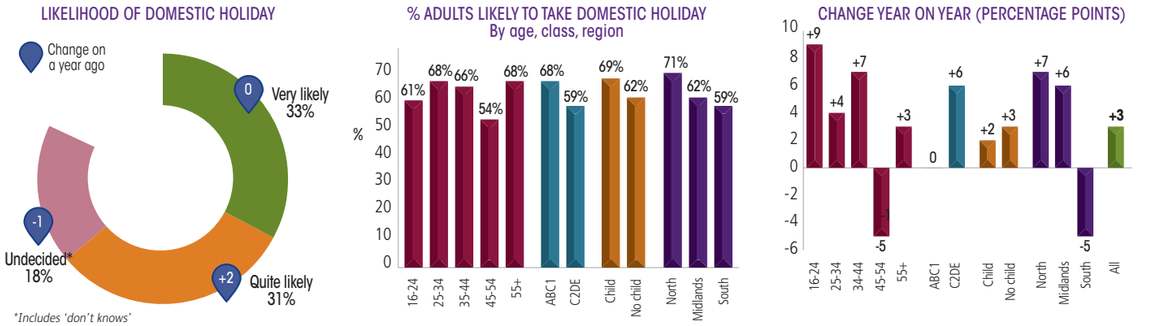
Base: 1,269 UK adults

SPENDING ON OVERSEAS HOLIDAY, 2018



Base: UK adults likely to take overseas holiday in coming year

UK DOMESTIC HOLIDAY DEMAND, 2018



Base: 1,269 UK adults, October 2017 Source: Kantar TNS

Outbound

Desire to travel overcomes obstacles

UK outbound tourism showed resilience in 2017 despite the impact of global events. The tourism sector had to deal with terrorist attacks in the UK and in popular tourist destinations such as Barcelona and Paris, on top of the pound depreciating 14% against the euro following the Brexit vote and remaining weak. There was also the impact of natural disasters such as Hurricane Irma to contend with.

Summer 2017

Despite this, the UK consumer has been willing to travel. There appears to have been a slight decrease in outbound travel year on year in early summer 2017, with provisional figures from the Office for National Statistics (ONS) showing 1% fewer visits abroad by UK residents in the three months from May to July. However, the number of holiday trips abroad in these months was flat year on year and the year-to-date figures showed a 2% increase on 2016 – and outbound holiday trips in the 12 months to July 2017 up 5% year on year. Unfortunately, there was a delay in the ONS release of provisional statistics for August which would have provided a fuller picture.

The Deloitte Leisure Consumer update for the third quarter of 2017 reported a tightening in consumer spending on leisure activities as a whole. But although consumers appear more cautious, they continue to spend on overseas holidays – being seemingly prepared to forgo other areas of leisure such as eating out. This suggests foreign holidays remain a priority for the UK consumer and are one of the last areas on which people are willing to cut their discretionary spending.

> The UK outbound market remains remarkably strong despite the weak pound

Some traditional European destinations such as Portugal and Cyprus saw strong growth in 2017. Other, newer destinations such as Iceland and Montenegro appear on the rise, with visitor numbers steadily increasing as consumers display a preference for travel to destinations perceived as safe.

At the same time, some areas which have seen reduced numbers of UK tourists as a result of political instability are starting to show signs of recovery as people regain confidence in visiting. This is particularly true of Turkey. The Foreign Office relaxation of its advice against all travel to Tunisia in July also saw Thomas Cook announce a return to the country, which had been closed to UK flights since the massacre of tourists in Sousse in June 2015.

Sickness claims rising

The level of holiday sickness claims has risen alarmingly, with more than 100,000 claims from more than 100 countries received by insurers between 2011 and 2016 and a 500% increase in the number of compensation claims since 2013, according to travel association Abta.

The industry has seen this exponential rise due to claims companies and a small number of law firms taking advantage of the lack of a limit on costs to pursue counterfeit claims. As a result, travel companies are having to invest significant time, money and resources on identifying the dishonest claims from the genuine. If insurance policies which currently cover these cases come to an end, this could see a huge increase in costs which would potentially need to be passed on to the consumer.

We saw a major crackdown on fraudulent claims in 2017, with campaigns by Abta to Stop Sickness Scams and Travel Weekly to Fight Fake Claims aiming to raise awareness among consumers of the impact this is having on the industry and the potential consequences for holidaymakers. It is to be hoped this will deter false claims in the future.

We also saw major tour operators win important cases against some claimants, including some who were jailed. In September 2017, the Solicitors Regulation Authority announced that it was investigating more than a dozen firms in connection with holiday claims, and in October the government issued a call for evidence on holiday sickness claims, with Abta calling for a cap on the legal fees lawyers can charge for overseas personal injury claims.

The Deloitte view

Air travel remained relatively cheap in 2017 due to the comparatively lower oil price. As a result, the market witnessed heavy discounting on short-haul holidays throughout the year. This will have put a squeeze on margins in an already competitive market.

Looking forward to 2018, airlines are likely to be affected by increased cost pressures as the pound remains weak against foreign currencies. This will drive price increases. But in a strongly competitive market and amid increased air capacity there will be pressure on prices which will impact margins.

The exchange rate is likely to mean foreign holidays are comparatively more expensive for UK consumers in 2018. We could see a rise in weekend breaks and a decrease in bookings for long-haul destinations as a consequence.

Those who do still want to holiday abroad but have less money to spend may decide to travel to more-affordable destinations such as Tunisia, Turkey and Egypt. The industry could also see a fall in flight-only sales.

Solo and adventure travel are growing trends that are likely to continue to develop in 2018 as they become increasingly popular among female holidaymakers.

Adventure tour operator Intrepid Travel reported a 35% increase in women travellers booking trips such as hikes up Mount Kilimanjaro in the first few months of 2017. Social media is fuelling experience-led leisure spending and this variety of travel is likely to increase through 2018.

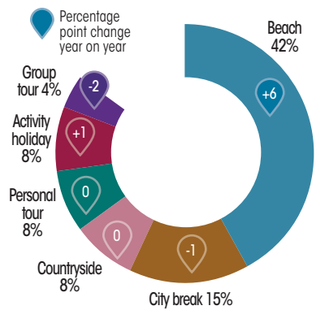
Perceptions of safety and security are likely to remain at the forefront of UK consumers' minds in 2018, both in relation to the holidays they book and the destinations they choose.

We may see growth in UK outbound tourism numbers, but it is likely to be moderate compared with previous years as inflation bites into consumers' real spending power.

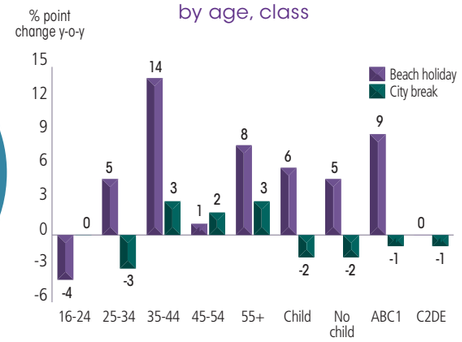
Danielle Rawson, senior manager, audit, travel & aviation

THE CHARTS (right) reflect the holiday preferences of UK adults intending to take, or undecided about taking, an overseas break in 2018. Note the significant increase in intention to take a beach holiday (top), the rise in preference for seven-night durations (centre) and the move away from September-October holidays.

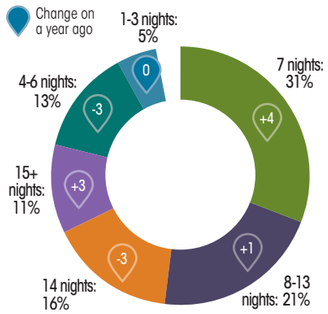
TYPE OF NEXT OVERSEAS HOLIDAY



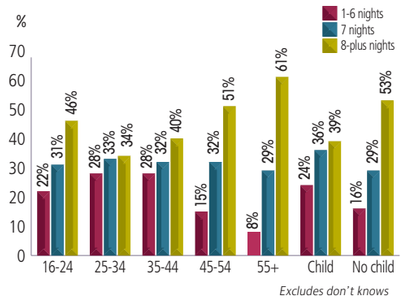
TYPE OF NEXT HOLIDAY
Change your on year by age, class



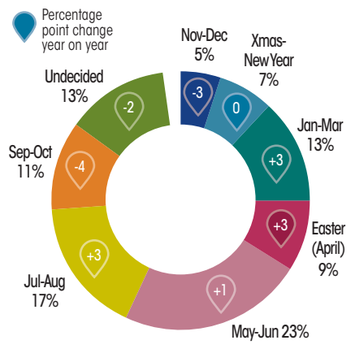
DURATION OF NEXT OVERSEAS HOLIDAY



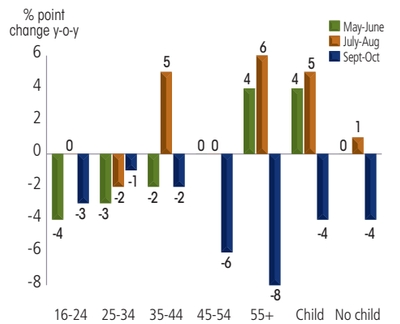
HOLIDAY DURATIONS
By age, child status



TIMING OF NEXT OVERSEAS HOLIDAY



TIMING OF NEXT HOLIDAY
Change year on year, by age



Source: Kantar TNS, October 2017

Inbound

Operators 'make hay while the sun shines'

Overseas visitor numbers to the UK rose 4% year on year in 2016 to 37.6 million, a new record, and looked set to surpass that figure in 2017 with visitors in the 12 months to June rising above 39 million. The weaker pound was clearly the primary factor.

The number of holiday visits from overseas in 2016 did not rise by as much, up barely 1% year on year, but there was a surge in holidaymakers in the second half of the year following the Brexit referendum in June which triggered the fall in sterling. That continued into 2017. Holiday visitors in the 12 months to June 2017 numbered 15.2 million, up 10% on 2015, with visitors from the EU comprising almost two-thirds of the total.

A UKinbound Business Barometer survey of members in October concluded bookings and yields were at least on a par with or up on a year earlier, in line with visitor numbers. But only about half (53%) of members expressed confidence in future bookings, down from 86% in March, although above the post-Brexit referendum low of 42% in July 2016.

Sector's requirements

Deirdre Wells, chief executive of UKinbound, noted: "It's encouraging to hear July and August were positive months. However, I'm concerned that confidence is low about future business. We need continued investment in tourism, a strong narrative promoting the UK as a welcoming destination, an immigration and visa system that is flexible to business needs, and access to a skilled workforce. These issues need to be addressed."

> The inbound sector looks set for a fourth record-breaking year, but confidence appears brittle

Wells acknowledged business has been good since June 2016, but said: "A lot of that is due to the fall in the pound. Members are making hay while the sun shines." She remained cautious about the impact of Brexit, noting: "We haven't left yet. The pound has fallen but all the trading conditions are the same."

In the meantime, she said: "There is a plethora of issues we're bothered about. Just under 30% of our members' employees are EU migrants. We'll do all we can to encourage young people from the UK to enter the industry, but demographics are against us.

"An open-skies agreement is critical, and I'm particularly concerned about the customs union. We also need demonstrable outreach to key markets and bold statements about the visa regime."

France remained the UK's biggest inbound market with more than four million visitors in 2016, down 3% on 2015. There was a double-digit rise in visitors from Italy and almost as big increases from Spain and the Netherlands. The US remained the second-biggest market with 3.5 million visitors, 6% up on 2015 as Americans took advantage of the exchange rate. Americans also remained by far the highest spenders with a total (£3.35 billion) higher than the next top-three spending markets, France and Germany, combined. However, visitors from the Middle East and China proved the biggest spenders per head.

The Deloitte view

2017 saw strong growth in inbound travel to the UK, with an increase in both the volume of visitors and value of spending on the previous year.

Holidays were the most popular reason for overseas residents' visits to the UK. The favourable exchange rate made the UK cheaper and relatively more attractive for inbound travel.

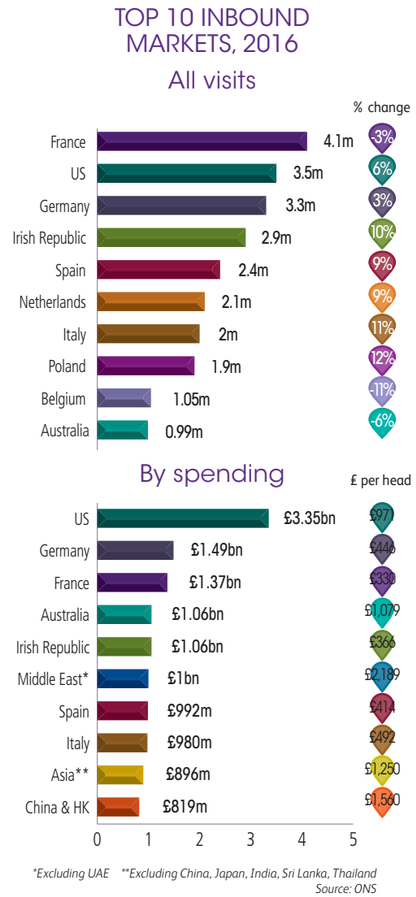
The weak pound had a positive impact on intentions to travel to Britain among tourists from India, China, the US and Canada, according to the Anholt-GfK Nation Brands Index survey.

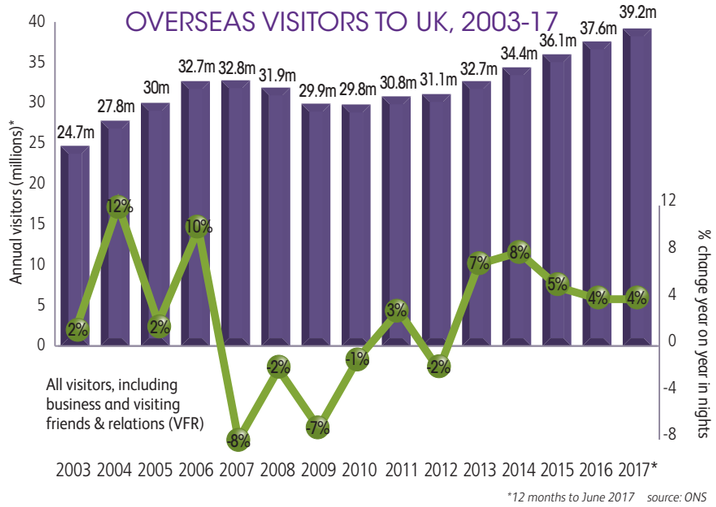
Regional growth has been particularly strong. Visits to and spending in London have not grown as fast as in the regions. Cities and towns such as Stratford, Bath, York and Bicester are attracting visitors who seek experience holidays and retail tourism, while visitors may have been deterred from larger cities due to the threat of terrorism. Although this is diverting some tourism away from London, there is a positive effect overall as well as the benefit of helping to rebalance the economy.

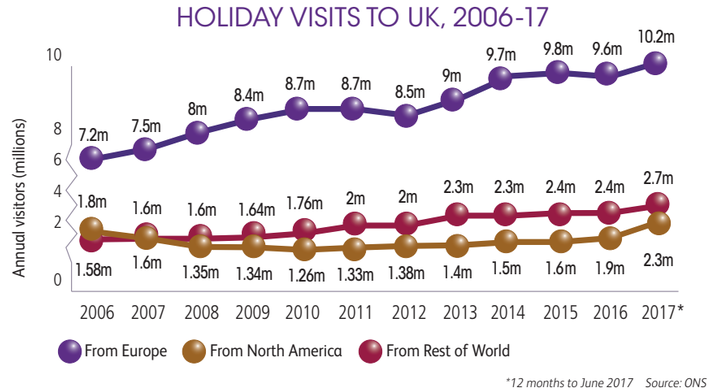
Visitors from China require a visa, but since 2016 a new scheme automatically upgrades Chinese applications for a six-month standard visa to a two-year multi-entry one at the same cost (£89). Airline seat capacity from China has grown by almost 75% since 2011 due to new flights into London and regional airports, helping to bolster regional growth.

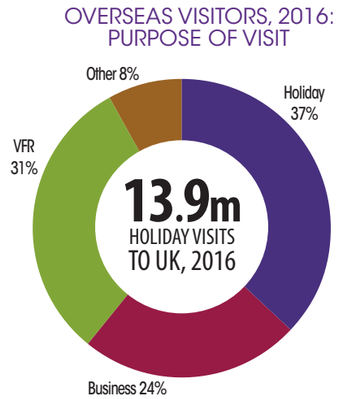
Looking to 2018, the biggest risks to inbound travel could be changes to visa requirements and further terrorist attacks. However, changes to flight schedules – and more options – would have a positive effect.

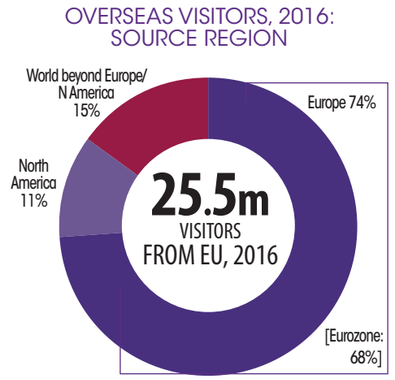
Alistair Pritchard, UK lead partner, travel

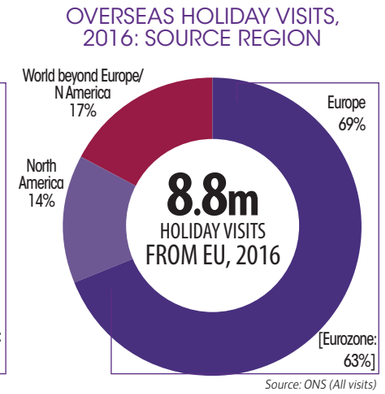












Domestic

Demand up for holidays, down for business

GB domestic tourism figures for January-July 2017 show a decline of almost 3% year on year in domestic trips. But this is misleading.

Business trips were down 12% and visits to friends and relatives (VFR) down almost 7% on 2016. But holiday trips were up by more than 6% with almost three million more domestic holidays taken than in the same period the previous year. The average length of holiday stay also rose marginally, with the number of bednights up by almost 8%, while spending rose 9%.

Figures for the first half of the year looked even better, with spending in the six months to June up 15% on 2016. Only a more moderate July, when holiday numbers were flat year on year and spending in the month fell by 6% on 2016, brought down the cumulative figures.

Domestic demand

So far the upturn has come in defiance of forecasts that domestic holidays might prosper only at the expense of trips abroad, since the overseas market shows every sign of holding up – as explained elsewhere in this report.

The 56 million domestic holidays recorded in 2016 was on a par with 2015, although total nights fell five million to 190 million.

There was a rise of four million or 16% to 29 million overnight trips to the seaside, following a 9% hike in 2015 – a remarkable vote of confidence in the British beach holiday.

Domestic travel appears in good health, and not at the expense of outbound

Hotels were by far the most popular commercial accommodation, accounting for more than half of domestic stays. Almost one in 10 trips involved a stay in a guesthouse or bed and breakfast. One in five domestic holidaymakers opted for a caravan or camping, and one in seven for self-catering in a house or apartment.

Research by Kantar TNS for this report suggests more than two-thirds (68%) of UK adults took at least one domestic holiday in 2017, up three percentage points on 2016, and almost two out of five (39%) took two or more UK holidays.

The same survey found a rise of two percentage points in the proportion of adults likely to take a domestic holiday in 2018, with an increase across most age groups and regions other than in the south where there was a fall of five percentage points.

The results suggest we will see no significant change in the timing of domestic holidays in 2018 other than a small shift towards Easter, which appears most pronounced among young adults and those with children. The months of May and June remain the most popular time for domestic holidays, with almost one in four adults planning a domestic holiday intending to go away then – three times the proportion likely to go away in late summer or early autumn. Only one in seven said they intend to take a domestic holiday in the summer peak of July and August. However, one in five remained undecided.

Continuing exchange rate volatility could have a bearing on domestic demand, with any further fall in sterling potentially making domestic holidays more attractive, but also raising the cost of imports for domestic providers.

Government support

The government continues to demonstrate a commitment to domestic and inbound tourism through three initiatives.

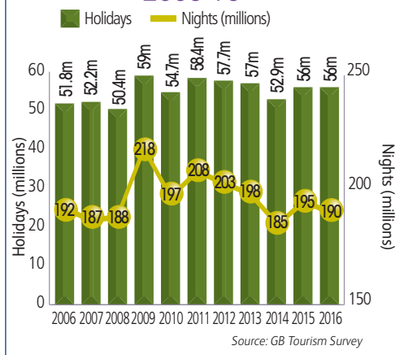
Its Tourism Action Plan, launched in August 2016, offers a broad commitment to make domestic travelling simpler, support apprenticeships and training, and reform some aspects of regulation.

The 'Holidays at Home are Great' campaign – latest incarnation of the rolling GREAT campaigns launched in 2012 – morphed in 2016-17 into a £2.5-million TV, digital, print and outdoor campaign, with private sector support, aimed at encouraging people to explore the UK.

The third initiative, the £40 million Discover England Fund, aims to develop programmes attractive to domestic and inbound visitors.

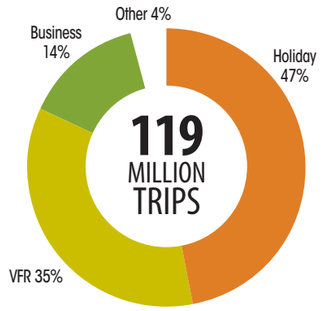
The CHARTS reflect the strength of the UK domestic market, with holiday numbers in 2016 on a par with all but the best of the post-2008 financial crash years. Half-year figures for 2017 suggest numbers could go higher. However, the 'Main European Domestic Markets' chart (bottom left), based on 2015 data for all trips, shows the UK has a way to go to catch France.

UK DOMESTIC HOLIDAYS, 2006-16

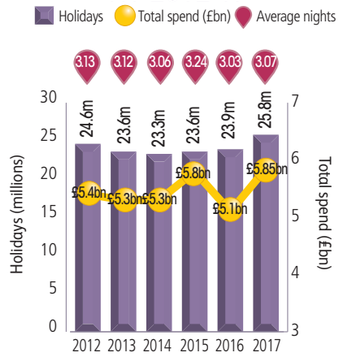


Source: GB Tourism Survey

UK DOMESTIC TRIPS, 2016

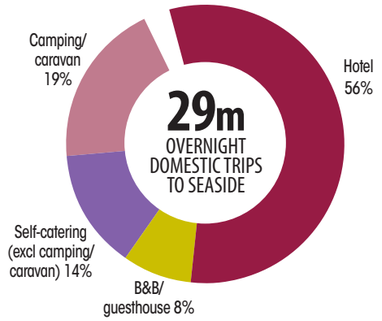


UK DOMESTIC HOLIDAYS: H1 2012-17



Source: GB Tourism Survey

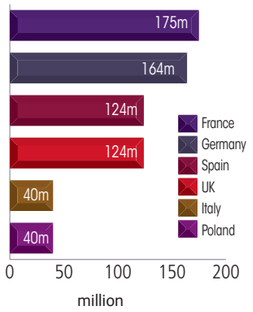
DOMESTIC TRIPS, COMMERCIAL ACCOMMODATION, 2016



Source: GB Tourism Survey

MAIN EUROPEAN DOMESTIC MARKETS

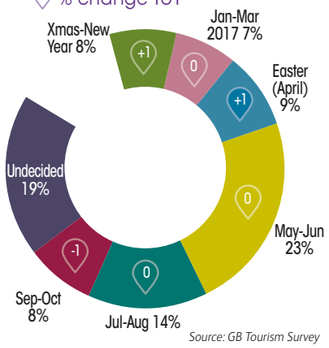
All trips, one night or more



Source: Eurostat/GB Tourism, 2015

TIMING OF NEXT DOMESTIC HOLIDAY, 2018

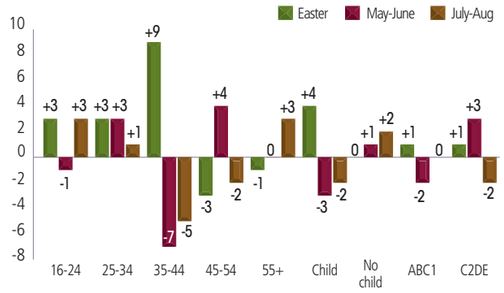
% change YoY



Source: GB Tourism Survey

CHANGE IN PEAK SEASONS DEMAND, 2018

Percentage point change 12 months ago



Source: Kantar TNS Base: UK adults intending to take a domestic holiday in 2018

The Deloitte view

Domestic tourism has been supported by UK consumers holidaying at home. Travelling abroad is comparatively more expensive due to the weakened pound. However, spending on leisure activities such as holidays has been relatively protected. The implications of this have been that consumers tightening their purse strings have opted for more breaks closer to home as a cheaper alternative to an overseas holiday.

Demand has been robust across both premium and budget holidays, but has been particularly strong for visits to holiday parks and lodges that cater for tourists looking for experiential and adventure holidays. Day visits continue to be popular as people want to spend money and time on experiences.

In addition to the increase in number of domestic holidays, the spend per trip has increased. Growth has been strongest in trips to large towns/ cities and among the over-55s. Although consumers may be diverting money that would have been spent on overseas trips, the impact has been positive for the domestic market.

Looking ahead, there is likely to be continued growth in demand for domestic holidays – particularly while the exchange rate is favourable. Although there is evidence of caution in spending among UK consumers, this is likely to make staycations even more attractive for those looking for a cheaper holiday option.

The appearance of new competitors on the horizon has signalled confidence from the investor community and this will also offer domestic tourists more choice, particularly for experience-style holidays.

Alistair Pritchard, lead partner, travel

Business travel

Airlines' GDS fees are 'watershed' for sector

The issue dominating corporate travel thinking in the latter half of 2017 was not Brexit but airlines' imposition of GDS booking fees.

Lufthansa paved the way in September 2015, adding a €16 fee to GDS bookings with group airlines. No one followed suit until May 2017 when IAG-owned British Airways and Iberia announced the imposition of an £8 (€9.50) charge per fare component, or £16 (€19) on a return fare, from November 1. The week BA and Iberia introduced the charge, Air France-KLM announced it would levy a GDS fee of €11 on one-way fares or €22 return from April 2018.

The airlines insist the charges reflect the cost difference between booking direct and through a GDS. The GDSs dispute this and a study by aviation consultancy Infrata, commissioned by the European Technology & Travel Services Association and European Federation of Travel Agents' and Tour Operators' Associations, appeared to nail the argument. It concluded: "Overall channel costs are very similar when costs are properly accounted for." The report suggested the carriers' real aim is "to curtail consumer access to independent booking channels".

Airlines are using the fee to drive adoption of online direct-connect technology based on Iata's New Distribution Capability (NDC) standard. The GDSs insist they have no problem with NDC in principle.

It appears the carriers do not have the technology capability they claim or aspire to. The Lufthansa NDC portal remains a work in progress more than two years after its inception, while BA-Iberia's portal has been widely described as "not fit for purpose". It is equally clear that the airlines intend to proceed. If Lufthansa was ever likely to back down it would surely have done so before its two biggest rivals pursued the same strategy.

> Fragmenting distribution is a concern for the corporate travel sector

BA's rationale

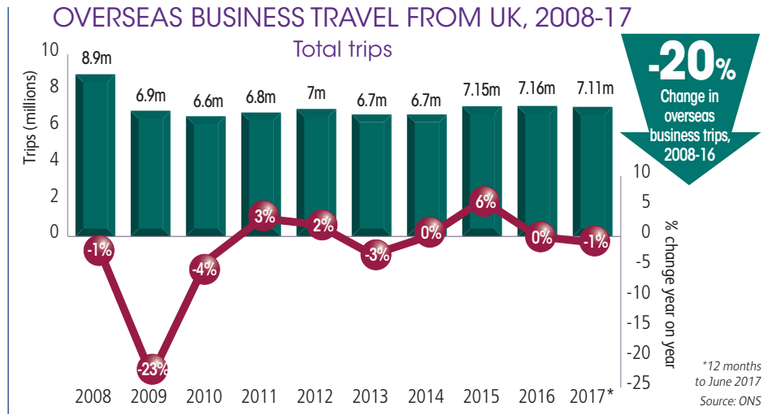
BA global head of sales Stephen Humphreys spelled out his airline's thinking in an address to the Guild of Travel Management Companies in November. His words could stand as a statement of intent for all three airline groups. Humphreys told the GTMC: "We're moving away from a content strategy defined by our GDS relationships to one not restricted by the GDSs. We're working our way from a system-centric relationship to one that is customer-centric. NDC is not a silver bullet, but in time it will unlock a lot of opportunities. It will change the way we price, the way we bundle, the way we present our offer to customers."

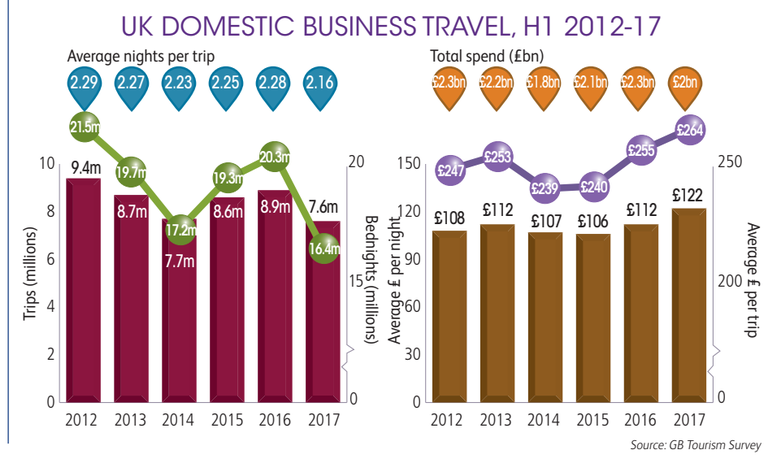
BA and Iberia have signed agreements to waive the GDS fee with leading TMCs Carlson Wagonlit Travel, HRG, American Express GBT and others. Humphreys said: "These agreements are about working with major partners on a timeline for implementing NDC." He added: "TMCs have built their proposition on technical knowledge and customer service. Increasingly, these are not enough. More and more it is about understanding, collating and presenting data."

Amadeus remained the sole GDS signed up to the fee-waiver agreements as this report was published, and it was Amadeus vice-president of provider-offer management David Doctor who outlined the possible timeline for NDC technology development when he told a GTMC conference in June: "Iata will issue a new set of protocols in December. We're not embarking on coding until we see the protocols because it will be hugely expensive. Coding for delivery [of a BA NDC pipeline] will take 12-18 months."

He told GTMC members: "[Airline] providers want to react more with the traveller and not let you do it. They want to increase their revenue. They want to place their offer in their own sales environment. That is what is behind NDC."

Ken McLeod, Advantage Travel Partnership director for industry affairs, rightly described the GDS fees as "a watershed". He warned: "The BA move will have a considerable effect on the UK trade, especially in the regions… when it comes to price-sensitive domestic and European routes." He added: "Nobody was ready technically or commercially for the change to take place."





CORPORATE travel has fallen, both outbound and domestic, as the charts show. Overseas business trips in 2017 appear not to have recovered to the level of 2008. Domestic business travel in 2016 was well down on 2012.

The Deloitte view

The Global Business Travel Association (GBTA) forecasts business travel spending will accelerate significantly in 2018, advancing 6.1%, followed by 7% growth in both 2019 and 2020 – growth levels not experienced since 2011.

Deloitte's quarterly UK chief financial officer survey indicates CFO perceptions of uncertainty facing businesses rose in the second quarter of 2017. This reflects the outcome of the UK general election and more broadly the concerns about UK growth. Brexit is still cited as the biggest risk to businesses from the CFO perspective. Corporate travel company HRG Worldwide echoed this sentiment in its Annual Report 2017, suggesting clients are therefore asking more of their travel providers.

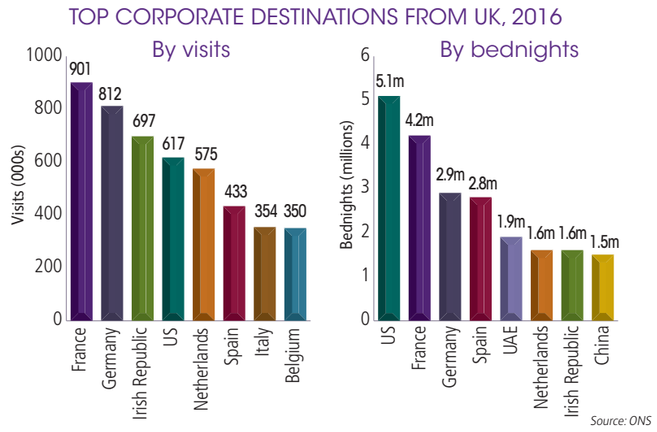
Businesses and their travellers continue to look for ways to reduce the cost of travel and improve controls and monitoring. In this environment it is more crucial than ever that travel providers are able to identify and deliver new strategies and systems which offer value for money and quality of information and service.

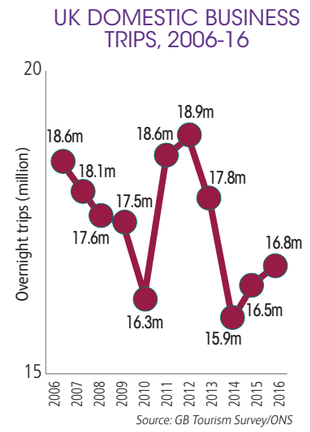
The need to continuously improve and develop product is driving global consolidation in the industry as the medium and larger players look to follow their international clients. Examples in 2017 include US-based Travel and Transport's acquisition of the Statesman Group and Reed & Mackay's acquisition of Frankfurt-based Moll Travel Management.

Another factor driving consolidation is the desire to acquire technology to improve the offer to existing clients; for example, the purchase of eWings by HRG.

Private equity remains highly interested in the sector, although PE firms have lost out to trade buyers in many auction processes. All of this interest has supported strong deal valuations.

Alicia Whistlecroft, manager, financial advisory, travel, hospitality & leisure





Investment in travel

Sector's value draws private equity

Uncertainty may surround Britain's future relations with the EU, but this appears to have had little impact on mergers and acquisitions (M&A) activity in the UK travel sector in 2017 or on prospective deals.

Deloitte UK lead partner for travel Alistair Pritchard suggested a number of deals "should be completed by early 2018" and said: "The deals pipeline looks strong, reflecting quite a strong year."

In part, this reflects wider business and investment confidence. The FTSE 100 share index hit a record high in October 2017, while in the US the 12 months following the election as president of Donald Trump proved the calmest for the stock market since the early 1960s despite fears to the contrary.

However, investors' confidence in travel also reflects the strength of the sector, despite the high-profile failure of the Monarch Group in early October 2017.

Nigel Bland, Deloitte financial advisory partner, said: "Investors have not been put off the travel sector at all. The industry performance has been strong. If you look at trading, the strong players have had a very positive like-for-like performance."

He added: "There is a lot of evidence of a decline in UK consumer confidence, but not yet in travel. The areas beginning to show most stress are coffee shops and restaurants for that extra meal out. People are still protecting their holiday cash for now. The main holiday appears to remain sacrosanct."

> Mergers and acquisitions activity in the travel sector remains strong

Pritchard agreed, saying: "Deloitte's latest Leisure Consumer quarterly update [published in November] does show a slight tightening in short-break spending, but in general holidays are still the most positive area of leisure spending. The pressure is on eating out and bars.

"The latest indicators on business sentiment are reasonably positive. UK employment is at its highest level [in years]. There is some pressure around consumer debt and spending pressure because inflation has increased above wages, but holidays continue to perform robustly. The trading performance of the major tour operators and of some domestic players has been strong."

Impact of Brexit

That still leaves the impact of Britain's exit from the EU. But there appears little evidence of lack of clarity around Brexit holding up investment deals.

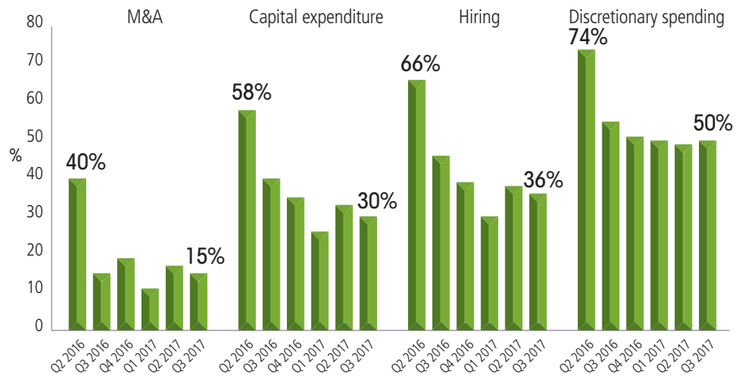
Bland said: "We could be three years away from a change in the operating parameters of UK plc. Either you get on investing or you stop. The number of times I've discussed Brexit during deals has gone down because no one knows the timing or the impact. The fact that leisure spending is being squeezed is more of a consideration at the moment. You can't quantify [the impact of Brexit] so people are not spending time discussing it."

He suggests any impact of Brexit on investment should be limited, despite reports of some investment banks making plans to relocate staff from the City of London.

Bland said: "Any businesses that move to Europe [from the City of London] as a result of Brexit will not directly impact on the availability of investment capital for UK businesses. More capital is raised from outside the EU than from inside, so I don't see Brexit causing significant friction.

"I don't think Brexit will have that much effect on the integrity and liquidity of the UK

UK BUSINESS SPENDING: EXPECTATIONS OF A NEGATIVE BREXIT IMPACT
% of CFOs who expect activity to decrease over three years



Base: 100-plus UK chief financial officers Source: Deloitte CFO Survey

Investment in travel

Sector's value draws private equity

M&A market. Of course, individual businesses may well be affected, as might the economy."

Pritchard added: "Certainly, there is consciousness of a reliance on the free movement of labour, but at the moment business confidence is reasonably robust and holidays are still seen as a priority [by consumers]. We see more discussion of other operational uncertainties than of Brexit – the impact of technology, of the sharing economy.

"The UK is also not a bad place to invest at the moment because of the fall in sterling."

Bland agreed the lower value of the pound has had a positive impact in this respect, but he pointed out: "If it's a pure UK business, its dividends and profits will have dropped as well." He said: "I expected more of an impact on outbound travel [from the fall in sterling], but it has not happened in 2017."

Investment trends and outlook

Private equity continues to dominate travel investment deals. "In the last couple of years, it has been mainly private equity investing in travel M&A," said Pritchard.

> The outlook is complicated by Brexit, but I remain optimistic about the outlook for the sector as an attractive place for investment

"The big operators are generally investing in product, whether that is a new cruise ship or new hotels, and I see that continuing. They could also look at other ways to develop content, reaching agreements with third parties for example. There are a number of ways to invest, whether through pure M&A or joint ventures and partnerships."

He suggested: "It might start happening in other parts of the travel space – among niche tour operators, for example. Many businesses are expanding through collaboration in the digital world. Digital technology can seamlessly integrate things, creating increased capacity through increasing access to content. Ten years ago that would not have been possible.

"Technology could allow businesses to operate in very different ways in the next five to 10 years. You could grow a business with these types of arrangements without losing control of the business."

Bland notes another trend. "There is global consolidation happening among the mid-ranking players in business travel," he said. This mirrors what is happening in the leisure sector, he added: "In both the leisure and corporate sectors there is an increasing cohort of middle-ranking players creating significant value.

"We're seeing strong mid-size companies in specialist niches, particularly in business travel where traditionally there was just the big four and the rest. Now there are many increasingly international mid-market players such as Reed & Mackay, ATPI, CTM and Direct Travel."

He is positive about the prospects for the sector, saying: "There remains significant available capital in private equity and debt markets out there, and there has been strong competition for investments in the travel space. Unlike other sectors, gearing is not as aggressive because of CAA regulations. As long as companies can find ways to achieve sustainable growth there will be significant interest in the travel sector."

Bland does not foresee investors being deterred by increases in interest rates. "Rising interest rates would raise the cost of debt, but it's a question of degree," he said. "If the cost of debt goes up, transaction multiples should in theory come down. However, a 1% rate rise will only make a difference at the margin."

He insisted: "During the next 12 months, M&A activity will be strong, particularly the next six months for which we have visibility. The specialist players – specialist technology and specialist product – are still growing their businesses rapidly. The only note of caution is if consumer spending is eaten into further and there is a slowdown in the UK economy.

"If there is a recession, it could all unwind quite quickly. But at the moment that is not happening. The outlook is complicated by Brexit, but I remain optimistic about the outlook for the sector as an attractive place for investment."

M&A in recent months

Several travel-related deals stand out in the past 12 months. One, announced in November 2016, saw Chinese online travel group Ctrip International pay £1.4 billion for Edinburgh-based airfare comparison site Skyscanner.

Gareth Williams, Skyscanner chief executive, who remains at the helm, noted: "Ctrip realises there is a difficult history of international brands succeeding in China, so it is in their interest for us to stay independent." The deal saw Skyscanner's ex-largest shareholder, Scottish Equity Partners, make £470 million on an initial investment of £9 million.

The second deal, confirmed in June 2017, saw Tui sell Travelopia – the group's former specialist holiday brands, including Hayes & Jarvis – to private equity group KKR for €381 million. The group of 50-plus brands had been managed independently since the merger of Tui AG and Tui Travel at the end of 2014.

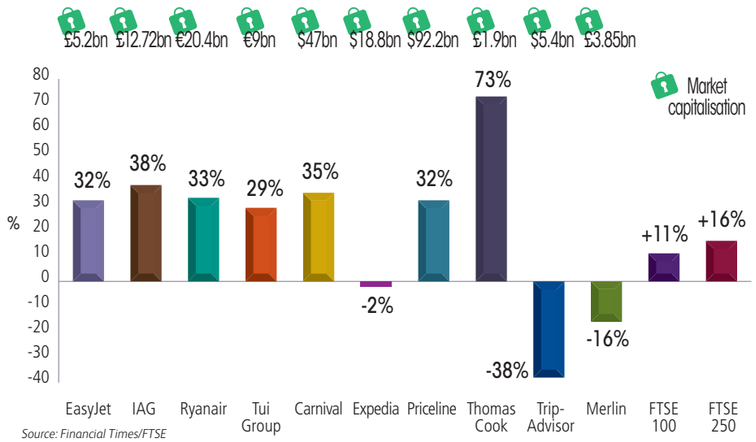
Deloitte partner Nigel Bland noted: "The Travelopia sale successfully completed the significant programme of divestment by Tui. Fast-growing small and mid-size businesses will continue to look to the private equity community for growth capital."

A third deal, which may have gone largely unnoticed in the UK, saw private equity firm CVC pay €508 million in June 2017 for Swedish online travel agency Etraveli.

THE CHART (below) shows the movement in share price over 12 months of 10 major listed travel groups. The share prices of the airlines and tour operator groups outgrew the FTSE indexes.

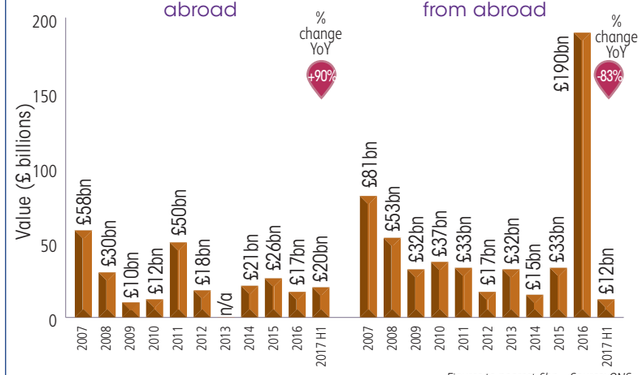
MAJOR LISTED TRAVEL GROUPS

Change in share price 12 months to November 3, 2017



Source: Financial Times/FTSE

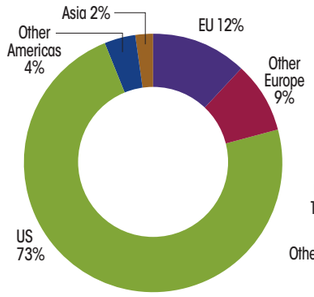
CROSS-BORDER M&A



Figures to nearest £bn Source: ONS

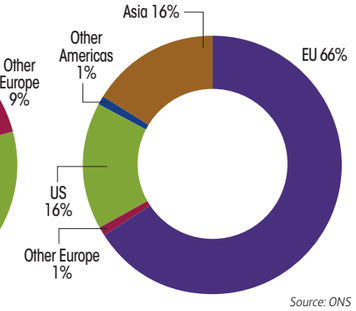
UK ACQUISITIONS ABROAD, 2016

Total value by region



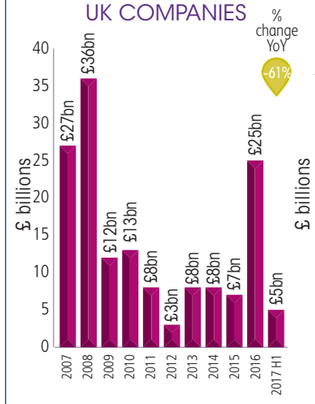
FOREIGN ACQUISITIONS IN UK, 2016

Total value by region

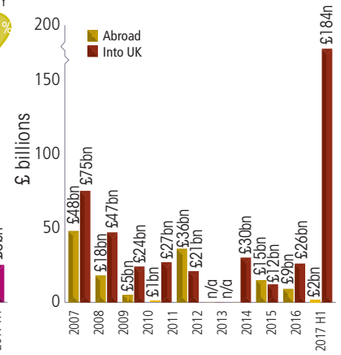


Source: ONS

UK M&A BY UK COMPANIES



UK CROSS-BORDER M&A AND DISPOSALS



Figures to nearest £bn Source: ONS

Aviation

Airline profits hit new altitudes

Airline profits have never been higher. British Airways owner IAG was on course to report a full-year operating profit of €3 billion as this report went to press, up from €2.5 billion a year earlier.

Ryanair was looking at a €1.4 billion profit for the 12 months to March 2018 on top of £1.3 billion in 2017, despite cancelling the flights of 700,000 passengers between September and March after messing up its pilot rostering. EasyJet reported profits of £408 million as chief executive Carolyn McCall left for broadcaster ITV.

IAG's network rivals Lufthansa Group and Air France-KLM were on course for record profits – Lufthansa reporting a net profit of more than €1.85 billion for the nine months to September and Air France-KLM reporting a 64% increase to €700 million in operating profit for the same nine months.

In the US, net profits at Delta Air Lines ($4.4 billion), United ($2.9 billion) and American Airlines ($2.7 billion) for 2016 were in eye-watering territory and results for 2017 looked set to be little different.

Yet in Europe, Monarch Airlines became the third carrier to cease trading in five months at the start of October, following Alitalia, which went into administration in May, and Air Berlin, which entered administration in August and ceased flying in October. Air Berlin and Alitalia ran into terminal problems when major shareholder Etihad pulled the plug on both and on its policy of holding equity stakes in secondary carriers. But overcapacity in Europe was the underlying problem for all three airlines, driving down fares and squeezing yields.

> Major airlines remain on course for record profits, but others have fallen by the way

Graham Pickett, Deloitte global lead partner for travel and aviation, said: "The airlines that have fallen had been on the list of potential failures for a while because of high costs and a competitive market. All were struggling with the level of competition on their routes and the fact that passengers were paying less than a year ago. But there is not a wholesale problem across the industry. Airlines are still enjoying relatively low fuel prices and we still see more people travelling. But people are paying less, so yield is an issue and that is the tale across the globe.

"The average price of flying from the UK to Spain was £30-£40 less in summer 2017 than summer 2016. Next year we'll see single-aisle aircraft flying across the Atlantic, when 53 airlines already operate across the North Atlantic and flight numbers show a sizeable increase. So there is pressure on yields.

"There are also too many aircraft. We've seen a lot of next-generation aircraft come into the global fleet – the Boeing 787, Airbus A350, Boeing 737 MAX and Airbus A320neo. That has reduced the operating costs. We expected the old-generation aircraft to come out. But with fuel prices low, airlines have used the old aircraft on new routes, in some cases experimental routes. There comes a point when there needs to be an adjustment through consolidation or airline parking aircraft. A number of airlines are grounding aircraft and I suspect we'll see more of that."

The pressure isn't only on European short-haul routes. Pickett said: "You have all these different business models around, [including] the low-cost long-haul carriers Norwegian, AirAsia X and Scoot [a subsidiary of Singapore Airlines]."

These mark the third incarnation of low-cost long-haul airlines, following Laker Airways in the 1970s and Eos, Maxjet and Silverjet in the mid-2000s. Pickett said: "We've seen failures in the past, but the model is probably sustainable now provided fuel prices don't start rising significantly again. Most of the airlines are sensible about the equipment they use. If they have the financing right and we don't see a rapid rise in interest rates, their operating costs will be comparatively low."

He suggested Silverjet, which flew Luton-New York for 18 months in 2007-08, "would be here today on $60-a-barrel oil and operating a Boeing 787".

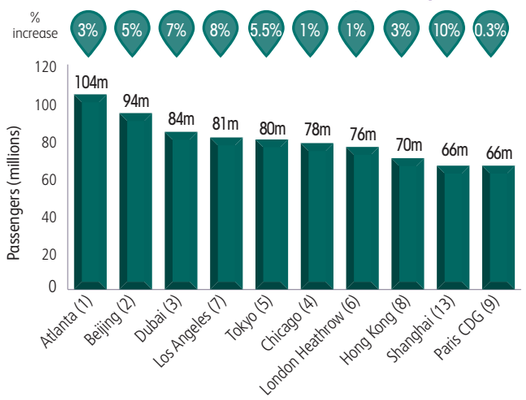
Deloitte consulting director Martin Bowman said: "These operators are hybrids of low-cost carriers with components of full-service carriers. We're likely to see a further coming together of business models driven by the new fleets and new technology. Add in advances in air traffic management, such as space-based satellite navigation, and there is a whole series of efficiency improvements."

Top of the cycle?

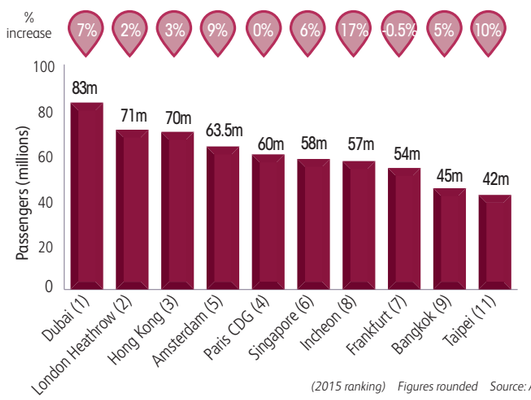
The airline sector is notoriously cyclical, with years of losses typically following profitable periods. Yet 2017 marked an eighth consecutive year of collective profit for members of airline association Iata.

Pickett said: "Airbus and Boeing's order books grew rapidly for four to five years. In the last 18 months, orders have dried up. Ryanair, easyJet and Norwegian are adding

WORLD'S BUSIEST AIRPORTS, 2016
Domestic & international passengers

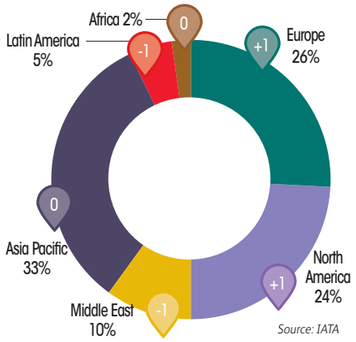


BUSIEST INTERNATIONAL AIRPORTS, 2016



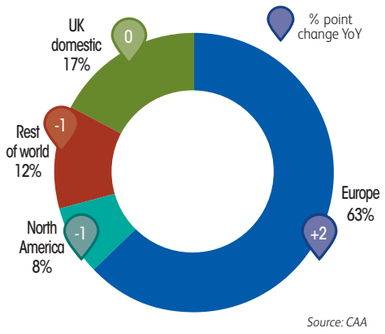
(2015 ranking) Figures rounded Source: ACI

WORLD PASSENGER TRAFFIC BY REGION, 2016



Source: IATA

UK AIR PASSENGERS BY DESTINATION, 2016

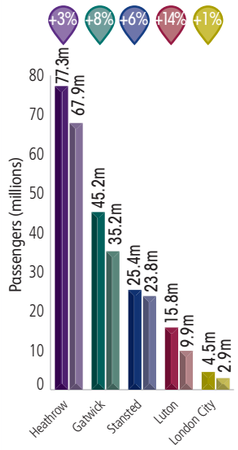


Source: CAA

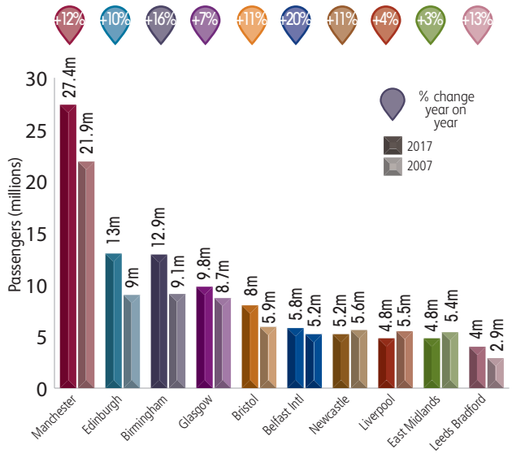
UK AIRPORT PASSENGER NUMBERS, 1994-2016

All passengers, outbound, inbound & domestic, to nearest million Source: CAA

LONDON AIRPORTS PASSENGERS, 2017*



UK REGIONAL AIRPORTS PASSENGERS, 2017*



*12 months to August 2017 Source: CAA

capacity. It's a favourable situation for the consumer. But demand is not growing at the same rate as the number of aircraft. We must see airline profitability coming under pressure as costs rise and passenger yields see further downward pressure. Airlines will gradually adjust their fleets by taking out old aircraft."

He acknowledged carriers have seldom adjusted this way in the past, but said: "Airlines are in a better position economically, with strong balance sheets, and the industry is better managed today than it has ever been."

Bowman agreed, suggesting adjustments to capacity are "more of a management issue than a necessity". He said: "The fuel price is forecast to remain relatively stable and we can set that against positive demand."

Pickett added: "The only real worry is on the lessor side. There are a number of global aircraft lessors. Often these focus on particular aircraft types. An increase in interest rates could put them under pressure where they predominantly have older-generation aircraft in their fleets.

"There is tension building in the profile of aircraft coming off lease over the next few years which will put pressure on residual values as well as lease rates. There has to be pain somewhere."

Outlook for 2018 and beyond

One major issue clouds the horizon – the need for an agreement on UK-EU flying rights in light of Britain's exit from the EU scheduled for March 2019.

Pickett warned: "I can see an aviation deal going to the wire. It might be a pawn in the discussion. If nothing is agreed, airlines with a UK air operating certificate (AOC) technically won't be able to fly in EU airspace and vice versa – that is why easyJet set up an Austrian AOC. So from March 2018 it's likely we'll see statements on tickets noting that airlines reserve the right not to fly in the event of a deal not being reached – which is unlikely, but not beyond the realms of possibility.

"Airlines have no choice. They need to put flights on sale and cover their position as best they can. It will not be straightforward."

However, he said: "The bigger worry is the consumer. If airlines say 'We won't be able to fly after such a date' will that put people off?"

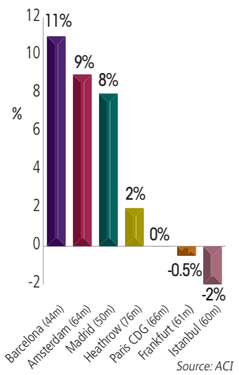
Ryanair chief executive Michael O'Leary has warned all flights could cease from April 2019. Pickett said: "There are a lot of scare-related scenarios. O'Leary has at least brought the public up to speed. He has the politicians in London and Dublin thinking 'We have to take this seriously'."

A second key concern involves airline distribution, as a succession of major carriers previously dependent on global distribution systems (GDSs) for third-party sales look to develop alternative channels through Iata's New Distribution Capability (NDC) standard *(see page 22 for more on NDC).*

LONDON & REGIONAL AIRPORT TRAFFIC, 2016

Source: CAA

FASTEST-GROWING EUROPEAN HUB AIRPORTS, 2016
% growth YoY



Source: ACI

The Gulf carriers

The explosive growth plans of the Gulf carriers – Emirates, Etihad and Qatar Airways – were called into question in 2017 amid US laptop restrictions, a travel ban on some predominantly Muslim countries and a boycott of Qatar by Saudi Arabia and the UAE.

At the same time, Etihad changed its investment strategy, withdrawing its financial stakes in Alitalia and Air Berlin, while the carriers faced a continuing challenge in Washington from allegations filed by the big-three US airlines.

Deloitte consulting director Martin Bowman said: "The growth we've seen to date is likely to be challenged, but don't underestimate the businesses these airlines have and what they have achieved. They will just operate in a different manner." He added: "Dubai airport is suffering capacity constraints, so a bit of a slowdown might be no bad thing."

Deloitte global lead partner for travel and aviation Graham Pickett added: "When the oil price was $100 a barrel, the Gulf economies were in very good shape. Now the governments are more stretched. That has changed the attitude of the investors in these airlines.

"The fleet plans of the three airlines are still massive. Demand is growing but at nowhere near the rate of new aircraft coming into their fleets. The market is also being influenced by changes in aircraft technology which is challenging the hub-airport strategy. Aircraft can travel so much farther now, which can be a significant advantage for the traveller if their travel time can be reduced. The other thing is there is no airspace agreement [in the Gulf] and that limits the number of aircraft in the air."

Pickett sees these issues affecting the future of the Airbus A380, the flagship of the Emirates fleet. Emirates took delivery of its 100th A380 in November 2017, but it has 150 of the new, long-range Boeing 777X on order and is due to be the launch customer for the aircraft in 2020.

He said: "A380s are coming off lease and I've not seen a single second-hand sale of an A380. Airbus will reduce A380 production to one a month [from 2018]."

Pickett said: "I see issues for intermediaries. Airlines want their customers back. They want to 'own the customer' and see how to do that through personalisation. They can't do that if they are selling through intermediaries all the time.

"It's going to be painful as a lot of airlines rely on intermediary systems, in particular the GDSs. It is difficult for airlines to just jump out of these. And do airlines have all the systems to replace them?"

Bowman foresees reconciliation between airlines' NDC efforts and the GDSs "in the near-to-medium term". He expects greater disruption to come from blockchain and distributed ledger technology. Bowman said: "It's something the industry has not got its head around yet, but when people understand how to apply blockchain technology it will upset the apple cart for the GDSs and system players. I expect blockchain to revolutionise the finance sector in the next two to three years and to be in the aviation sector in five to six years."

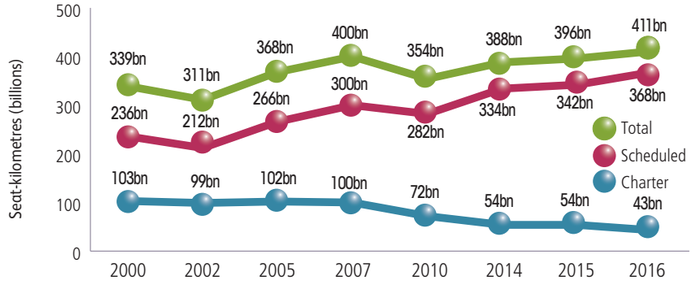
In the meantime, Bowman identified three key trends: "One, digitisation will increase and we'll see more personalisation. Two, we'll see a lot more pan-industry co-operation, in particular between airports and airlines. Three, there will be an increasing focus on resilience – an area in which the UK has a real advantage with some of the highest-performing assets in the world."

Pickett added: "We'll see increasing consumer choice, but UK consumers might be economically constrained. I suspect airline profits will be lower, but not dramatically so. There will be fewer airlines in two years.

"There will be question marks over a third runway at Heathrow for a while, and if the government changes it could upset things considerably. Otherwise, it's 'when' not 'if' we get a new runway in the southeast. We might even get two runways, one at Heathrow and one at Gatwick."

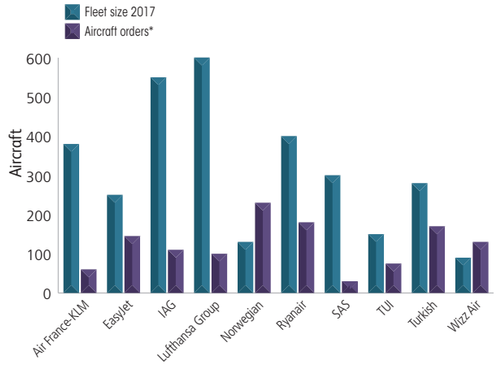
THE CHARTS, centre & bottom (right), reflect capacity growth in Europe and the Gulf, and intensity of competition over the North Atlantic. Note IAG-American, Delta-Air France-KLM and Lufthansa-United account for 74% of the market. The remaining chart (top) reveals the decline of charter flying. Tui claimed almost all the 2016 figure.

UK AIRLINE CAPACITY, 2000-16

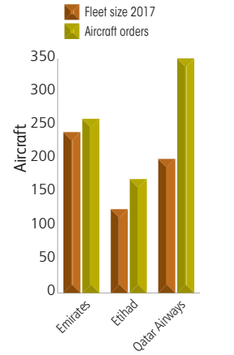


Figures rounded Source: CAA

AIRLINE FLEETS IN EUROPE

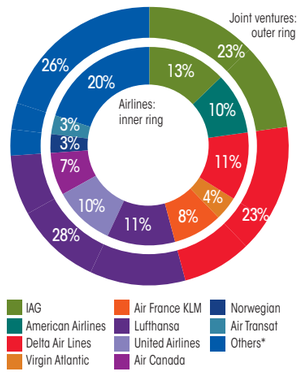


MAJOR GULF AIRLINES



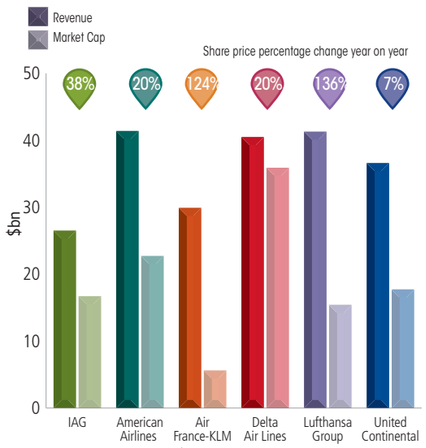
**Firm orders Figures rounded* Source: Airlines

NORTH ATLANTIC MARKET SHARE
By airlines and joint ventures



**Includes Air Berlin & Alitalia, both ceased flying October 2017* Source: CAPA

MAJOR TRANSATLANTIC AIRLINES: REVENUE AND MARKET CAP



Scale indicates $ value where revenue/market cap in euros/sterling All figures as at November 3, 2017 Source: FT/FTSE

Technology

Putting new tech into practice

If connected devices dominate the current wave of technology development in travel, robotics and cognitive learning look set to dominate the next phase.

Google Assistant, Amazon's Alexa and Apple's Siri already enable machine-based interaction, with companies seeking to combine such technology with messaging applications in line with a Facebook-commissioned study which found half of respondents would rather message than call a retailer's customer service.

The 2016 edition of this report concluded with Deloitte consulting partner Andy Gauld suggesting: "The next big thing is how to adapt to the artificial intelligence (AI) world." A year on, he said: "Some of the myths around AI have been debunked – the idea that you chuck in all the data you have and it gives you all the answers. AI is not about magic answers. It takes time to be tuned in to what you need it to do."

But developments are still only in the early stages. Gauld said: "A lot of organisations are looking to robotics to automate processes, but we are still several years away from full automation. Airports, cruise lines and travel operators are trialling facial recognition. That will come, but there will be a lot of trial and error [along the way]."

His colleague Martin Bowman, consulting director, suggested: "The travel industry is generally conservative when it comes to technology adoption. I doubt we'll see organisations jumping straight into AI.

> Data is poised to become more personal and artificial intelligence to advance in rapid steps

"But there are some great examples of robotics already – for example, moveable robotic check-in desks in airports. The next stage could see the use of cognitive learning in airport gate allocation. This is [currently] performed by people, but it is primarily based on sets of rules. It is the sort of area ripe for cognitive learning."

Gauld said: "We'll also see examples in the back office, for example around HR support where people will interact with a bot." A bot, or web robot, is simply a software application that runs an automated task online. He added: "Airlines are using chatbots already, for example around [airport] check-in kiosks."

Bowman conceded: "There is a bit of gimmickry attached [to early developments]." But he said: "People today are so much more comfortable with automation. Chatbots are fairly simple to be getting on with. But it's only a matter of time before we see more."

Pursuit of personalisation

Gauld sees progress along the path of personalisation in the past year, having emphasised 12 months ago: "It's a long journey to understand how personalisation can improve service."

He said: "Everyone was trying to act in isolation. Every airline and airport was trying to personalise offers to the consumer. But where personalisation really drives value is if you look at how things combine.

"Things are starting to turn. Across the industry we see people more open to conversations around the customer experience and personalisation.

"The underlying technology has moved on. Some technology providers are waking up to the type of services they need to provide. Previously you had one technology provider for X, another for Y, a third for Z. Now providers are starting to think about how to deliver X, Y and Z. There are retailers starting to build technology themselves, for example for personalised messaging. They want to enhance the experience of customers."

Gauld added: "One of the challenges in aviation is how to build the technology. The danger is to try to do too much and for it not to be cost-effective."

Bowman said: "The smart way to do this is to take a strategic view and not try to do all things initially but to adopt [technology] in increments. Take beacon networks – initially, everyone was trying to jump on the bandwagon. Now we see airports saying a beacon structure is a basic, common network that should be available to all stakeholders. It is a common-use project"

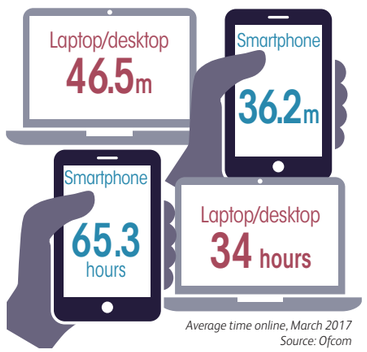
Gauld explained: "The real value [in personalisation] is in sharing data. The challenge is to make sure you have the right set of permissions from customers to unlock the possibilities."

He sees the EU's General Data Protection Regulation (GDPR) as "pertinent" here, noting it has caused a temporary slowdown of developments as "businesses make sure they are compliant and think about what preferences and privileges mean".

"It's almost as if the gas is turned down, said Gauld. "I expect to see an upturn in pace from the middle of next year when the GDPR is in place. The GDPR will bring the idea of data as an asset front and centre."

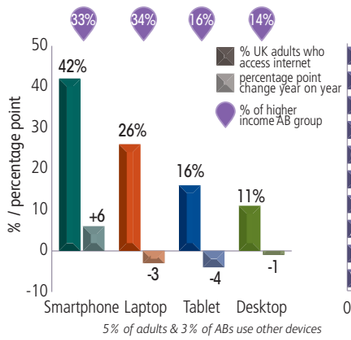
Bowman said: "I recommend organisations consider the positives around the GDPR – [the requirements] that privacy and security be built into systems from the outset. Ultimately, that is better."

UK ONLINE AUDIENCE, 2017



Average time online, March 2017
Source: Ofcom

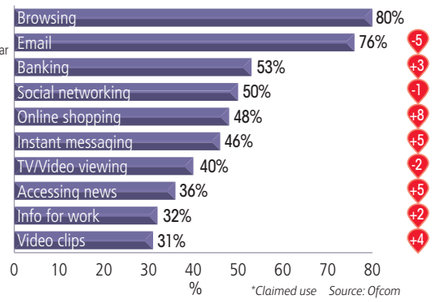
MOST IMPORTANT DEVICE FOR INTERNET ACCESS, 2017



5% of adults & 3% of ABs use other devices

TOP 10 INTERNET USES*

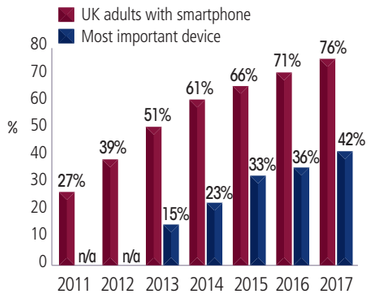
% all adults using internet, activity in past week



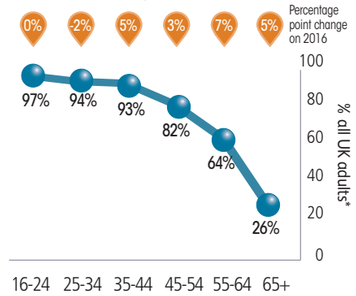
*Claimed use Source: Ofcom

INTERNET USE ON SMARTPHONE

2011-17



By age, 2017

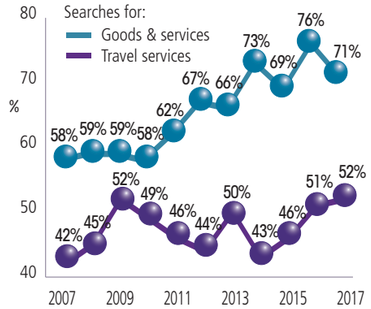


Source: ONS

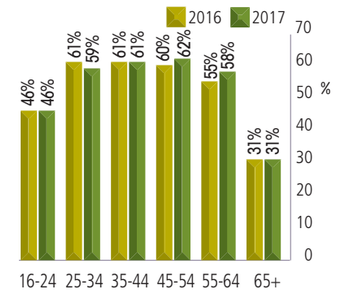
ONLINE ACTIVITY: GOODS & TRAVEL SERVICES

UK ADULTS ACTIVE ONLINE IN LAST 3 MONTHS

2007-17



Travel searches by age, 2017

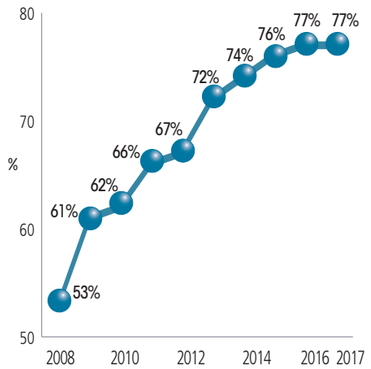


Source: ONS

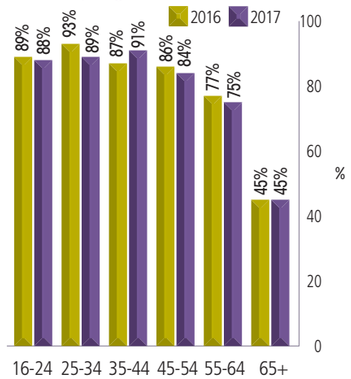
ONLINE PURCHASING, ALL GOODS AND SERVICES

% UK adults purchased in last 12 months

2008-17



By age, 2016-17



Source: ONS

Technology

Putting new tech into practice

Mobile advance

Smartphones are now a ubiquitous accompaniment to travel as they are to everything else. But Gauld does not yet perceive the industry to be at a tipping point for mobile bookings. He suggests "there is still a big disconnect" between claims for rates of mobile booking and what is happening.

Gauld said: "There are two parts to this: the booking and the journey. We're still trying to understand how many customers look on an app or mobile browser to search a trip and then book elsewhere.

"A holiday is a substantial purchase and there is a still a reluctance to book all the elements on a mobile app or browser. There is still some way to go to a tipping point [on mobile bookings]. Things have advanced, but I wouldn't say we're past a tipping point."

Yet he noted: "You see increasing numbers of air travellers with their phones in their hands when they board flights."

He forecast: "We'll see the growth of concierge services, of one or two providers which manage everything for you, for example if a trip is disrupted. Trying to rebook everything across a hotel app, an airline app, a ground transport app would be cumbersome. There is no benefit in trying to go across six apps to sort out a trip."

Bowman agreed, saying: "Mobile is now commonplace on the day of travel, making the experience more convenient. The most important thing is interoperability and the key [to that] is common standards, allowing the major players to interact across different platforms and different [mobile] apps."

He cited airline association Iata's New Distribution Capability as "a great example", saying: "It can only lead to greater interoperability across alliances and around cross-selling."

Investment in technology

Continual developments in technology demand continual investment, but Bowman said: "The days of the massive technology investment programme are over. People are adopting more of a 'bite-size chunks' approach and need to show incremental benefits [from programmes] as soon as possible.

"For example, we're working with an airport helping to replace its legacy estate. It is a phased decoupling of legacy technology and showing rapid benefit."

He explained: "There is a fairly progressive view on investment in aviation now in comparison to the past five years. The challenges across the industry are growing. There are more operational challenges and there is a larger appetite to invest provided it is not 'big bang' [investment], and there is a relentless focus on business value."

Gauld agreed: "The purse strings have been loosened, but there is a focus on value."

A programme may take two or three years to deliver, but you have to show a return from day one. Legacy airlines are looking to break down [investments], looking at what is the right thing to do in the right sequence. Newer entrants don't have legacy systems and are looking at incremental developments."

Bowman identifies the blockchain technology behind Bitcoin and other cryptocurrencies as likely to attract increasing interest. The Tui Group has already announced a deal to explore this technology with blockchain-based distributed platform Ethereum.

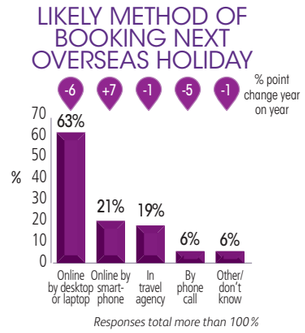
"Blockchain is an enabling technology that has potential in combination with other technologies such as biometrics – for example, we're moving toward a single biometric token per person," said Bowman.

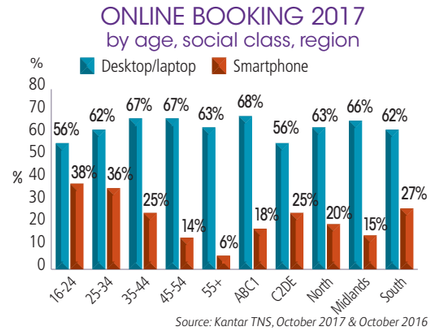
"Aviation is very siloed. Each player has their own centralised systems and database. The more we see a paradigm shift to distributed technology, the more we'll see a move to distributed technology in aviation."

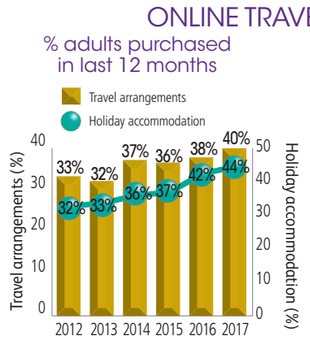
For now though, the priorities are different. Bowman said: "A simple priority is for mobile-based collaborative tools – simple things that don't cost huge amounts, but that can create a positive difference. For example, Gatwick airport's 'community app' is used by 10,000 stakeholders across the airport. From a technology delivery point of view, it is not that difficult. From a passenger point of view it has made a big difference."

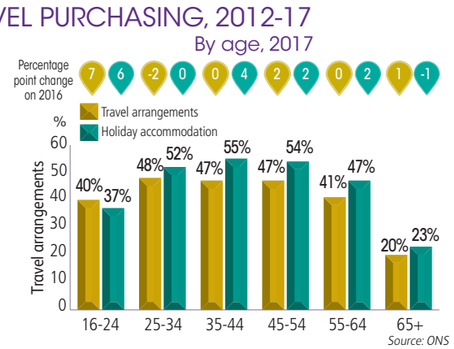
Gauld said: "There is a priority in aviation for more data-sharing and openness among airports, airlines and ground handlers. It would improve the customer experience."

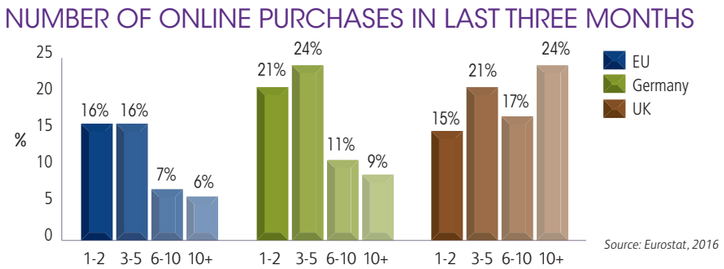
THE CHARTS (below) show the UK far ahead of other markets in the value of e-commerce, with UK consumers spending 50% more per head than in the US and more than consumers in Germany, France and Italy combined. Almost two-thirds of regular online buyers in the UK spend in excess of €100 (these are EU stats) on a single purchase and 31% in excess of €500.

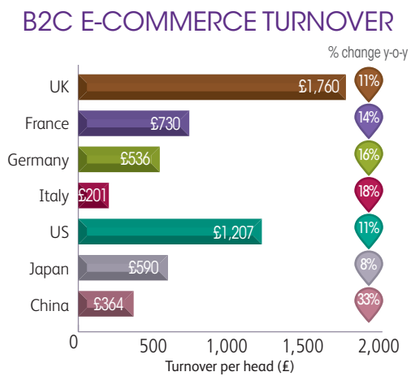




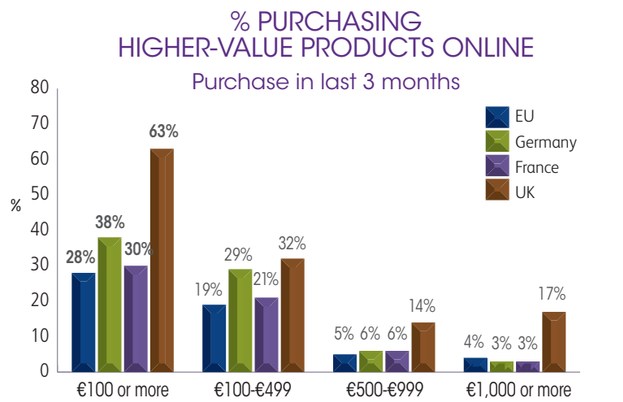




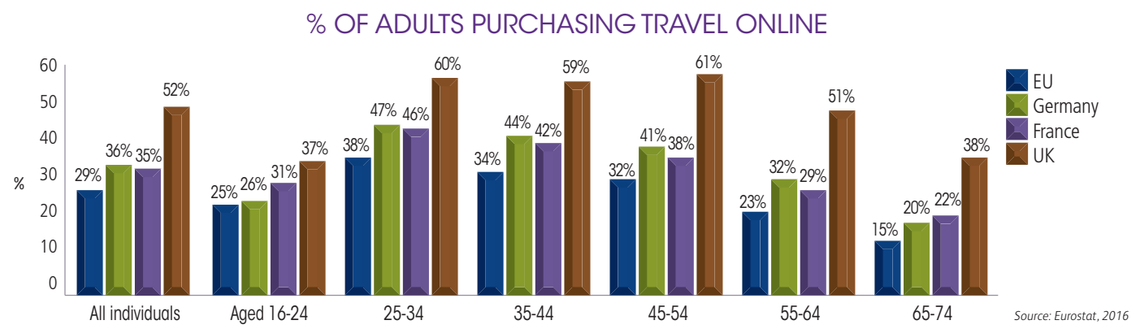




THE UK is far ahead of other markets in the value of e-commerce, with UK consumers spending 50% more per head than in the much-bigger US market and more than consumers in Germany, France and Italy combined. *Source: Ofcom 2016*



Source: Eurostat, 2016



Cybersecurity

Assess the risk to your systems

A series of high-profile data breaches in the third quarter of 2017 highlighted the scale of cybersecurity risks now posed.

US credit reporting agency Equifax revealed the loss of the sensitive personal data of 145 million Americans.

In May, the WannaCry ransomware virus paralysed the systems of more than one in three NHS hospital trusts and 600 GP practices.

In October, telecommunications giant Verizon revealed a 2013 breach at Yahoo – a company it now owns – had compromised three billion email accounts.

The UK's National Cyber Security Centre, part of the Government Communications Headquarters (GCHQ), reported 590 "significant cyber incidents" in 2016-17 – its first year of operation. The threat is so relatively new and so rapidly evolving that the UK Office for National Statistics is as yet recording only 'experimental data' on the incidence of cybercrime.

Deloitte risk advisory partner Peter Gooch said the number of high-profile breaches "highlights the challenges organisations face". He noted: "Some breaches are public by their nature; others are not. Intruders don't necessarily go in and start shouting about it. They want to be undetected."

His colleague Gavin Cartwright, Deloitte risk advisory director, said: "There has been a major change in the nature of recent breaches and the lessons learned from them. Up to six months ago, most of the noise around attacks was concerned with data breaches. That is an area of concern and there are privacy regulations around personal information.

"But some recent attacks, such as WannaCry and NotPetya, have utilised ransomware (or 'destruction ware') resulting in organisations not being able to use their data and systems, ultimately bringing key operational activities to a halt. This includes the ability to access online backups, or the ability to effectively restore offline backups as you don't have anything to restore to.

"There has been a change of mindset [as a result]," he said. "Organisations need to continue ensuring the security of data, but they also need to rethink and challenge their recovery strategy. This should not just be a siloed recovery approach for each key asset. It should include consideration of what end-to-end systems it takes to operate critical business processes, and ensure each of these are able to be restored in a reasonable time frame following a similar type of attack.

"It comes down to an organisation knowing where the key information is – its crown jewels. There is also a need to look at end-to-end critical processes – to look though a security lens across people and processes, not just at one system at a time but at how they link up and consider how anyone could cause a problem."

Cybersecurity and data protection are now number-one priorities for any organisation

Americans' personal data exposed by Equifax breach

'Significant cyber incidents', 2017 (UK National Cyber Security Centre)

Yahoo users' accounts affected by 2013 breach

Creating a fortress

Counter measures are essential. Gooch advocates the creation of 'a fortress' or 'citadel' for an organisation's crown jewels "so the bare bones of an operation remain functional". He said: "It is about creating an 'air gap'. A lot of companies have flat networks so ransomware can propagate quickly. You need to segment [networks]."

Cartwright agreed: "There is a need for segregated bits of networks. With perhaps 10%-20% of critical structure you could run a skeletal version of key services. That is what we look at – what can we get up and running after a potentially catastrophic event."

The travel sector is as vulnerable as any. Gooch said: "The potential for disruption in travel is huge. There is an immense amount of personal and sensitive data, which offers an ideal target for attackers. But in addition, the nature of the services provided means an intruder can cause massive disruption if systems are compromised. Even a short break in service to an airline or airport may cause massive disruption. There can even be the threat of loss of life.

"Airlines may also have a number of older, legacy systems that are more difficult to maintain, and may be running operations that might not be tested on newer systems."

He said: "A number of recent attacks have taken advantage of unpatched systems. Organisations still struggle with [updates and security patches] where they have a huge spread of systems to protect, including legacy systems. It's key to stay on top of this. If you can't secure all networks, isolate critical networks in case of infection."

Cartwright added: "Mainframe and legacy systems bring some pretty unique operating challenges. They often have weaker passwords or the inability to update or patch, and any move away from them can be complex and time-consuming. But there are options for counter measures, such as whitelisting the activities operated on a mainframe and restricting other things that can happen on it."

Connected devices

The explosion in the number of connected devices is multiplying the channels through which attacks may come.

Cartwright said: "We already see breaches involving the internet of things. The largest-ever denial-of-service attack took advantage of an internet of things device. Another attack compromised an internet-enabled refrigeration device in a store.

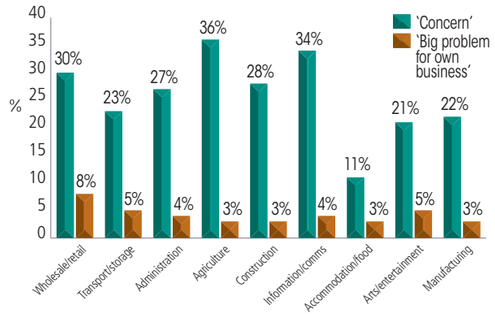
"Anything internet-enabled has to be risk-assessed and secured. It almost does not matter what the device is – a server or a connected device. Any device will have vulnerabilities and can be used to gain a foothold in a system. Anything connected to a business network should be assessed. You need to understand as much as possible about what the device can do, and ask 'Has the default password been changed? Has the software been patched and updated?'"

Gooch said: "People get the idea of the theft or loss of control of a connected car because the impact is easy to understand. But it's hard to understand the potential impact of a compromised kettle. People don't take it so seriously.

"The challenge is partly due to the perception that these are harmless, everyday household devices. They are not. They are another way of connecting to a network and they need to be considered like a desktop device. You have to consider the worst that can happen. You are only as strong as the weakest link [in your network]."

THE CHART (right) shows the level of concern about online crime by business sector. Note the disparity between the rate of concern and proportion of respondents who view online crime as a problem for their own organisation. Rates of online fraud and computer misuse now dwarf other rates of offending (charts, centre). Hospitality appears to lag other sectors in complying with security standards (bottom).

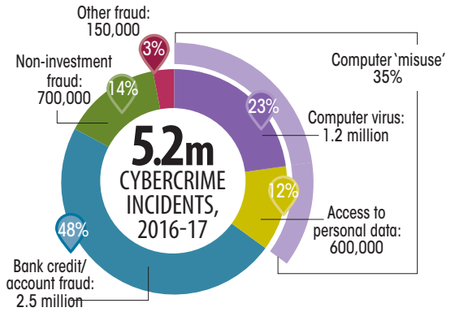
BUSINESS CONCERN ABOUT ONLINE CRIME



Source: Home Office

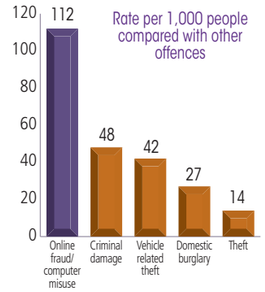
CYBERCRIME IN ENGLAND & WALES

12 months to March 2017



Source: ONS Crime Survey

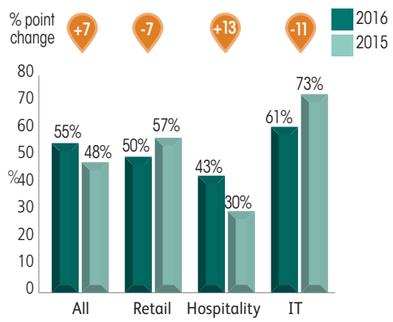
INCIDENCE OF ONLINE FRAUD/ COMPUTER MISUSE



Source: ONS Crime Survey, England & Wales

CONSUMER DATA SECURITY

SECURITY STANDARD COMPLIANCE BY SECTOR



Compliance with Payment Card Industry Data Security Standard (PCI DSS) Figures rounded Source: Verizon, 2017

There are also privacy and security considerations attached to digital assistants. Gooch noted: "Large companies are pretty security-conscious [when it comes to digital assistants]. But consumers are not so aware of the privacy aspects, of all the data recorded by a digital assistant or home automation device and how it could be used."

The General Data Protection Regulation

Businesses should already have determined the size of their task in complying with the EU's General Data Protection Regulation (GDPR) and have developed a road map.

"Most organisations are now in implementation, although we do see some struggling," said Gooch. Where organisations need to be by May 2018, when the GDPR comes into force, "will mean different things to different people". He said: "What do you do with data? Are you pushing at the boundaries? Are you going to be in the regulator's spotlight? Everybody has to work out a sensible position [for their business].

"For a small organisation, compliance may be straightforward. You need to determine your target state. The challenge is that many organisations have not defined that."

He suggested: "Those likely to be in the regulatory spotlight are those which have had issues before, companies dealing with huge volumes of sensitive data and anyone dealing with special categories of data such as pharmaceutical companies and banks."

> The potential for disruption in travel is huge. There is an immense amount of personal and sensitive data, which offers an ideal target for attackers

One of the most-publicised provisions of the GDPR will be the regulator's new power to impose fines of up to 4% of global turnover for a serious breach. Gooch said: "It's quite likely the UK regulator will want to show it takes this seriously. A fine is not the only option, but I expect an element of the regulator demonstrating its commitment to the issue and how important it is."

Some of the key compliance issues come down to consent for holding and processing personal data and being aware of what happens to it, including its use by third parties.

Gooch said: "Privacy is not just about consent, but there is now a requirement for unambiguous consent where consent is required. However, there are other options. An organisation should ask: 'Do we have a legitimate interest in processing personal data' and 'Do we have the right level of consent if there aren't other options?' Direct marketing is a legitimate interest of a data controller, but it must be balanced against an individual's rights.

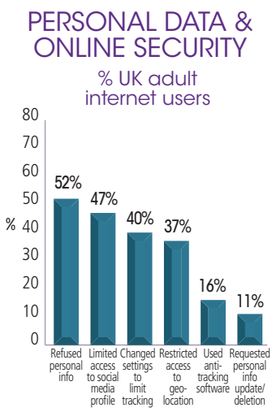
"If you don't have the right level of consent, you need to get it. For some organisations that could be challenging and impact on how they contact existing customers who may only have implied consent to contact. Some companies see it as an opportunity to cleanse their data and focus on those who really want to be contacted. Others see it as a threat to the use of valuable marketing databases."

Cartwright explained: "One area around privacy is the requirement to know what data you are handling, the system it resides on and when it leaves [that system]. This offers an opportunity to know what data you hold and to do more with it.

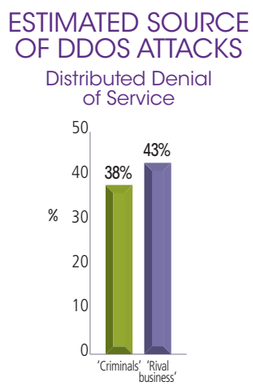
"The GDPR also makes clear the need for transparency about what third parties are doing on your behalf. There will be organisations unaware of the depth of what third parties may be doing and they should find out."

He said: "The requirements are complex, but if you understand them well and understand your data there will be opportunities."

ONLY about one in 10 UK adults made requests to view, update or delete personal data held online in 2016 (below, left). This could change radically when the EU GDPR comes into force from May 2018. An international poll suggests many businesses suspect competitors rather than criminals of carrying out distributed denial of service (DDoS) attacks.



Source: ONS, 2016



Source: FT / Kaspersky Lab international poll of 4,000 companies

of businesses expect 'frictionless' e-commerce to increase fraud (Worldpay)

of businesses collect data they don't use (Worldpay)

Crisis management

Planning, leadership and communication

Crises seem to arise all too often, with random terror attacks now all too common. Some scenarios can be anticipated. But being prepared for and capable of handling a crisis an organisation cannot foresee should be the aim, according to Deloitte risk advisory director Bob Judson.

He explained: "A lot of companies focus on events which are likely to happen. For example, all airlines probably have a decent plan for what to do if they lose an aircraft. The bigger challenge is when something unexpected occurs, something not planned that leaves you flat-footed.

"You may have prepared well for specific events, but you won't be so well prepared for things that catch you on the hop.

"Organisations always benefit from thinking the unthinkable, from asking 'What aren't we thinking about? How do we rehearse for that?' You need the ability to respond [to whatever happens]."

He added: "The quality of crisis planning varies from organisation to organisation. Some companies are pretty good at it. They look at as broad a cross-section as they can. Others are rather narrow in their thinking."

Judson insisted: "People would benefit from doing more cross-sector learning. Natural disasters, terrorism and cyberattacks affect everyone. There is a benefit to sharing experiences. But there seems to be a bit of institutional reluctance to look at what others have done in these circumstances. Most organisations are pretty reluctant to talk about crisis learnings, and that is understandable, but it is in everyone's interest to collaborate."

For example, he said: "Shared learnings from aircraft accidents have been of real benefit over many years. There are great opportunities for more collaborative learning around cyberattacks and terrorism. There should be no limit to sharing in these areas."

> Crisis preparedness should be a priority for every organisation

Organisations can also learn from examples in their own sector where details are made public, such as recent airline systems failures. Judson said: "Regardless of whether you think they did well or not, you need to be self-critical and consider how you would have handled the event in the same circumstances.

How organisations react

"Some of how an organisation reacts to a crisis is about personality, other parts are institutional and that is about having a set of common protocols and training. A lot of it comes back to rehearsal," said Judson.

Reiterating his earlier point, he warned: "You can be the best-rehearsed organisation in the world for the contingency that is most likely, but that is not what happens."

Leadership is important, he added, "but it does depend on the type of crisis". He said: "It's unrealistic to suggest the chief executive should be on hand for every event. You need an escalating approach."

There have been crises, he said, when a chief executive has come out too early, when there was still a lot they did not know. At other times a CEO has appeared too late.

"It is a judgement call as to what is the right time," he said. "[But] it is essential you organise well, understand who is on your response team and have a path to escalate a response depending on the severity of the event.

"The normal rule is to inform one level above the level that is handling the issue, such that senior leadership is not blindsided. It is human nature that people want to try to fix a problem if they created it, so you need a set of procedures to ensure good communication flows exist throughout the organisation.

"You want a crisis response meeting to be useful, not simply spent bringing everyone up to speed. You need to understand who you need in the room and you need a support structure in place to keep people informed so

> You can be the best-rehearsed organisation in the world for the contingency that is most likely, but that is not what happens

when they sit down at a crisis management meeting they are all on the same page."

Crisis communications

"You need agility in your communications and for customers to feel you care," said Judson. "You need good, consistent messaging. A lot of it is down not just to what you say but to how quickly you say it. That is a tricky thing to do. You don't want to be too early [with a communication] and get something wrong." Often, he said: "People are too slow or they say nothing, which is difficult to repair."

During airline disruption, he said: "It's about customer expectation and timeliness of response. Technology is shaping expectations. In the past, people would have shrugged their shoulders at air traffic delays due to bad weather. It was expected. Now the customer response is 'How can it fail?' and to expect everything to be fixed in an instant.

"In a world of real-time social media and instantaneous news feeds, every action will be subject to scrutiny and be pored over," said Judson.

In drafting communications messages, he said: "You have to think through the impact of statements before they play out.

"You can't afford to sit back and say nothing when something bad happens. If you go down the 'no comment' route, others will fill the vacuum. Be as truthful and transparent as you can. If you don't have the full facts, be clear that you don't and be very careful not to put something over as fact when in reality it's only supposition.

"Full possession of the facts can stop people saying things, but the reality is you have to work through the ambiguity and it's a judgement call as to what you should say and when you should say it."

He suggests issuing a statement along the following lines: "We are aware of the incident. We are very sorry for any inconvenience. We are investigating and will give an update as soon as we can."

He added: "The medium you use to get the message out is also becoming increasingly important. Remember not everyone is on Twitter or Instagram or Facebook – conventional routes through broadcast or print media still have value too."

> Some organisations feel better prepared than they are because they equate crisis management with business continuity planning, which is a different discipline

Vulnerability gap

Deloitte has previously identified a 'vulnerability gap' in crisis preparedness among businesses, highlighted by a survey of more than 300 board members of major companies in 2016.

This found three out of four (76%) believed their company would respond effectively to a crisis, but only one in three (32%) had engaged in crisis-response training or simulation. Almost two-thirds (63%) felt vulnerable to a terror attack, yet fewer than one in five organisations (18%) had a formal crisis plan in place for dealing with an attack.

Fewer than half (47%) believed their organisation had the capabilities and processes in place to deal with a crisis. The Deloitte report, *A Crisis of Confidence*, noted: "In every potential crisis area, companies were more likely to acknowledge a vulnerability than to report a plan for it."

It suggested: "It's possible some organisations feel better prepared than they are because they equate crisis management with business continuity planning, which is a…different discipline. Business continuity plans are typically procedural…Crises are broader, more ambiguous and require leadership to make tough decisions in near immediate time frames, often based on very limited information."

The report's conclusions still hold, said Judson, but he added: "What has changed is that cyber is becoming the predominant threat. There is no question we are going to see more cyber events, with the inter-connectedness of business and of third-party suppliers. I don't think any organisation can afford not to look at cyber. The issue is your level of readiness. If you're a data-heavy organisation, there is the reputational risk [to consider] as well as the regulatory impact, not least of Europe's General Data Protection Regulation.

"Depending on the nature of a cyberattack, the disruption and chaos can be significant even if you were not the target but just get caught in the collateral damage. In organisations such as travel operators, airlines and airports, where resilience is critical and minutes really matter, good crisis management planning and processes can help to mitigate the challenges and work through the chaos."

The Deloitte view

A crisis is a moment of acute risk, bringing intense scrutiny and pressure on an organisation. If not managed effectively, it can cause significant strategic, commercial and reputational damage to an organisation and may even threaten its licence to operate.

The past year has once again demonstrated the need for those in travel and aviation to plan and prepare for such eventualities, but it has also shown how varied the potential sources of crisis might be for companies in the sector.

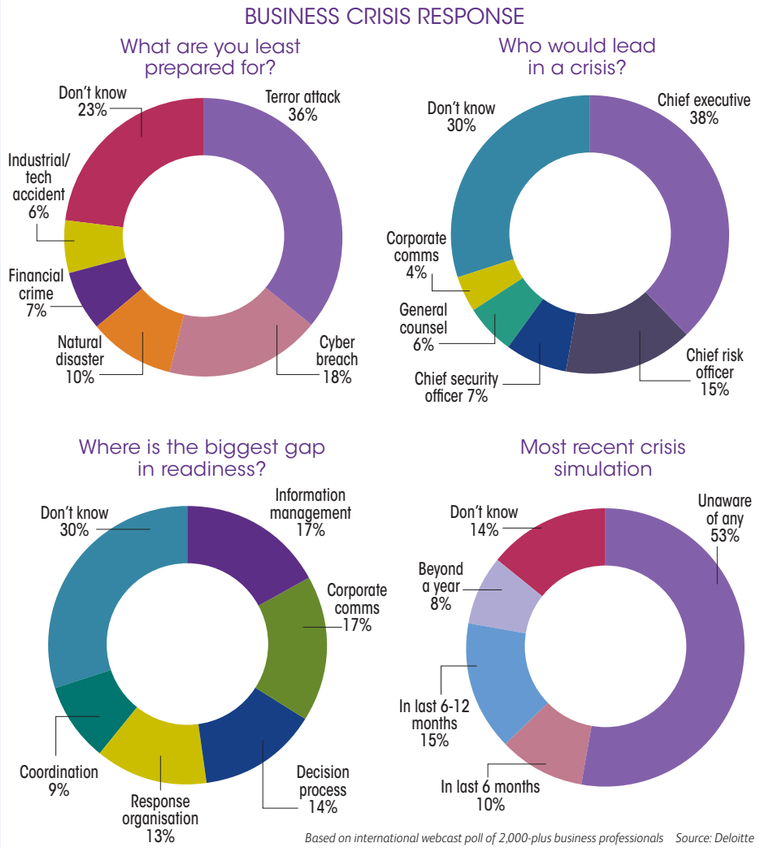
Quite rightly, travel and aviation companies tend to focus their crisis management activities on major causes of passenger or customer disruption. Often such crises are caused by external factors, such as natural disasters, terrorist attacks or civil unrest. These require an immediate and effective response.

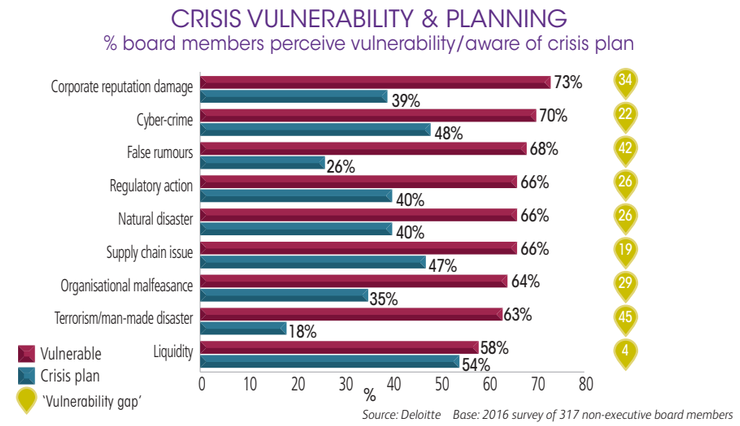
The past 12 months have reinforced the importance of getting this right and being as prepared as possible for such situations, as well as those caused by factors more directly within companies' control.

Looking forward to 2018, perhaps the biggest challenge for the travel and aviation sector will be the implications of Brexit. Companies should consider how the current uncertainty over the UK's future relationship with the EU might lead to challenges for their business and how these issues may need to be factored into crisis preparedness and planning activity.

In particular, it is worth considering how the skills companies have developed in crisis management (scenario planning, stakeholder mapping, contingency planning etc) may be usefully deployed in responding to the uncertainties and potential impacts of Brexit.

Tim Johnson, partner, Regester Larkin by Deloitte





THE CHARTS (top right) reflect the findings of a Deloitte business poll. More than half the respondents were unaware of any recent crisis simulation in their organisation, and more than one-third identified the biggest gap in preparedness as 'information management' or 'crisis communications'.

Public affairs

Brexit clouds regulatory outlook

The Brexit negotiations dominate public policy issues for the sector, with a prime concern being the need for a UK-EU aviation agreement.

Deloitte aviation director Charles Morelli said: "The issue is linked to the broad negotiations and the politics around those." He warned: "It could lead to uncertainty for the industry for far longer than we would like and there is a risk that aviation gets traded against demands in other areas."

He suggested: "It would be bold to assume it could not go to the wire, which would have a tremendously negative effect. Airlines schedule flights a year in advance. I fully expect airlines to continue to make their inventory available, but there could be uncertainty up to the last minute.

"The EU has said there has to be an agreement by October 2018. The more uncertainty there is through next year, the more effect it will progressively have on the UK. The real risk is consumers will cut back on spending on travel."

Prime minister Theresa May has acknowledged the need for a transition phase following Britain's formal exit in March 2019. Morelli said: "In her speech in Florence in September, May talked about phasing a transition over a period of around two years.

> Clarity on the post-Brexit environment may be some way off

One school of thought is that by the time the UK exits the EU in March 2019 the ongoing relationship negotiations will be at or near the end state, with the transition a simple case of implementing the deal. Others expect to see the time [for negotiations] extended into the transition period".

He foresees a similar transition in relation to European Court of Justice (ECJ) rulings, saying: "The UK Supreme Court is likely to take account of ECJ judgments and precedents. Over time I would expect the Supreme Court and ECJ to diverge, but it would be a slow process."

There should also be a transition phase when it comes to free movement of labour between the EU and UK. Morelli said: "The government has said that anyone in the UK now or coming in the next 18 months will be allowed to stay. So businesses can continue to recruit Europeans for the next 18 months, and I expect relatively free movement of labour during any transition periods.

"But nothing is agreed until all is agreed. Brexit continues to provide uncertainty and [as of November 2017] we are very much as we were a year ago. The time pressure is starting to ramp up, which is why the government is talking about transitional arrangements. It will take time before there is real clarity."

Consumer financial protection

The failure of Monarch in October 2017 and the government decision to repatriate all passengers regardless of whether they were Atol-protected called into question the value of a financial-protection scheme to which the industry and CAA have committed many years and millions of pounds.

However, there will be no time to address the issues raised before a revised EU Package Travel Directive (PTD) comes into force in July 2018. The delay in introducing new Package Travel Regulations meant the Department of Business (BEIS) could do no more than cut and paste the EU directive into UK law.

The PTD will extend the definition of a package to bookings deemed Flight-Plus in the UK, create a category of Linked Travel Arrangements (LTAs) for click-through sales between websites, and introduce 'place of establishment rules' to govern regulation – meaning Britons booking with non-UK firms could be protected under non-UK schemes.

Morelli said: "People will have to apply the directive, and some of the issues will get worked out as we go. Parts of it will only bed in when there is case law around it. [But] clearly there is a risk of different interpretations of the regulations in different countries. That does pose a risk to the UK scheme which is seen as being to a gold standard.

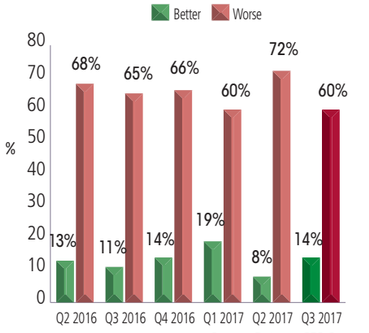
"The whole idea is to have a single market. There does need to be consistency in how the PTD is implemented across Europe."

He added: "There is a clear need for the industry to think about the long-term position on Atol. For Atol to have any value it is important for it to be recognised by consumers and for them to know what it means. It is already extremely complicated. There is a danger it becomes too complicated. One possibility would be to separate repatriation from refunds.

"There is also the issue of duplication of protection and how much cards and Atol are responsible for protecting consumers. What needs to be addressed is establishing a level playing field so there is no confusion."

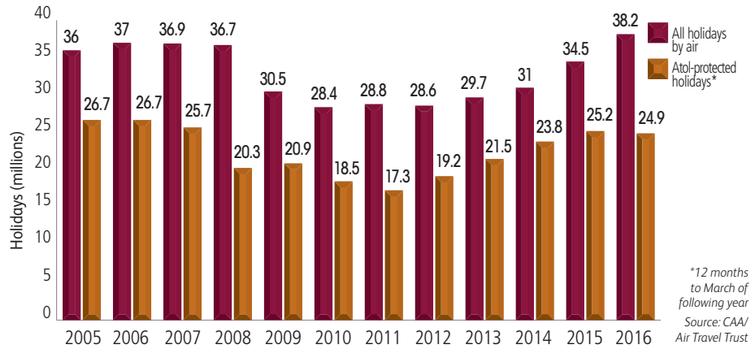
UK BUSINESS VIEW OF BREXIT

% CFOs who expect long-term impact to be...



Source: Deloitte CFO Survey
Base: 100-plus UK chief financial officers

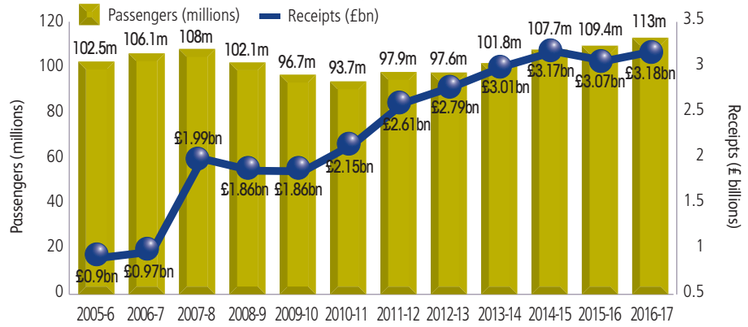
OUTBOUND HOLIDAYS BY AIR & ATOL-PROTECTED HOLIDAYS, 2005-16



*12 months to March of following year
Source: CAA/ Air Travel Trust

APD-PAYING PASSENGERS & RECEIPTS, 2005-17

Tax year (April-March)

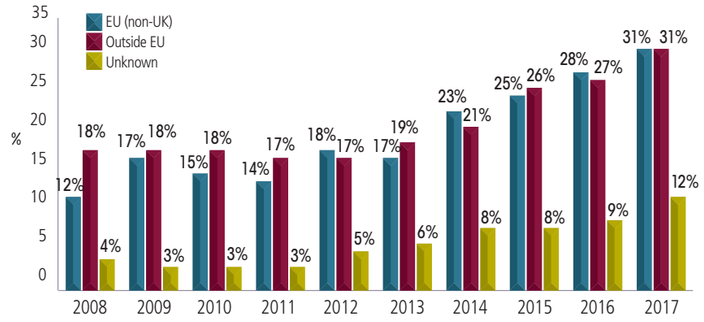


Source: HM Revenue & Customs

ALMOST two-thirds of UK outbound holidays were Atol-protected in 2016, CAA figures suggest (chart, top). Cross-border online sales are steadily growing, both within the EU and beyond (below).

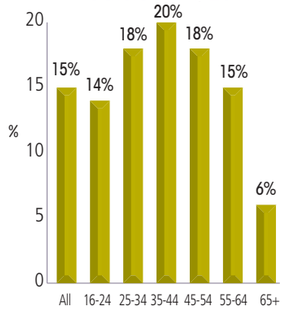
CROSS-BORDER ONLINE SALES IN UK, 2008-17

% of adults purchased online in last 12 months: by location of seller



TRAVEL/HOLIDAY/ ACCOMMODATION

Purchased online from outside UK, 2017



Base: % UK adults who purchased in last 12 months Source: ONS

Taxation: continuity or change?

It would be unrealistic to expect the abolition of Air Passenger Duty (APD), according to Deloitte tax director Tom Walsh. He warned: "APD is here to stay. It generates significant revenue, just over £3 billion a year, and is cheap to collect. The airlines act as [tax] agents."

The industry had hoped to see the government in Scotland lead a drive toward reduced, regional rates of APD, but this has stalled. Walsh explained: "Under current law there is an APD exemption for the Highlands. The Scottish administration needs to notify the EU to determine the exemption does not equate to state aid."

He said: "I've seen no desire by the UK Treasury to implement regional rates, and we've always questioned how a devolved administration would be able to implement a devolved rate of APD [without falling foul of EU state aid rules]. This is a test case."

The UK's departure from the EU could have implications for the Tour Operator's Margin Scheme (Toms) which, as its name suggests, sees UK operators pay VAT on the margin they make, not the full price.

"UK VAT law is underpinned by EU VAT law," said Walsh, so the UK government would need to introduce its own version of Toms post-Brexit. He said: "The current Toms rules work well and the industry is keen to retain the status quo [so as not to have to account for VAT in multiple EU states]."

> The more uncertainty there is through next year, the more effect it will have. The real risk is consumers will cut back on spending on travel

He foresees little chance of a cut in VAT on UK accommodation, despite calls for a reduced rate from the British Hospitality Association which points to the reduced rates in some EU member states.

Walsh said: "VAT on accommodation generates a lot of revenue. It would be a significant loss to the Treasury."

VAT rates on accommodation do vary around Europe. Walsh explained: "There isn't a natural alignment. The reduced rate in the UK is 5%. Elsewhere in the EU, reduced rates are more like 10%."

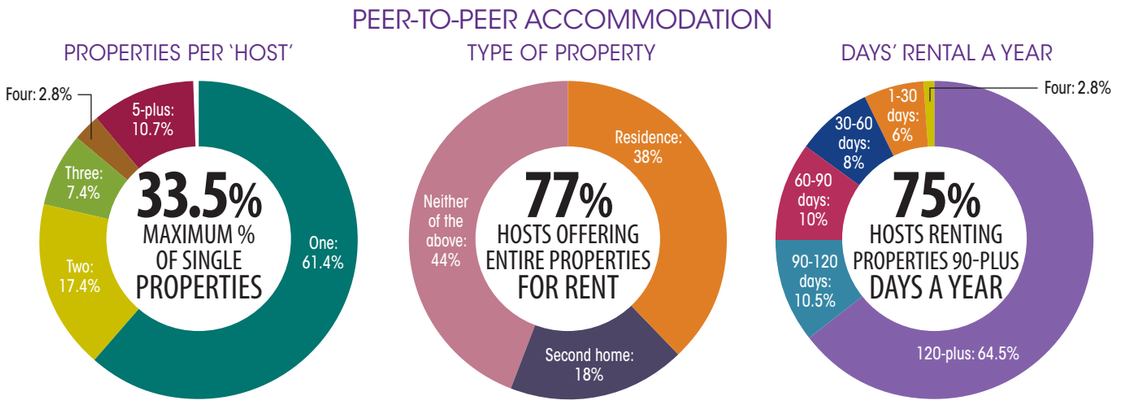
However, there is one area of taxation in which he does see change. "City bed taxes are increasingly common," he said.

"There have been various attempts to introduce taxes in destinations, for example in the Balearics [and] we see tourism and city taxes becoming more prevalent.

"EU tax authorities are also starting to think about how to adapt the rules to emerging business models, such as peer-to-peer and vacation rentals. There is a need for tax authorities to keep pace with events.

"Italy has introduced two requirements for accommodation-booking platforms – one is to share homeowners' contractual information with the authorities [and] the other to withhold income tax due on collection of payment."

THE CHARTS (below), based on an EU study, suggest landlords with multiple properties rented out in excess of 90 days a year comprise the majority of properties on bigger peer-to-peer platforms.



Source: European Commission Exploratory Study of P2P Platform Markets, 2017

Hospitality

Hotels enjoy strong occupancy

The hotel sector can reflect on a good year in the UK and across Europe. Hospitality data analyst STR reported overall occupancy in Europe's hotels at an all-time high of 72.6% in the nine months to September, 2.6 percentage points up on 2016 and nine points higher than in the same period in 2008.

STR managing director Robin Rossmann noted: "When you consider the terror attacks in several European markets as well as the rise of the peer-to-peer rental industry, the performance confirms the strength and resilience of the hotel market. We're seeing markets recover from terror attacks at a much faster pace and, in some cases, not registering any notable impact."

UK hotel performance was "notably strong", STR reported, despite Brexit and terror attacks in London and Manchester. In November 2017, Rossmann noted: "London has seen demand growth every month since November 2016."

STR business development director Thomas Emanuel said: "We've seen the strongest growth in Europe since 2011 which has allowed hoteliers to push up average rates."

He reported revenue per available room (RevPAR) up 6.5% across Europe in the year to September and growing faster than in any other region in the world.

"The Iberian peninsula has gone from strength to strength with the displacement from North Africa and Turkey to Spain and Portugal, and the euro economies are doing well," he said. "There has been recovery in markets hit by terrorist attacks – Paris, Brussels and Istanbul have all come back."

> Sector sees record business and higher rates across the UK and Europe

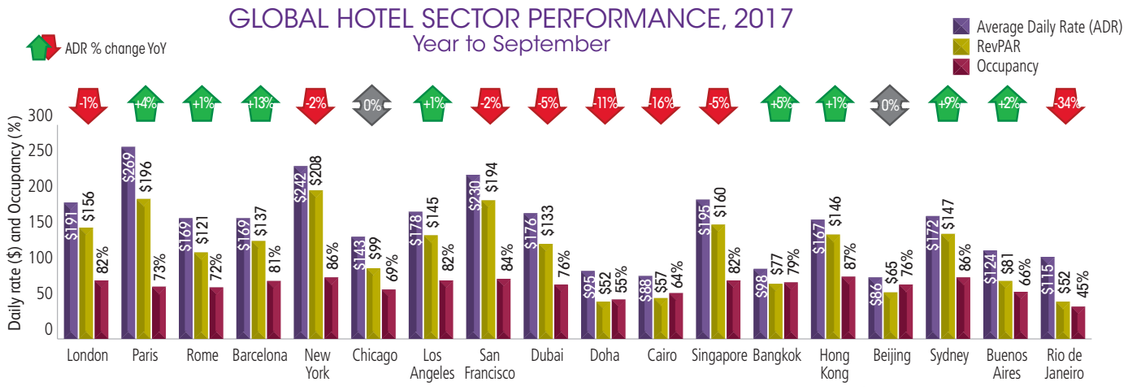
RevPAR in Paris was up 9% year on year to September, Brussels up 19% and Istanbul up 32%. Emanuel suggested: "Turkey is coming back, with a year-to-date increase of almost 27% in RevPAR. But if we compare Turkey's year-to-date performance with 2015, it's clear the market has not yet experienced a full recovery." He added: "The Spanish and Portuguese markets continue to benefit from displaced leisure demand as security concerns in Turkey continue to be an issue."

The terror attack in Barcelona in September appeared to have little impact on hotel demand in the city, unlike the crisis sparked by the Catalonia independence referendum in early October. STR reported Barcelona's RevPAR for the year to September up 15% year on year followed by a fall in October. Emanuel said: "We've seen group cancellations to Barcelona [since the referendum]. It's a new situation and there is no precedent for it."

Elsewhere, he reported: "Central and eastern Europe are doing well. There is more air lift into the region and there are a lot of events in Budapest, Prague and Warsaw."

London record

The UK hospitality sector enjoyed a decidedly good year boosted by the weaker pound, with



Figures to nearest US$ RevPAR = revenue per available room Source: STR

Hospitality

Hotels enjoy strong occupancy

STR reporting "a sharp uptick" in performance from November 2016 following "a relatively flat 12 months". It forecast: "London should finish the year [2017] with a record-breaking RevPAR level."

Manchester and London appeared unaffected by the terror attacks they suffered – the suicide bomb at the Manchester Arena in May and the attacks on Westminster Bridge, London Bridge and at Finsbury Park Mosque in London. Noting the contrast to Paris and Brussels, which saw downturns in visitors following high-profile terror attacks, Emanuel suggested: "People appear to have become more accepting of a risk of attack in a large European city."

STR reported RevPAR in London up 6.5% for the year to September and up 4% in the UK regions. "Only Aberdeen and Leeds were down year on year," said Emanuel, "Aberdeen due to the oil price and Leeds due to a lot of new supply." Edinburgh, the second most-popular destination for visitors to the UK, saw RevPAR up 14% and Belfast up 18%.

In light of the figures, Emanuel declared: "We're fairly bullish about the outlook for London and the regions.

"Supply is a challenge in London, but the exchange rate helps and London will remain a global city. Brexit won't change that."

> We're seeing markets recover from terror attacks at a much faster pace and, in some cases, not registering any notable impact

Beyond Europe

The picture in the Middle East, North Africa and the Gulf was more mixed, with "safety and security the key concern in North Africa," according to Emanuel.

In Egypt, he reported: "RevPAR for the year to September was up almost 94% in local currency, although down 3% in dollars, with the devaluation of the Egyptian pound driving growth. Overall occupancy was 54%. Cairo occupancy was higher at 64.5%, but in Sharm el-Sheikh it was 42%." Sharm airport remained closed to UK flights as it has since the explosion which brought down a Russian holiday jet in October 2015.

In the Gulf, the issue is supply outpacing demand. Emanuel said: "Dubai still has 48,000 rooms [planned or being built] and Doha 13,000. The Gulf has an incredibly strong pipeline." Yet with the oil price lower than it was, "corporate travel in the Gulf has come down".

The US saw hotel occupancy in the three months to September reach its highest since 1995 despite supply growing at the fastest rate since mid-2010, with six of the world's 10 fastest-growing city hospitality markets now in the US. However, the increased availability of rooms drove down the average daily rate (ADR) and RevPAR to the levels of 2010. New York posted the strongest US performance and the highest RevPAR globally in the year to September.

South America saw rates decline in some markets, with Brazil in recession and a hangover from the Rio Olympics of 2016.

China dominated growth in Asia Pacific, with the country second only to the US in the number of hotel rooms in the pipeline. But in Singapore, the market continued to contract with an ADR fall in September 2017 the 18th consecutive month of decline.

Russia, host of the 2018 World Cup, appeared to be heading in the opposite direction despite continuing sanctions imposed by the US and Europe. Emanuel said: "Historically, we've seen a surfeit of supply for mega events, but we've not seen a swathe of new rooms in Russia. It's a cheap destination since the devaluation of the rouble. Demand fell after 2014 because of sanctions and visa restrictions, but it is back above the prior level and Russia has the third-largest number of rooms in the pipeline in Europe. Russia should have a good summer 2018."

Peer-to-peer platforms

Such robust global demand for hotels appears out of kilter with claims of increasing numbers of leisure and corporate travellers booking accommodation through peer-to-peer platforms such as Airbnb. Yet Kantar TNS consumer research for this report found no uptick in UK adults likely to book Airbnb-style accommodation for an overseas holiday in 2018 – just 3% of respondents intending to do so, the same as a year earlier.

This fits data from STR which published a report in January 2017 using Airbnb data for 13 cities. Emanuel said: "Removing everything not akin to a hotel room, Airbnb's share of market demand was below 4% and its share of revenue below 3%. There is a place for Airbnb. But hotel demand is up in all regions, with more hotel rooms sold year on year."

The Deloitte view

Brexit uncertainties and lower levels of corporate confidence have yet to show a negative effect on regional UK performance. Revenue per available room (RevPAR) for the year to August 2017 improved by 4.4% year on year.

Growth in 2017 was underpinned in large part by the leisure market as consumer confidence remained robust until Q3. A weaker pound benefited inbound leisure travel and there was a resurgence in domestic 'staycations'.

London continued to enjoy a pre-eminent position both domestically and internationally despite terrorist attacks. Hotel performance improved significantly after a challenging 2016 with RevPAR growing 7.8% year on year.

Hotel development activity picked up in London with the addition of about 5,000 rooms in 2017. By 2020, supply is expected to reach about 141,000 rooms, an increase of 11% on 2016. This could impact hotel performance in the short to medium term, although London has historically shown it is able to absorb additional supply better than most other markets.

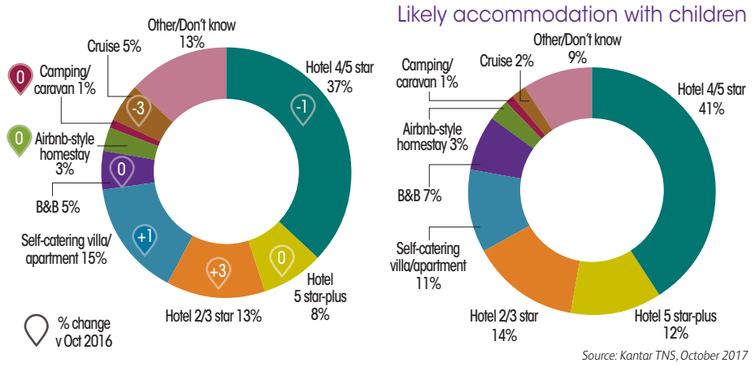
Regional UK hotel supply is expected to grow at a slower pace than London, averaging 5,100 rooms per year to a total of more than 500,000 rooms by 2021. Given the development activity and high barriers to entry, many new hotel sites are being pushed to peripheral areas due to a lack of site availability and pricing considerations.

In the M&A space, 2017 has seen a number of private equity houses exit their hospitality positions, as sellers take advantage of strong valuations. On the other hand, institutional investors have been some of the most active buyers, displaying a higher risk-tolerance towards flexible income opportunities than they have historically. Brexit does not seem to be deterring the international investment community as the favourable exchange rate for foreign buyers represents a discount on pricing. However, some Chinese investors are impacted by their capital restrictions – although some of this is being compensated by other regions in Asia, notably Singapore and Hong Kong.

While 2017 has been positive to date, increasing labour and utilities/food costs, as well as the recent business-rate revaluation, have impacted margins. Forecasts are positive in the short to medium term, but the long-term trading outlook for London and the UK regions is subject to political and economic uncertainty.

David Samson, associate director advisory group, travel, hospitality & leisure

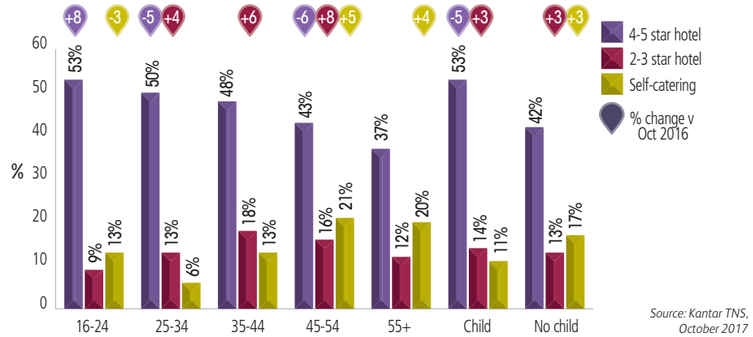
LIKELY ACCOMMODATION FOR NEXT OVERSEAS HOLIDAY



Source: Kantar TNS, October 2017

MOST LIKELY ACCOMMODATION

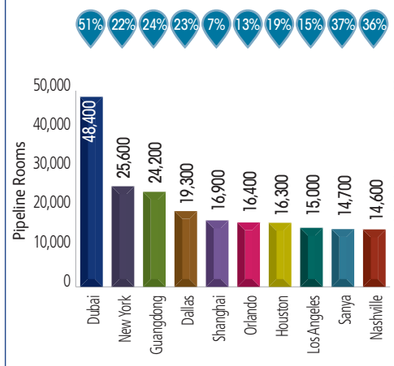
By age, child status



Source: Kantar TNS, October 2017

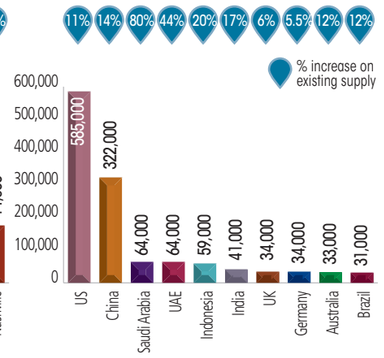
FASTEST-GROWING HOTEL MARKETS, 2017

Top 10 cities by pipeline rooms



In construction or planning, to nearest 100

Top 10 countries



In construction or planning, to nearest 1,000 *Source: STR*

THE CHARTS (top left) suggest a small but significant shift towards 2-3 star hotel accommodation, and away from 4-5 star, among UK overseas holidaymakers in 2018. The shift is most marked among adults aged 25-54 (centre).

Ground transport

Driverless cars, taxi apps and fast trains

Ground transportation could be poised to change beyond recognition. The most obvious area is on the roads where electric and self-drive or autonomous vehicles appear close to being introduced to routine use.

General Motors unveiled plans to become the first company to test autonomous electric cars in New York in October 2017, in a trial in Manhattan. In November, BMW, Daimler and VW joined forces with Ford to reveal they have begun building a fast-charging network for electric vehicles in Europe under the brand name Ionity. They aim to establish 400 fast battery-charging stations by 2020.

VW announced plans for a $11.8 billion electric vehicle plant in China to meet new Chinese government requirements that carmakers produce a quota of electric vehicles (up to 8%) by 2020 in order to operate in the country. Its move followed similar announcements by Renault, Nissan and Ford.

Also in November, Alphabet's (Google's) Waymo revealed its driverless minivans have been running around parts of Phoenix, Arizona, without anyone in the front seat. Within months, the company said members of the public who enrol in a test programme will be able to summon driverless cabs.

In Silicon Valley, California, 17 companies have licences to test self-driving vehicles. Autonomous trucks have been operating between El Paso, Texas, and Palm Springs, California, since October 2017 and self-driving cars are undergoing tests in at least another nine US states. The EU planned to introduce a map for self-driving vehicles by the end of 2017 and the UK sought to position itself as a leader in driverless car testing with a bill setting out rules including for insurance. UK business secretary Greg Clark told a conference of vehicle manufacturers: "We don't want to go back to waiving a red flag in front of vehicles."

Plans are so advanced that in China there are already fears of a glut of battery-powered cars which won't find buyers.

However, autonomous vehicles and even battery-powered cars and trucks may not be the changes most required on the roads, since they do not offer a solution to increasing congestion. They are touted as safer, but a cyclist was reported as the first killed by a vehicle on 'autopilot' in the UK in November, and a lengthy transition period when autonomous and driven vehicles co-exist on busy roads appears fraught with difficulty. Forecasts suggest a quarter of the world's vehicles could be autonomous by 2035.

It also appears electric vehicles may prove limited in helping to address climate change. A Massachusetts Institute of Technology study found a petrol-powered Mitsubishi Mirage produced fewer CO2 emissions through its average lifecycle than a Tesla electric vehicle.

Groundbreaking developments in vehicle technology appear just around the corner

U-turn for Uber

Cab-hailing giant Uber is among the companies developing autonomous vehicle technology as it works towards its vision of driverless taxis.

The chart opposite shows how far use of car-service apps has penetrated the taxi market *(UK Car Service App Use, page 49)*. But Uber, in particular, is not without its problems. The company lost its licence to operate in London in September after Transport for London (TfL) declared it "not fit and proper" to operate a private hire company. TfL, which licenses taxis in the city, accused Uber of "a lack of corporate responsibility".

Uber is appealing, but successive rulings on its employment practices also went against it in the UK. In the US, Uber was obliged to cut a deal with the US Federal Trade Commission (FTC) to settle charges that it failed to secure users' personal data and made false claims about its data security.

The FTC said Uber "deceived consumers by failing to monitor employee access to personal information and failing to secure sensitive consumer data". The US firm claimed it closely monitored employee access to data and deployed "reasonable measures" to secure personal information stored on third-party servers. But the FTC found: "Uber failed consumers by misrepresenting the extent to which it monitored employees' access to personal information, and by misrepresenting that it took reasonable steps to secure that data." It concluded Uber "rarely monitored internal access to personal information about users" and dismissed Uber's claim that data was "securely stored", finding: "A single key gave full administrative access to all the data [and] Uber stored sensitive consumer information in plain readable text."

Similar complaints in Europe, once the EU's General Data Protection Regulation comes into force in May 2018, might result in eye-watering fines.

High-speed rail

The coming year should see HS2, the UK's second high-speed rail programme, move several steps nearer.

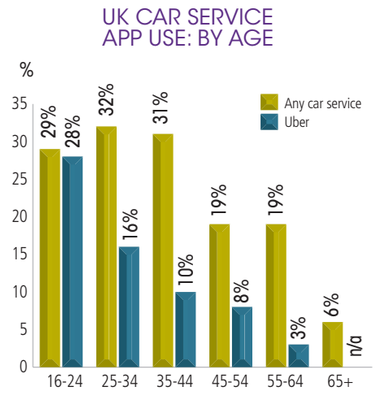
The government plans new lines from London to Birmingham and to Manchester and Leeds, with the first phase linking London and the West Midlands due to carry trains at up to 250 mph. The second phase would connect Birmingham to Manchester and Leeds, trebling capacity on London routes.

The government confirmed the phase two routes from Crewe to Manchester and the West Midlands to Leeds in November 2016. It plans a new HS2 station next to Manchester Piccadilly with a spur to Manchester airport. Heathrow will have to put up with connections to the high-speed network via a 14-platform interchange at Old Oak Common.

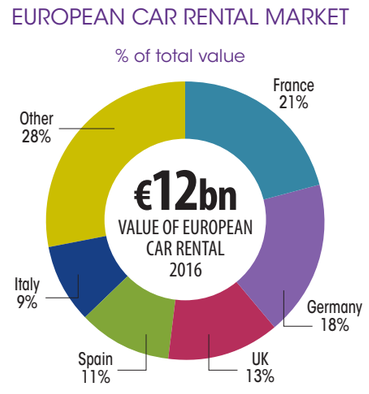
The first phase between London and Birmingham is due to open by December 2026. But the Public Accounts Committee of MPs cast doubt on the deadline, calling it "overly ambitious". The second phase of lines to Manchester and Leeds are scheduled to open by 2032-33. The overall cost is put at £56 billion. But it won't be plain sailing as there is widespread local opposition and HS2 will pass through the constituencies of about 70 MPs, many of them Conservative.

The UK's first high-speed rail link (HS1) between London St Pancras and the Channel Tunnel, which celebrated its 10th anniversary in 2017, could act as a poster child for the project. Eurostar passenger numbers increased 25% over the period to 10 million a year.

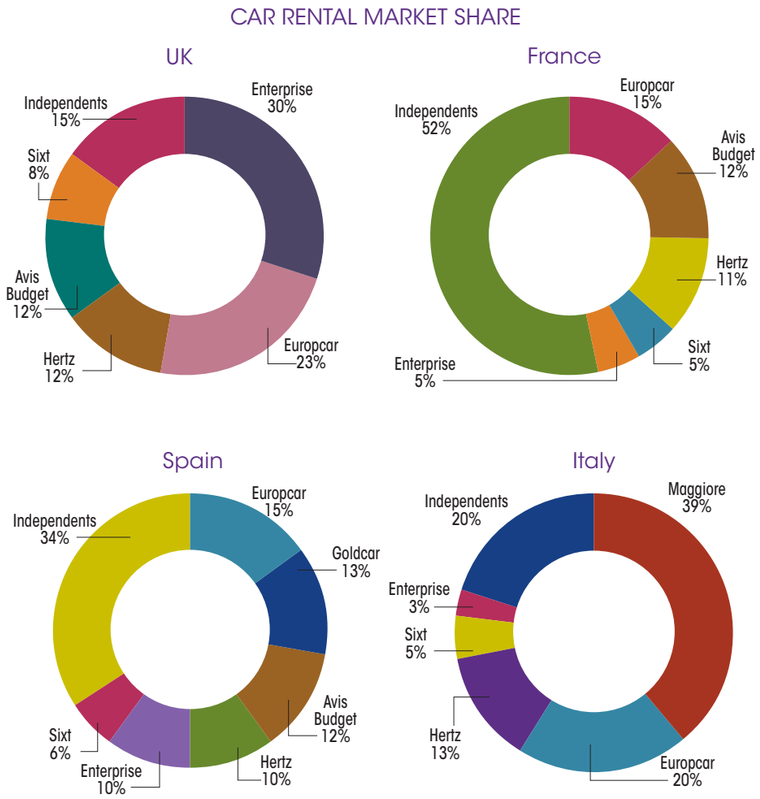
The chart (top left) shows extensive use of ride-hailing apps among UK adults, but only among the young does Uber appear synonymous with the practice. The other charts show the fragmented nature of Europe's car rental market.



Source: ONS/Ofcom 2017



Source: Nedrelid, 2016



Source: Nedrelid, 2016

Cruise

Growth constrained only by capacity

The major cruise lines face an issue most travel businesses would love. "When people cruise, they want to cruise again," says Carnival Corporation president and chief executive Arnold Donald.

That is a problem because building the ships to cater for the demand takes time and is expensive, meaning the sector cannot grow much faster than it is. Donald told *Travel Weekly*: "We can't bring much capacity in." As a consequence, global cruise capacity remains just 2% of hotel capacity.

The result is single-digit growth in global passenger numbers each year when many markets could almost certainly be growing more quickly. The cruise industry nonetheless saw record passenger numbers worldwide and in the UK in 2016 and looked set to surpass both records in 2017, with ocean cruise passenger numbers forecast to reach almost 26 million, about 4.5% up year on year.

Growth did not appear to be coming at the expense of margin. In June, Carnival Corporation reported bookings up "for the next three quarters at prices well ahead of the prior year".

New ships

Thirteen new ocean cruise ships joined the global fleet in 2017, and a similar number of river cruise ships, adding 30,000 berths. Another 15 ocean and two river cruise ships are scheduled to join the fleet in 2018 with almost as many additional berths, with a further 20 ocean and two river cruise ships bringing another 52,000 berths in 2019.

> The UK appeared on course for record passenger numbers again in 2017, in line with global cruise growth

Many of the ships have new features, and in particular new technology, but at least two new developments stand out.

The first is that cruise ships fully powered by liquefied natural gas (LNG) will enter service in 2018 when Carnival Corporation takes delivery of the first of seven LNG ships. These will significantly reduce exhaust emissions, with LNG recognised as the 'cleanest' fossil fuel. Carnival already operates two dual-fuel ships utilising LNG in some European ports, the *AIDAprima* and *AIDAperla*. However, few ports yet have LNG facilities despite use of cleaner fuels becoming a legal requirement from 2020. A rapid development of infrastructure is required.

The second development occurred in March 2017 when Carnival's *Majestic Princess*, or *Sheng Shi Gong Zhu Hao*, joined Princess Cruises as the first ship specially designed for the Chinese market. It came with karaoke rooms, mah-jong tables, communal tea spaces, small private gaming rooms and the largest retail space at sea, and began sailing from Shanghai in July.

Everybody accepts China will one day be the world's biggest cruise market, but this remains some way off largely because of the global capacity constraints. Donald said: "China will become the largest cruise market in the world over time, like it is the largest market for everything. But in the next five to 10 years it will be an important player, not huge. The reason is we don't have the ships to send. We have large markets everywhere in the world that are underpenetrated and it takes time to build ships."

UK market

The UK cruise market grew a healthy 5.6% year on year in 2016 against 3.4% growth across Europe and could well pass two million passengers in 2017. But the German market grew faster, at double the rate of the UK, to pass the two million mark last year – having only matched the size of the UK market for the first time in 2013-14. However, the UK remained Europe's number-one for bednights, with a total of 18.47 million in 2016 – amounting to almost one additional night on board for every UK passenger (9.8) compared with their German counterparts.

Mediterranean fly-cruises remained the number-one choice in the UK in 2016, with 458,000 passengers. Western Europe itineraries from UK ports were the second-most popular option, attracting 272,000 passengers. More than a quarter of a million (255,000) UK passengers opted for a Caribbean cruise. Fortunately, cruise association Clia was able to declare 'the Caribbean is open for business' before this report went to press despite parts of the region being devastated by Hurricanes Irma and Maria in September.

One feature of the sector which has not changed is that travel agents remain central to selling cruise. Donald explained: "If you've never been on a cruise, you have a lot of decisions to make – which ship, which tour, what excursions, what cabin, what dining times. A really good agent understands the client. That is what we need.

"Our ships sail full. We don't need more people on our ships. We need more people on the right ship. Travel agents are critically important for our industry."

The Deloitte view

Demand for cruise travel has been growing steadily, with year-on-year bookings increasing across the board. In 2016, the number of global ocean cruise passengers increased to 24.7 million and it was a record year from the UK and Ireland with 1.9 million people going on an ocean cruise and 167,000 on a river cruise.

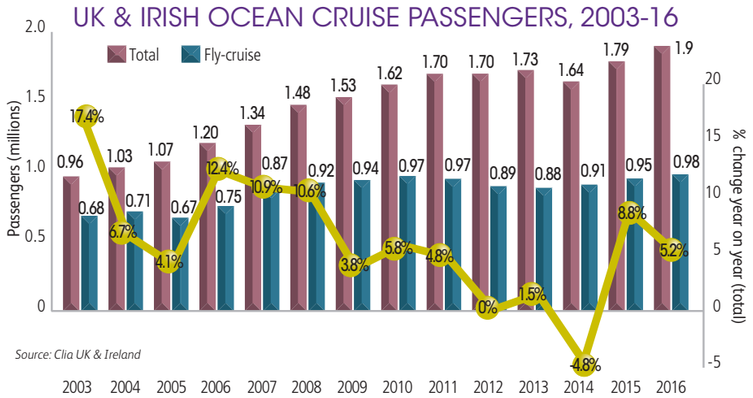
Cruise departures from the UK accounted for 48% of the market in 2016 – a nine-point increase on the previous year. Fly-cruises also increased, up 2.8% due to new ports and cruise destinations. However, the average time on a cruise for UK passengers has fallen below 10 days. This has meant that, although passenger numbers have grown, total nights fell by 2%. If expectations of increased demand through returning and new-to-cruise customers materialise, the number of nights may increase.

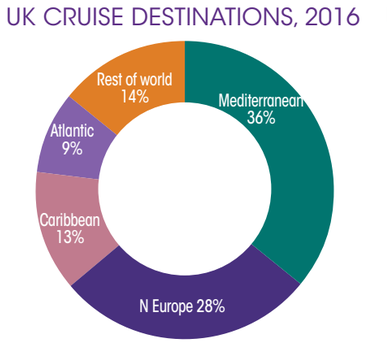
There are significant investments being made. Global cruise fleet capacity will grow significantly over the next 10 years, with 2017 seeing 26 more ships on order – divided equally between the ocean and river segments. There has also been considerable investment in new and innovative ships offering more amenities as well as a range of excursions and experiences as part of a package.

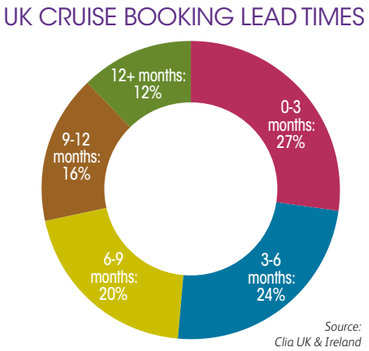
The shipyards are full and there is strong demand across the board. Demand is set to increase, in particular from East Asia and among younger age groups.

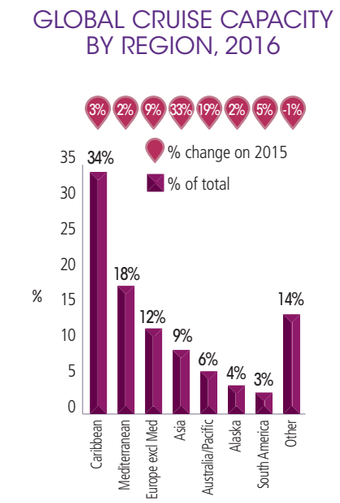
The opportunity for the cruise industry is tied in with the identification of new destinations to maximise potential passenger numbers and find ways of attracting more new-to-cruise customers – in particular targeting younger people and families interested in the newer products and services on offer. The significant investment in products and services across the sector is likely to support ambitions for growth over the coming years.

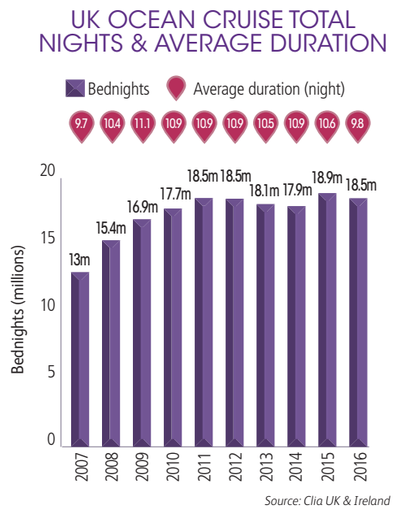
Alistair Pritchard, UK lead partner, travel











THE CHARTS reflect the health of the UK and global cruise markets. Note half UK cruise bookings are made six months or more in advance.

Destinations

Spain soars but France takes a pounding

Spain holds enduring appeal for UK holidaymakers but has reached new heights since the flight from the eastern Mediterranean in 2016.

UK holiday numbers to Spain were set to surpass 13 million in 2017 after hitting 12.9 million in 2016, an all-time high and almost 40% up on 2010.

British tourists are not the only visitors heading for the Balearics, mainland Spain and the Canaries, of course, hence concerns about overtourism which saw protests in Barcelona during 2017 and the introduction of a Balearics tourism tax in 2016.

No one could argue numbers were adversely affected by either. But the storm over demands for Catalonia's independence following a contested referendum at the beginning of October may yet prove more problematic, with the region's political leaders facing trial or in exile and strikes and protests unlikely to dissipate.

There was early evidence of bookings to Barcelona down at the end of 2017. But this was the only tarnish on the past 12 months for Spain, with the country earning close to £8 billion from UK visitors.

France remains the UK's second-favourite destination, but may not be so indefinitely. The number of UK visitors choosing to holiday in the country has fallen for eight consecutive years and by more than a quarter since 2008.

Note these are UK Office for National Statistics (ONS) figures and will not tally with destination arrival numbers. However, they provide consistent data across markets and over time.

Value for money may be a partial reason for the decline to France, but the increasing availability of flights from multiple UK airports to alternative destinations around the Mediterranean is a more likely explanation, with France remaining the least-penetrated of the major European destinations by budget carriers.

This may also be why Italy has soared among UK holidaymakers' preferences to supplant the US as third-most popular destination from the UK, joined by Portugal in fourth place ahead of the US, and with Greece on the rise to sixth.

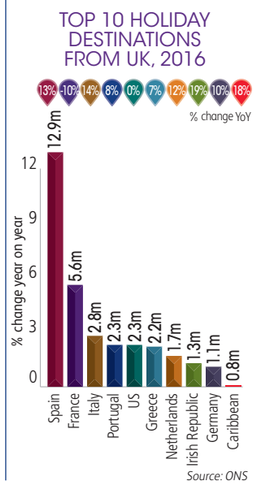
Holiday numbers to the US were flat in 2016 and down in 2017, largely due to the weakness of sterling against the dollar. But the US remains by far the UK's biggest long-haul market. The appalling mass killing in Las Vegas in October is likely to have no more than a temporary impact, and new flights – such as British Airways' service to Nashville due to launch in May 2018 – will open up 'secondary' cities.

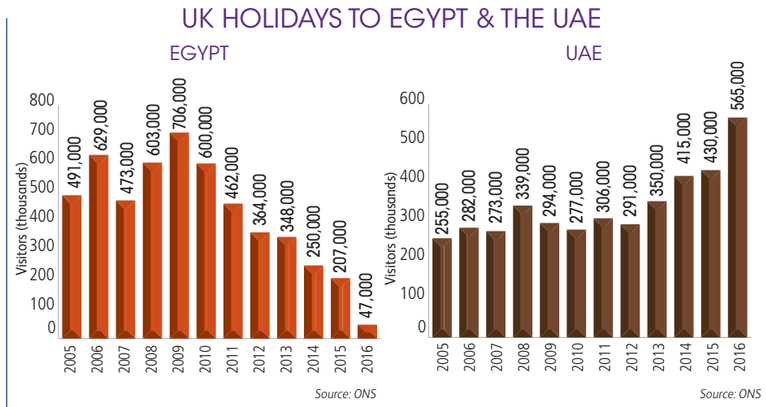
Turkey had a difficult 2016, with a sharp flight away from the country early in the year, months before the attempted military coup which sent visitor numbers plunging. UK tourist numbers fell to about 700,000 by the year's end, leaving Turkey on a par with Cyprus, which has itself struggled to recoup lost UK visitors for almost a decade.

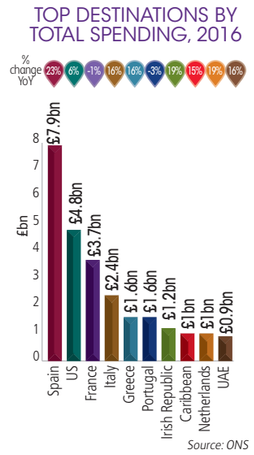
Beyond Europe, UK visitors to Egypt in 2016 hit what must be an all-time low since the advent of mass tourism. Sadly, Sharm el-Sheikh airport remained closed to UK flights as this report was published. The UK ban has been in place since the downing of a Russian jet soon after take-off from the airport in October 2015. However, the Foreign Office did lift its advice against travel to Tunisia – imposed following the massacre of 30 British holidaymakers in Sousse in 2015 – meaning holiday programmes should resume in 2018. The coroner presiding over the inquest into the deaths concluded in July that travel firms should do more to ensure holidaymakers are informed of potential risks and hotels adequately protected.

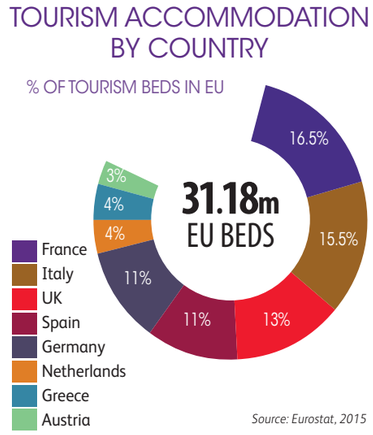
There was little good news for the 'new' destinations on travellers' itineraries. Iran was returned to the diplomatic cold by US President Donald Trump, as to a lesser extent was Cuba. Burma (Myanmar) placed itself in the cold by its war on the Rohingya people.

Spain now dominates the UK outbound market

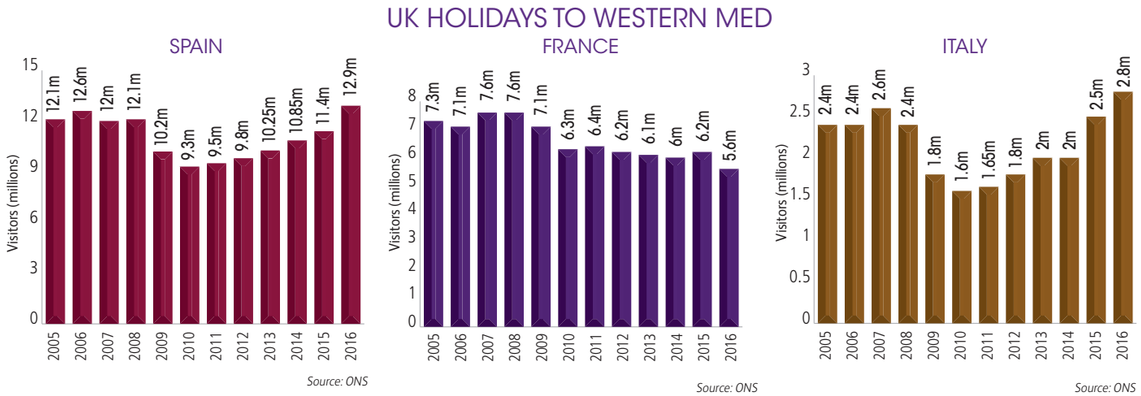


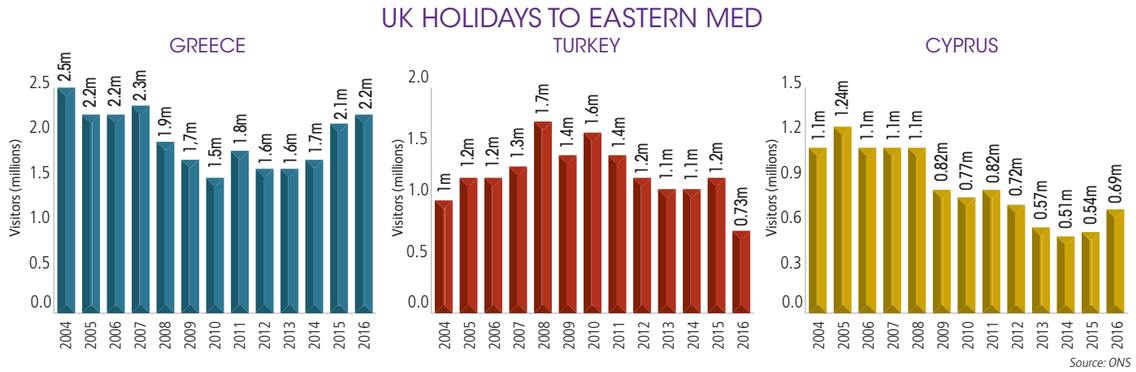






THE SUFFERINGS of Turkey and Egypt in the UK market are as clear from the charts on these pages as the success of Spain, Italy, Greece and the UAE. Note the long-term decline in UK holidays to France (left) and the relative shortfall in accommodation in Spain in comparison to both France and Italy (right).





Research partners

KANTAR TNS

Kantar TNS is the market leader in travel, tourism and leisure research, says group director **Tom Costley**

With offices in more than 80 countries, TNS has more conversations with the world's consumers than anyone and understands individual human behaviours and attitudes across every cultural, economic and political region of the world.

Our knowledge and expertise give us an unmatched ability to offer clients understanding and knowledge with a clear focus on actionable insights.

The Kantar TNS UK team of around 40 researchers specialising in the travel, tourism and leisure sectors conduct the main market surveys which monitor the volume and value of overnight tourism and day visits within Great Britain.

We have a wealth of experience in managing visitor satisfaction studies in the UK and worldwide. By bringing together measurements of brand commitment and visitor experience, we can provide a holistic understanding of the visitor experience. Combining an understanding of visitor experience and brand experience enables us to identify the drivers of authenticity.

Brand and communications research is another area of expertise. We conduct multi-country tracking studies for leading operators in the travel industry, helping them to understand the position of their brands against competitors and establishing the effectiveness of their communications with consumers.

Our clients include all the national tourism organisations in the UK and Ireland, and we carry out research for leading tour operators, airlines, hotel groups, visitor attraction operators and train companies.

Kantar TNS advises clients on specific growth strategies around new market entry, innovation, brand switching and stakeholder management.

We can speak to consumers in real time using mobile technology to capture visitor experiences and flag up issues from minute to minute. This provides our clients with a vital advantage, especially when a disgruntled customer can tarnish a company's reputation with a negative tweet or a TripAdvisor posting.

The development of digital capabilities and expertise has been a key area of focus. We help clients navigate marketing in the digital age, understand the impact of technology and the digital landscape on their business, and identify the best opportunities for growth. We run the award-winning thought-leadership study Connected Life, and we measure the volume, influence and sentiment of social media relating to clients' brands.

Consumers are more savvy than ever, making it imperative for travel and tourism brands to deliver more than just products and services and to focus on engagement.

Kantar TNS understands the challenges and opportunities in the travel and leisure marketplace and can bring our expertise to bear for travel clients.

Tom Costley
group director, Kantar TNS
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GfK

GfK is a specialist in UK bookings data, says **David Hope**

GfK is one of the world's largest research companies, with more than 13,000 experts working every day to discover new insights into the way people think, live, shop and book holidays in more than 100 countries. We offer the most comprehensive and accurate picture of the outbound holiday market through insight into where, when, what and how consumers book.

Our confidential, aggregated sales data helps our clients better understand both their own and the industry's performance amid unprecedented trading conditions. Live booking data enables us to report on consumers' actual choices. Our measurement of their changing behaviours allows us to report on the impact of Brexit and geopolitical uncertainty.

Weekly data provides our subscribers with information to support best product, pricing and marketing decisions. It also provides valuable context as to the performance of destinations as well as specific holiday-type bookings (eg all-inclusive).

Accurate booking statistics are vital for understanding market trends to inform short-term tactics and longer-term strategy. As well as a detailed point-of-sale tracking service, we have a range of products and services to help clients understand the evolving world of travel through digital and conventional channels. Relevant, timely and accurate market intelligence turns big data into smart data.

David Hope
business group director, GfK
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Sustainability

Demand rises but progress slow

Research for this report suggests a significant rise in awareness among UK holiday buyers of at least one area of tourism sustainability and a sharp increase in more general awareness of the issues among young adults.

A Kantar TNS survey of more than 1,260 UK adults in October 2017 found a marked difference in responses to the same questions asked in October 2012.

Just over half (53%) of respondents in 2017 registered concern about some aspect of tourism sustainability, no different to the overall proportion of respondents who expressed concern in 2012. But the proportion aware of each individual issue was significantly higher than five years earlier and there was a surge in awareness among younger respondents *(see charts, page 57)*.

One in five (20%) of those planning an overseas holiday expressed concern about water use in resort, up 11 percentage points on 2012. Almost as many (19%) expressed concern about the impact of tourism on holiday destinations – up seven points on 2012 – and there was also a seven-point increase in the proportion identifying air travel as a concern, although the overall total remained low at 13%.

The 2017 survey found a five-point increase to 19% in concern about the handling of waste in destinations and also a five-point increase in concern about the wages of workers in resorts. There was a four-point increase to 19% in concern about whether local people benefit from tourism.

However, it was awareness among adults aged 16-24 which raised the overall rates of concern substantially. More than four out of five (82%) of young adults showed awareness of one or more sustainable tourism issues, up 24 percentage points on 2012 and there was a double-digit surge in awareness on each of the issues among this age group.

Rates of awareness among other age groups were up three-to-five percentage points on 2012 on most issues. Only when it came to water use in resorts did the 2017 survey suggest a significant increase in awareness across all ages.

Research finds increasing awareness of sustainability issues

Demand for sustainable holidays

Research for Tui at the end of 2016 complements these findings, suggesting there is increasing demand for sustainable holidays, allied to a desire to see sustainable options more clearly identified and readily available.

The Tui study, among more than 3,000 adult holidaymakers in the UK, Germany, France, Sweden, the Netherlands and Belgium, found 57% said they would book a more environmentally sustainable holiday if these were available – 17 percentage points up on the response to the same question in a December 2012 survey.

The study found a 14-point increase on 2012 to 53% in the proportion agreeing holiday companies that invest in environmental and social initiatives have a better image.

Cutting food waste, separating waste for recycling and reducing energy use were the top-three 'sustainable behaviours' identified – selected by 75% or more respondents across all markets. Booking 'an environmentally-friendly holiday' was identified by just one in 10, although the rate was almost double this in Germany and France.

However, 50% in the UK, 60% in Germany and 72% in France claimed they would book 'sustainable holidays' if these were more readily available. More than half (55%) across the six markets said lack of availability and awareness were barriers to uptake.

A similar proportion, 51% in the UK and 52% across all markets, saw "holiday brands that invest in sustainability more positively". Two-thirds (66%) agreed companies have "a greater responsibility to make sustainable decisions than I do".

Tui Group director of sustainable development Jane Ashton hailed the results, saying: "It gives us a mandate to make sustainably certified hotels much clearer when customers book. People expect companies more than individuals to take responsibility."

UK holidaymakers displayed a lower commitment to sustainable behaviours than those in France and Germany, but showed increasing engagement in a range of areas. Three-quarters (75%) of UK respondents supported recycling and reuse, almost half (46%) were keen to eat local food and 36% said they were "energy conscious". Ashton suggested: "Understanding in the UK has changed dramatically."

When respondents were asked to rate 10 ways for hotels to act more sustainably, providing local food came top, followed by limiting food waste and supporting food banks, using renewable energy, and reducing water and energy use.

The findings also suggest sustainability certification schemes, such as Travelife, help boost satisfaction rates. Ashton said: "You can match a Travelife hotel to satisfaction in resort and to a more satisfying holiday."

Abta-run Travelife had more than 1,450 member hotels in 2017, with 1,000 certified by an independent audit of 160-plus environmental management and sustainability measures.

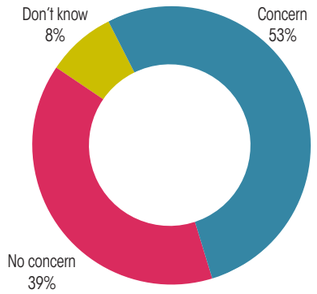
Curbing growth in emissions

New sustainability initiatives will extend to the air with Europe's airlines required to prepare for a global carbon-offset scheme from January 2018.

The Carbon Offset and Reduction Scheme

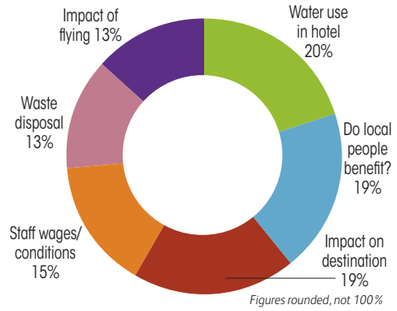
THE CHARTS suggest a sharp rise in concern about sustainability issues among younger adult holidaymakers and general increase in awareness of water use in destinations.

UK HOLIDAYMAKERS' CONCERN ABOUT SUSTAINABILITY

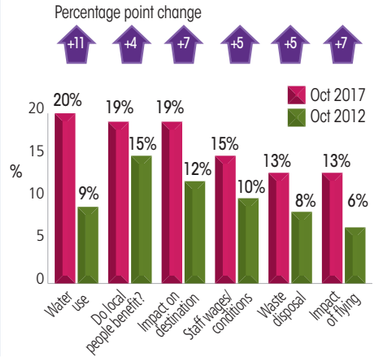


TOURISM SUSTAINABILITY CONCERNS

% who registered concern

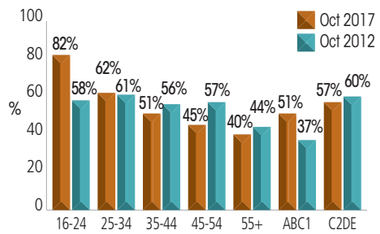


TOURISM SUSTAINABILITY CONCERNS, 2017 v 2012



TOURISM SUSTAINABILITY CONCERNS*

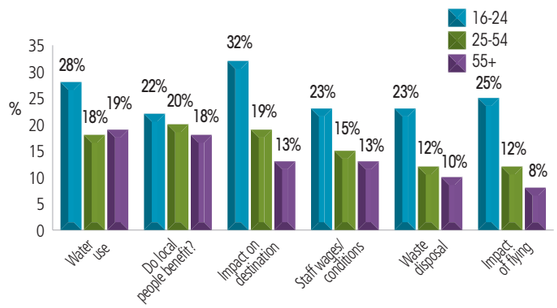
By age, social class



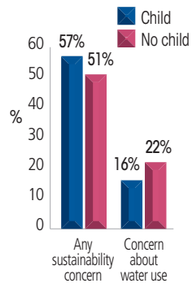
*Includes 'don't knows'

SUSTAINABILITY CONCERNS, 2017

By age

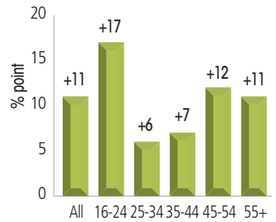


By child status



CONCERN ABOUT WATER USE, 2017

Percentage point increase on 2012



Source: Kantar TNS, October 2017

for International Aviation (Corsia), agreed by International Civil Aviation Organisation (ICAO) members in 2016, will see airlines pay to offset all emissions above the level of 2020. It will be introduced in phases, with the UK and other EU states among 68 countries to sign up for the initial phase from 2021.

Airline association Iata and the Airlines for Europe (A4E) group which includes Ryanair, easyJet, British Airways parent IAG and others, back Corsia. But they want the European Commission to drop its existing emissions trading scheme (ETS) on all flights within Europe. The EC has refused.

Rasa Sceponaviciute, of the EC directorate general for Climate Action, told a seminar in London: "Corsia is a start, but we don't know how it will work. Stabilising aviation emissions from 2020 does not seem very ambitious." She argued the EC scheme had "encouraged ICAO" to act and criticised the use of offsetting, saying: "We stopped accepting offsets into the ETS because we don't trust them. Some [offset] projects do not deliver reductions."

For Corsia to work, she said: "There have to be regular reviews. Emissions reductions need to be real, permanent and additional. Airlines have to report data and everyone has to be able to see it."

EU airlines have been part of the European ETS since 2012. They must report and verify emissions within the EU and trade 'allowances' on a carbon market. The scheme is limited to flights within Europe because of opposition from outside the EU, led by the US and China.

Overtourism: a wake-up call

These initiatives are welcome. But the media stories around sustainability in the sector which attracted most headlines in 2017 were about overtourism.

There were high-profile demonstrations against tourism in Venice and Barcelona, and moves to restrict cruise ship access to Venice and Dubrovnik. In November, there were moves to divert cruise ships of 100,000 tonnes or more away from Venice to the industrial port of Marghera.

The head of Amsterdam Marketing, Frans van der Avert, suggested Europe's historic cities are "dying" from the pressure of tourists and warned of a backlash. He told the World Tourism Forum in Lucerne: "A lot of smaller historic cities in Europe are getting destroyed by visitors."

> This is a wake-up call. We cannot continue to build five-star hotels in three-star communities. We need to diversify visitors' activities and reduce seasonality

UN World Tourism Organisation (UNWTO) secretary general Taleb Rifai described the protests as a "wake-up call", telling the UNWTO General Assembly in Chengdu in September: "We have started to see resentment to tourism – to see a tourism phobia in Barcelona, in Venice, in Rome, in Dubrovnik." He warned: "Tourism can't just grow."

Addressing the Ministers' Summit at World Travel Market in London in November, Rifai said: "Growth is not the enemy. Numbers are not the enemy. The key is to manage growth in a sustainable, responsible and intelligent way." But he repeated: "This is a wake-up call. We cannot continue to build five-star hotels in three-star communities. We need to diversify visitors' activities, reduce seasonality and raise awareness of less-busy destinations."

Carnival Corporation chief executive Arnold Donald echoed the same concerns, telling *Travel Weekly*: "We have to listen very carefully and closely to locals." Ann Sherry, Carnival Australia chief executive, went further, challenging the industry at the World Tourism Forum. She said: "We talk about what we do a lot, but we don't measure what we do – [and] if you can't measure it, you can't manage it. There aren't enough figures."

Warming: a warning

Amid the efforts to reduce carbon emissions, and warnings from climate scientists that global emissions need to peak in 2020 and thereafter start falling to have realistic hopes of keeping global warming below 2C, came a piece of bad news.

Fossil fuel burning was set to hit a record high in 2017. A UN climate summit in Bonn in November convened amid forecasts of a 2% rise in fossil fuel emissions in the previous 12 months by the annual Global Carbon Budget report, produced by a team of experts led by the Tyndall Centre for Climate Change Research at the University of East Anglia.

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If you would like to discuss any of the topics in this report, or our services, please contact one of our travel and aviation specialists.

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