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TOURISM
COUNCIL

THE ALGARVE

THE IMPACT OF TRAVEL & TOURISM
ON JOBS AND THE ECONOMY



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WORLD TRAVEL & TOURISM COUNCIL

THE WORLD TRAVEL & TOURISM COUNCIL (WTTC) IS THE BUSINESS LEADERS' FORUM FOR TRAVEL & TOURISM, WORKING WITH GOVERNMENTS TO RAISE AWARENESS OF THE IMPORTANCE OF THE WORLD'S LARGEST GENERATOR OF WEALTH AND JOBS.

With chief executives of more than 100 of the world's leading companies in membership, WTTC has a unique mandate and overview on all matters related to success in Travel & Tourism.

WTTC is delighted to have collaborated with the Região de Turismo do Algarve/Turismo do Algarve and the Observatório do Turismo, Universidade do Algarve, to produce this report, which presents the first Tourism Satellite Accounting research for the Algarve.

Undertaken by WTTC, together with our research partners Oxford Economic Forecasting, this report quantifies all aspects of Travel & Tourism demand, from personal consumption to business purchases, capital investment, government spending and exports. It then translates this information into economic concepts of production, such as gross domestic product (GDP) and employment, which can be compared with other industries and the economy as a whole to provide credible statistical information that will assist in policy and business decision-making.

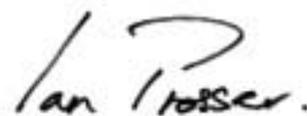
Results clearly show that the Algarve is already highly dependent on Travel & Tourism, which currently represents two-thirds of total GDP and is expected to increase its share by almost five percentage points to 71 per cent in 2013. Similarly, Travel & Tourism in the Algarve today accounts for 60 per cent of total employment, and this is forecast to rise to over 64 per cent by 2013. The industry's primary role as a generator of wealth and employment across all parts of the region is undisputed. It also acts as a catalyst for growth in other areas such as retailing and construction, which would decline if demand for Travel & Tourism were reduced.

This significant contribution should not be underestimated, but neither should the industry's potential for growth be taken for granted. As illustrated in the Tourism Trends and Policy Framework sections of this report, several important challenges continue to limit Travel & Tourism's full potential for growth in the Algarve. These challenges include the diversification of the region's tourism product, the enhancement of product and service quality, and the development of much needed infrastructure and human capital.

This report also sets out WTTC's recommendations on policies that we believe will help optimize the potential benefits of Travel & Tourism in the Algarve, ensuring longer-term sustainable development and spreading the benefits across all levels of the economy and the region. The Algarve's Travel & Tourism could do even better than the baseline forecasts suggest, as long as certain factors are assured. These include, most importantly, a favourable government fiscal policy, a climate that is conducive to business, offering incentives for investment and fundamental recognition of vacation/holiday homes as an integral component of Travel & Tourism. In addition there needs to be sustained and effective marketing and promotion and policies that respect the environment and local culture. WTTC stands ready to support the adoption and implementation of these policies.



Jean-Claude Baumgarten
President, World Travel & Tourism Council



Sir Ian Prosser
Chairman, World Travel & Tourism Council
InterContinental Hotels Group



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EXECUTIVE SUMMARY

THE ALGARVE COULD BE ONE OF EUROPE'S MOST SOUGHT-AFTER TOURISM DESTINATIONS. IN ADDITION TO ITS SPECTACULAR NATURAL ENVIRONMENT, INCLUDING FIRST-CLASS BEACHES, IT BOASTS A RICH VARIETY OF ATTRACTIONS TO SUIT MANY DIFFERENT TOURIST TASTES AND BUDGETS – INCLUDING A FASCINATING HISTORICAL AND CULTURAL HERITAGE AND WARM AND FRIENDLY PEOPLE. YET ITS ENORMOUS TRAVEL & TOURISM POTENTIAL IS FAR FROM BEING REALIZED – AND, IN FACT, MUCH OF IT HAS NOT EVEN BEEN PROPERLY TAPPED.

Nevertheless, the current importance of Travel & Tourism to the Algarve should not be underestimated. The industry directly contributes 45 per cent of GDP and 37 per cent of jobs. And if its impact on the broader economy is taken into consideration, Travel & Tourism generates 66 per cent of GDP and 60 per cent of total employment. Visitor exports (receipts from international and ex-Algarve Portuguese visitors including spending on transport) are even more impressive in terms of share – 73 per cent of total exports.

But, despite these seemingly impressive figures, the baseline forecasts from WTTC and Oxford Economic Forecasting for the next ten years are very modest. Of particular concern is the fact that visitor exports are set to rise by an average of only 2.4 per cent per year. This means that, unless the Região de Turismo do Algarve/ Turismo do Algarve and the private sector succeed in changing direction and surpassing the baseline forecasts, the share of visitor exports in the scheme of total exports will fall in real terms to less than 62 per cent.

Over the next ten years capital investment in Travel & Tourism – by government and private investors – is projected to increase its current share by less than 1 per cent to 21 per cent of total capital investment. While significant in comparison with capital investment in less tourism-intensive countries and regions, this share is very modest when viewed in the context of Travel & Tourism's contribution to GDP and employment. Furthermore, government expenditures allocated to providing individual and collective government Travel & Tourism services to visitors, travel companies and the community at large are even lower, at less than 9 per cent.

Clearly, none of this augurs very well for the Algarve's future Travel & Tourism economy, especially since many of the problems and weaknesses have been obvious for a long time, and yet little has been done to overcome them. In many cases, the fundamental problems faced by the Algarve's Travel & Tourism industry – but also by Turismo do Algarve – are largely out of the region's direct control. Specifically, these relate to the enormous bureaucratic hurdles that need to be overcome every time permission is sought for new developments. Sadly, much of the decision-making that affects the sustainability and competitiveness of the Algarve's tourism product is misplaced in Lisbon.

But all is not doom and gloom. If the key public and private sector stakeholders in the Algarve's Travel & Tourism collectively pool their efforts and aggressively lobby government – at regional and national levels – they can constructively influence the revision of land-use, strategic and master plans that will affect the industry. The greatest challenge the Algarve faces is to provide a more favourable environment for the development of new business and a return on investment that will attract new ventures. This will stimulate the growth of Travel & Tourism demand, which is vital for the region's economy and the well-being of its people.

The Algarve authorities have an obligation to their residents and local businesses to ensure that the potential for economic opportunity promised by Travel & Tourism is fully realized. Additional measures recommended in this report set the stage to help generate the larger rewards that Travel & Tourism can bring in medium to longer term.



ECONOMIC IMPACT

IN 2003, THE ALGARVE'S TRAVEL & TOURISM IS EXPECTED TO GENERATE €4,677.1 MN (US\$4,659.8 MN) OF ECONOMIC ACTIVITY (TOTAL DEMAND). THE INDUSTRY'S DIRECT IMPACT INCLUDES:

65,290.2

jobs representing 37.1 % of total

EMPLOYMENT.

€2,210.8_{mn}

(US\$2,202.7 mn) of

GROSS DOMESTIC PRODUCT
(GDP) equivalent to 44.7% of total GDP.

HOWEVER, SINCE TRAVEL & TOURISM TOUCHES ALL SECTORS OF THE ECONOMY, ITS REAL IMPACT IS EVEN GREATER. THE ALGARVE'S TRAVEL & TOURISM ECONOMY DIRECTLY AND INDIRECTLY ACCOUNTS FOR:

105,356

jobs representing 59.9% of total

EMPLOYMENT.

€3,260.0_{mn}

(US\$3,247.9 mn)

of **GROSS DOMESTIC PRODUCT**
equivalent to 66.0% of total GDP.

€3,913.70_{mn}

(US\$3,899.2 mn) of

EXPORTS, SERVICES & MERCHANDISE
or 74.7% of total Exports.

€251.7_{mn}

(US\$250.8 mn) of

CAPITAL INVESTMENT
or 20.4% of total Investment.

€96.9_{mn}

(US\$96.5 mn) of

GOVERNMENT EXPENDITURES
or an 8.6% share.

GROWTH

IN 2003, TRAVEL & TOURISM IN THE ALGARVE IS FORECAST TO SEE REAL GROWTH (REAL DECLINE) OF:

0.5%

in total

TRAVEL & TOURISM DEMAND,
€4,677.1 mn (US\$4,659.8 mn).

-0.2%

in **TRAVEL & TOURISM INDUSTRY GDP,**
to €2,210.8 mn (US\$2,202.7 mn) for the
industry directly and 0.1% to €3,260.0 mn
(US\$3,247.9 mn) for the Travel & Tourism Economy
overall (direct and indirect expenditures).

-2.7%

in **TRAVEL & TOURISM EMPLOYMENT**
(direct impact only), to 65,290 jobs, and -2.1%
to 105,356 jobs in the Travel & Tourism
Economy overall (direct and indirect).

OVER THE NEXT TEN YEARS, THE ALGARVE'S TRAVEL & TOURISM IS EXPECTED TO ACHIEVE ANNUALIZED REAL GROWTH OF:

2.9%

in total

TRAVEL & TOURISM DEMAND,
to €7,591.1 mn (US\$7,970.7 mn) in 2013.

3.2%

in total **TRAVEL & TOURISM GDP,**
to €3,686.9 mn (US\$3,871.2 mn) in 2013 for the
industry directly and to €5,514.6 mn (US\$5,790.3 mn)
for the Travel & Tourism Economy overall.

0.9%

in **TRAVEL & TOURISM EMPLOYMENT,**
to 71,480 jobs directly in the industry,
and 1.0% to 116,130 jobs in the
Travel & Tourism Economy overall in 2013.

2.4%

in **VISITOR EXPORTS,**
rising to €5,955.6 mn
(US\$6,253.3 mn) by 2013.

3.0%

in terms of **CAPITAL INVESTMENT,**
increasing to €412.8 mn
(US\$433.5 mn) in 2013.

2.3%

in terms of
GOVERNMENT EXPENDITURES
to €149.0 mn (US\$156.4 mn) in 2013.

FUTURE PROSPECTS

THE BASELINE FORECASTS FOR THE ALGARVE'S TRAVEL & TOURISM ARE RATHER DISAPPOINTING, ESPECIALLY GIVEN THE REGION'S HUGE LATENT POTENTIAL.

Travel & Tourism demand is projected to grow by less than 3 per cent per annum over the next ten years – a full percentage point less than for Portugal, and 1.3 per cent less than for the European Union overall.

However, WTTC believes that the baseline forecasts could easily be surpassed if the public and private sectors work closely together to create an environment more conducive to Travel & Tourism growth. This requires serious and significant efforts to overcome a host of weaknesses that are hindering growth and preventing the Algarve from attaining its true Travel & Tourism potential.

SUSTAINABLE TOURISM PLANNING

The regional land-use plan for the Algarve (PROTAL), which was approved in 1991 and is now in revision, is an important starting point for all long-term Travel & Tourism planning for the Algarve.

The current PROTAL, for example, inhibits the construction of hotels and resorts outside city centres. This makes little sense given the importance of coastal and rural areas for tourist resorts, marinas, golf courses and other competitive facilities and attractions – not to mention the excessive construction that has already taken place in some urban areas. All stakeholders should unite their efforts and call for political leadership, expert external advice and a first-class project director to ensure that the new PROTAL favours the kind of Travel & Tourism development that will be beneficial to residents and industry in the Algarve.

The Algarve is fortunate in that it has managed to avoid much of the excessive exploitation suffered by Spain and other Mediterranean resorts. However, there are increasing examples of over-exploitation of natural resources and other disruptive impacts of tourism on the local environment and cultural heritage. This must not be allowed to continue unchecked.

INDUSTRY MEASUREMENT

The Algarve's economic and marketing-related Travel & Tourism research and forecasting are inadequate – in terms of quality, quantity and timeliness.

As a result, public sector analysis and related policies tend to overlook or understate the impact of the industry, or focus only on its individual components.

This new tourism satellite account (TSA) provides a significant tool for analysis, planning and policy development. Updating this initial TSA on an annual basis, requiring complete cooperation from a long list of public, private and academic parties, will help ensure that adequate information is available to factor Travel & Tourism into economic and employment strategies. The TSA formalizes the latest international standard of measuring visitor-owned vacation/holiday homes and properties as a key element of the Travel & Tourism industry. It also provides the government with hard economic data to raise awareness among public and private sector stakeholders of Travel & Tourism's full impact across the regional and national economy – not just on hotels, restaurants and retail business, but also on construction, real estate, agriculture and other sectors.

CAPITAL INVESTMENT

The regional and national authorities need to recognize the power of international hospitality brands – hotels as well as timeshare groups – to attract high-yield markets and, thereby, to stimulate wealth and job creation.

In terms of real-estate, property and development projects, challenges still remain that continue to hamper the attractiveness of the Algarve for both domestic and foreign investment. Addressing these challenges should be seen as a high priority. Care should be taken to resolve land-use issues and the removal of red tape, as well as to ensure that fiscal policies such as taxation do not impede potential investment.

INFRASTRUCTURE

In order to provide development incentives for private companies from Portugal and abroad, the government needs to commit to expanding and improving the Algarve's basic Travel & Tourism infrastructure.

This includes the requalification of the existing airport in Faro to handle growing traffic flows and a new rail link from Lisbon via the Algarve to Seville. In addition, the secondary road network needs to be improved to facilitate access to the beaches, golf courses, to quality resorts and other major attractions. New meetings and convention facilities are required to boost demand from the MICE market. New leisure attractions, such as theme parks, should also be targeted as the Algarve has a mild year-round climate and the destination would have much more appeal for the families market off-season if there were more family-oriented attractions.

Finally, basic services such as utilities, sewage systems, signage, garbage collection and overall cleanliness must be brought up to world-class standards.

MARKET & PRODUCT DIVERSIFICATION

The emergence of new, low-cost tourism destinations in the eastern Mediterranean – such as Croatia and Bulgaria – make it more difficult for the Algarve to compete in terms of price.

The competition is also similar from Spain, which has an abundance of low-cost resorts prepared to reduce prices, yield and quality rather than lose business. The Algarve has a superior tourism product and should not compete in this sector of the market. A much wiser approach would be to focus on quality and added value, and diversify the region's tourism product to appeal to a broader market.

Sun and beach will remain an important sector, but the Algarve has so much more to offer – from golf and marine tourism to special interest and rural tourism, wine tours, cultural holidays and adventure holidays – just to name a few. At the same time, efforts should be made to diversify the Algarve's existing tourism markets, reducing its dependence on the major European tour operators and focusing on the potential of the independent senior travellers – and particularly northern Europeans in search of retirement homes or timeshare resorts in the sun.

Of course, this product and market diversification needs to be followed by a well-funded, sustained and effective marketing and promotional campaign to clarify and enhance the country's image in key source markets.



REALIZING THE POTENTIAL

IN ORDER TO SURPASS THE BASELINE FORECASTS AND TO REALIZE THE ALGARVE'S FULL TOURISM POTENTIAL – WHILE ENSURING THAT FUTURE GROWTH IS SUSTAINABLE – CERTAIN KEY FACTORS NEED TO BE ASSURED.

These include a favourable fiscal policy, a climate that is conducive to business offering continuing incentives for investment, sustained and effective marketing and promotion, appropriate education and training, and product diversification. Most importantly, clearly defined, long-term development plans must be drawn up to help guide regional public and private sector activities. These plans should be developed in consultation with all stakeholders, feeding from and back into the Regional Tourism Policy, and they should be disseminated as widely as possible.

Against this background WTTC has made certain policy recommendations to the Portuguese Government and Algarve authorities, detailed in this report under the section entitled *The Policy Framework*. These recommendations are summarized below:

PLAN FOR THE FUTURE.

- Establish long-term tourism development plans, including a Regional Tourism Policy, in consultation with the municipal authorities and the private sector to ensure sustainable tourism development, including optimal land-use planning.
- Monitor trends in Travel & Tourism demand to anticipate and adapt products to changing consumer behaviour and preferences.
- Make market and product diversification a priority issue in order to reduce over-dependence on traditional markets – and especially on major European tour operators – to enhance the destination's competitiveness and to improve added value and yield.
- Market and promote more effectively to avoid excessive seasonality and congestion, and to increase demand in other areas so as to spread the benefits of tourism to all parts of the region.
- Work more closely with the private sector to address existing concerns, and develop public-private sector partnerships in areas such as marketing and promotion, product development, and education and training.
- Encourage future development opportunities by introducing new incentive schemes for private sector capital investment and small business development, especially in the MICE, sports and nature-based tourism sectors.
- Give greater powers of decision-making to the Secretary of State for Tourism and to the *Dirreção-Geral do Turismo*.
- Reorganize and strengthen Portugal's Travel & Tourism legislation in terms of developing strategy and establishing policies and procedures by fostering cross-ministerial and cross-functional exchange, encouraging municipal cooperation, funding promotion, facilitating change, and creating a more flexible and competitive labour environment.

HIGHLIGHT THE STRATEGIC IMPORTANCE OF TRAVEL & TOURISM.

- Recognize Travel & Tourism's impact across the broader economy and its importance as a catalyst for other industries and economic activity.
- Measure the economic impact of Travel & Tourism on an annual basis by means of a regional tourism satellite account (TSA), ensuring that the results are built into the national TSA currently under development by Portugal's Ministry of Economy and State Secretary for Tourism.
- Reflect Travel & Tourism in mainstream policies for employment, trade, investment and education, ensuring that the underlying policy framework is conducive to dynamic growth.
- Communicate the strategic importance of Travel & Tourism to all levels of government and industry, as well as local communities.

DEVELOP THE HUMAN CAPITAL REQUIRED FOR GROWTH.

- Promote a positive image of the Travel & Tourism industry among the general public as a provider of jobs and career opportunities for residents and seasonal workers of the Algarve.
- Recognize Travel & Tourism's potential to provide jobs for young people, first-time job seekers, minority groups and retired people, or working mothers looking for part-time employment.
- Recognize that Travel & Tourism employment is spread across many small businesses and local communities throughout the region.
- Place education and training at the forefront of Travel & Tourism

development, introducing it into the high school curricula and adopting measures to improve skills and a culture of good service.

- Ensure that temporary employees recruited for the high season are provided with appropriate accommodation so as to attract more qualified professionals.
- Increase lobbying efforts to change current labour legislation and ensure that both employees and employers in Travel & Tourism are treated fairly.

ENCOURAGE OPEN MARKETS AND SKIES AND REMOVE BARRIERS TO GROWTH.

- Improve airline service by working with Faro International Airport and ANA and TAP Air Portugal to market the Algarve as an attractive year-round tourism destination, offering incentives to low-cost airlines in terms of landing charges and other airport fees and taxes.
- Promote the need for additional/alternative airports to serve the Algarve – bearing in mind that the planning and construction of such airports takes considerable lead time.
- Upgrade marketing and promotion to match prevailing competitive approaches, and strengthen public-private sector cooperation.
- Establish mechanisms to influence the revision of the PROTAL to

encourage the development of golf courses and five-star, mixed-use quality resorts that are destinations in themselves.

- Build safety and security provisions into regional strategies, and place special emphasis on Travel & Tourism in overall security strategies.
- Encourage the development of new fiscal programmes, such as increased tax credits, to encourage tourism growth, exports, investment, infrastructure development, business innovation and job creation.
- Ensure that accommodation and other hospitality taxes collected by, and on behalf of, the industry are reinvested in infrastructure improvements and promotion.

MATCH PUBLIC AND PRIVATE INFRASTRUCTURE TO CUSTOMER DEMAND.

- Expand infrastructure, including airports, and try to ensure streamlined immigration and border clearance facilities for international arrivals.
- Improve secondary roads that lead from the main motorways to the coast, golf courses and other attractions.
- Open up new areas for tourism development in the countryside, offering special incentives for the modernization of rural areas.
- Encourage better zoning and land-use planning by the local authorities to protect the natural environment.
- Develop access to capital resources and encourage capital investment in the Algarve's Travel & Tourism industry from within Portugal –

including the Algarve – and from abroad.

- Improve public services, especially health care services that can serve the local community as well as visitors, particularly the growing numbers of senior citizens expected in the future.
- Facilitate the further development of the secondary/holiday homes market as a means of upgrading the Algarve's tourism product and generating increased revenues from sales and local taxes.
- Develop new MICE facilities for the conventions and meetings market, and create new attractions with international appeal, such as theme parks, to boost demand from the families market.

FAVOUR TECHNOLOGICAL ADVANCEMENT.

- Promote the use of technology in Travel & Tourism to achieve greater marketing and distribution efficiencies and effectiveness.
- Support the development of the new, highly interactive Algarve portal on the internet and ensure that it is maintained and continuously upgraded so as to improve distribution of the region's tourism products

– both through the travel trade and direct to consumers – as well as enhancing the Algarve's image in key markets.

- Incorporate a real-estate section onto the Algarve website to promote and market private properties in the Algarve.

PROMOTE RESPONSIBILITY IN NATURAL, SOCIAL AND CULTURAL ENVIRONMENTS.

- Establish clear policies and guidelines for planned and sustainable tourism expansion throughout the Algarve.
- Adopt the ecological preservation principles as outlined in Agenda 21 for the Travel & Tourism industry developed by WTTC, the World Tourism Organization and the Earth Council.
- Ensure that the socio-economic, cultural and environmental benefits of Travel & Tourism are spread equitably in all parts of the Algarve, and recognize the need for local community engagement and empowerment.

- Support the expansion of tax credits and introduce new financial incentives for local community-based sustainable tourism enterprises.

- Support the application to designate Sagres a World Heritage site and promote the branding of all the Algarve's key natural and cultural resources through international and/or national designations.

- Advocate a 'green destination' certification programme for the Algarve that highlights the great potential for environmentally and ecologically friendly products and services.



THE ALGARVE'S TRAVEL & TOURISM

OVERVIEW OF RECENT TRENDS AND DEVELOPMENTS

A WEALTH OF ATTRACTIONS

The Algarve is one of the best known regions of Portugal, generating the highest share of tourist nights spent in the country. It is a well-established European sun and beach destination – primarily for families and seniors/third-age travellers – and the preferred holiday destination for more than a quarter of Portuguese people. But it also offers enormous potential for holidaymakers and long-stay visitors interested in more than just sun and beach – whether they want activity holidays, or are simply looking for quiet relaxation away from the more traditional, and often over-commercialized, Mediterranean resorts.

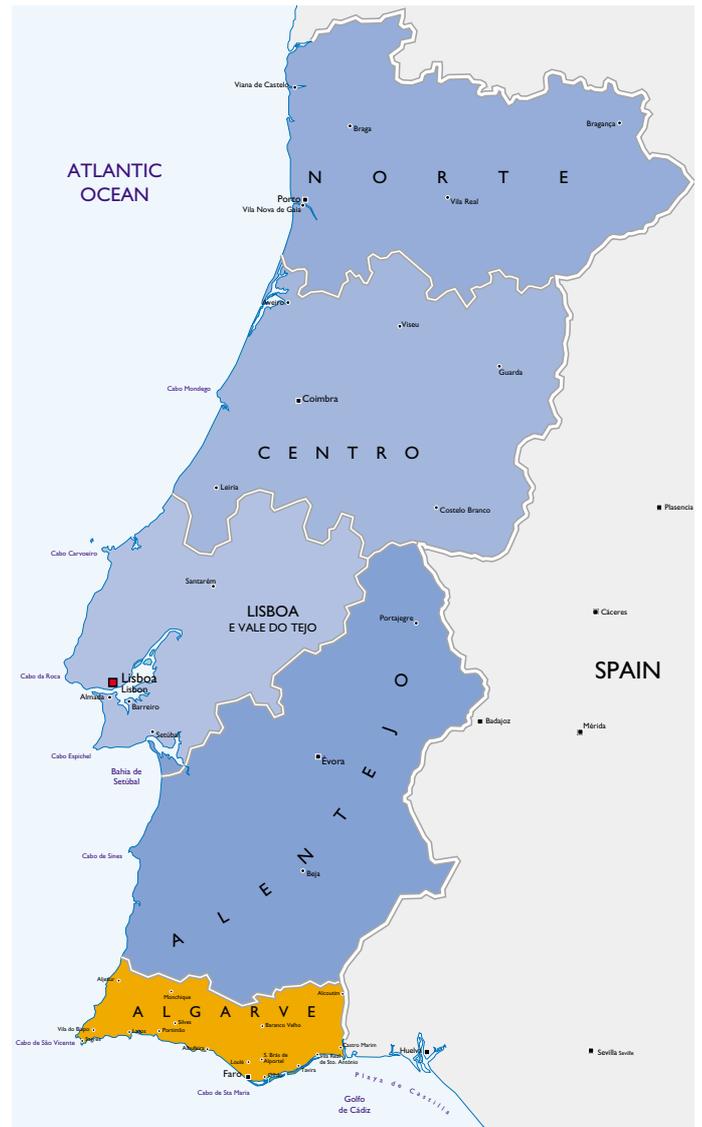
Located in the southwest of Portugal, and washed by the Atlantic Ocean, the Algarve is protected to the north by mountain ranges, allowing the region to benefit from a mild climate with an average 3,000 hours of sunshine a year. A three-hour flight away from central Europe to its international airport in Faro, the Algarve has now become much more easily accessible by road as well. This is due to the recent completion of both the A2 motorway from the capital Lisbon and the A22 (Via do Infante) from Spain, which crosses the entire Algarve region from the Spanish border in the east to Lagos in the west.

The region has a long and interesting history and contains much evidence of past centuries and inhabitants, including settlements by the Romans and Greeks. Prior to its annexation by the King of Portugal in the late 13th century, the Algarve had been under Arab dominance since 711. The name 'Algarve' dates back to this time – 'Al Gharb', meaning the West – and it is this period that is often reflected in the attractive architecture of the region with its numerous Moorish elements.

The city of Lagos in the west of the Algarve, enclosed within 5th century walls, has its place in history as the launch stage for the voyages to discover the continent of Africa. And five centuries ago, Sagres – which is scheduled to become a UNESCO World Heritage site, played a crucial role in the Portuguese Discoveries.

More than just sun and beach

Although the region offers first-class beaches, its infrastructure ensures that leisure can be a varied, as well as a full-time, occupation. There are many opportunities for horse-riding, walking, cycling, tennis, golf and water sports. The coastline boasts several excellent marinas such as Vilamoura – the biggest in Portugal – where all kinds of water sports can be enjoyed. The Algarve is also home to the biggest protected area in Portugal – the area along the west coast – which is a paradise for wildlife.



The gastronomy of the region is among the best in Portugal, offering a wide selection of local dishes based on fruits of the sea. The Lagoa wines are internationally renowned, as are those from Lagos and Tavira and the various regional liquors.

TOURISM DEVELOPMENT IN THE ALGARVE

The Algarve first became popular in the 1960s, when it developed a reputation as an upmarket alternative to the Mediterranean. It also became a favoured place of retirement and secondary/holiday homes for the British and other northern Europeans. However, later rapid and often poorly planned development took the Algarve much more downmarket and package tourists began pouring in, encouraging even greater unplanned expansion of facilities.

Rapid growth in the 1980s...

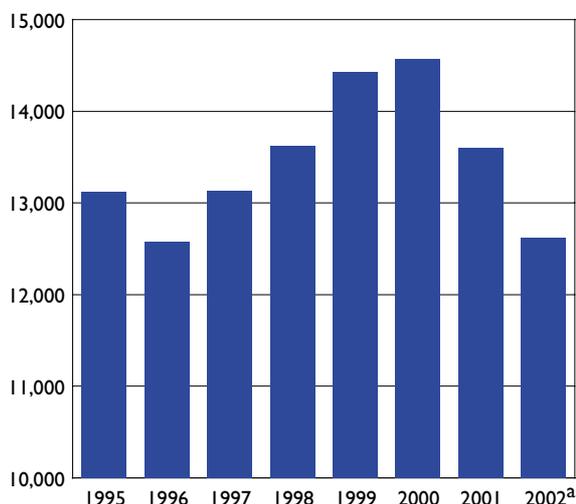
Portugal experienced rapid tourism growth in the 1980s, averaging 11 per cent a year in terms of tourist arrivals – the fastest annual rate in the whole of Europe. However, growth slowed significantly in the 1990s, falling from 7 per cent in 1991 and 6 per cent in 1992, to a decline of 1 per cent in 1993. The slump was even more marked in terms of overnights by foreign visitors.

...followed by a sharp slowdown in the 1990s

Overpricing was largely to blame. Intoxicated with their success in the 1980s, hotels and other suppliers and ground handlers raised prices, encouraging tour operators to switch to Spain, where more of the same product was available, more cheaply and a little closer to major European source markets. Although the Algarve's tourism product was in fact different – and superior – to that of Spain, the lack of investment in marketing and promotion at the time meant that many of its target markets, whether tour operators or consumers, were not aware of these differences.

The Algarve is fortunate in that a significant part of the destination's potential is still untapped and much of its coastal area has avoided the excessive exploitation suffered by the Spanish coast. Nevertheless, the regional tourist authority has been talking of diversifying its products and markets for more than ten years now. Yet there is very little evidence of

Tourist overnights in the Algarve in registered accommodation, 1995-2002



^a Preliminary estimate based on first 9 months

Average annual change 1995-2001 = 0.7%

Sources: Instituto Nacional de Estatística (INE); Turismo do Algarve

any real efforts towards this goal over the past decade, let alone of any success in terms of markedly improved tourism performance.

Tourist overnights in the Algarve increased by an annual average of less than 1 per cent from 1994 to 2001, and preliminary estimates for 2002 point to a further 7 per cent drop – almost twice as bad as the decline in overnight volume for Portugal overall. Admittedly, the official count only covers tourism in registered hotels, motels, inns, 'pousadas', holiday apartments and villages – ignoring the many millions of nights spent in unclassified/unregistered accommodation, including secondary homes, timeshare properties, visits to friends and/or relations and bed & breakfast accommodation in rural areas. However, it does highlight the fact that tourism in the Algarve is in the doldrums.

This is of particular concern since around 45 per cent of the region's workforce are employed directly in Travel & Tourism, and some 66 per cent depend directly or indirectly on tourism. Visitor exports (international tourism receipts including transport) are projected by WTTC and its research partner, Oxford Economic Forecasting, to exceed 73 per cent of total exports in 2003.

KEY SOURCE MARKETS

In 2002 the Algarve's tourism – according to official statistics – accounted for an estimated 42 per cent of total tourist overnight volume in Portugal, or around 12.6 million tourist nights. The region's share of Portugal's international tourism was 48 per cent and domestic tourism generated 29 per cent of total domestic overnights. Although the international share has declined slightly over the past few years – from 52 per cent in 1999 – it is nonetheless still very significant.

Tourist overnights in registered accommodation by source market, January through September 2002

Market	Nights	% change on Jan-Sep 2001
Domestic	2,174,734	9.7
UK	3,518,680	-7.8
Germany	1,585,900	-20.0
Netherlands	874,283	-10.8
Ireland	673,197	13.4
Spain	247,061	19.5
Norway	150,685	-19.4
Canada	143,360	-28.5
Belgium	121,941	-18.0
France	104,464	-0.2
Sweden	104,103	-35.7
Others	693,377	-22.1
Foreign	8,112,948	-10.9
Total	10,286,682	-7.2

Sources: INE; Turismo do Algarve

International tourism in decline

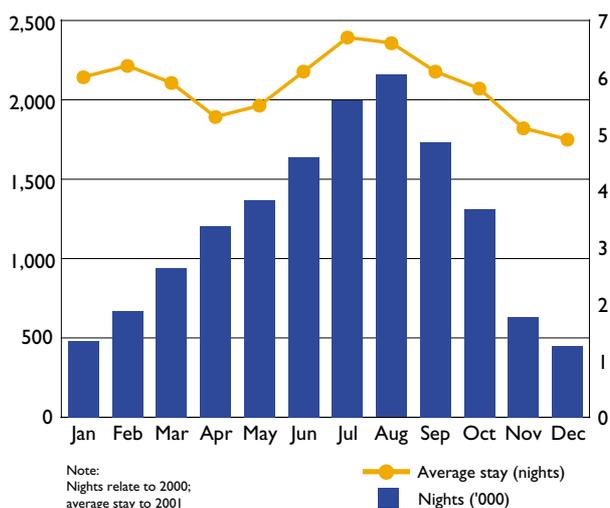
Data for the first nine months of 2002 point to an 11 per cent fall in international tourist nights as against a rise of 10 per cent for the domestic market. The Algarve's three leading sources – the UK, Germany and the Netherlands – were all down on 2001's level, with Germany recording the biggest drop of 20 per cent. There were even sharper declines from some other sources, although Ireland and Spain showed healthy rises.

Spain is the number one source market in terms of arrivals, generating about four times more visitors than from the UK. But many Spanish visitors are same-day travellers, or excursionists, and average length of stay for the Spanish market is only 3.3 nights (2000 data) as against 6-8 nights for most other leading sources. The Dutch stay the longest, averaging 8.2 nights.

Peaks in July and August

An analysis of overnights in registered accommodation by month highlights the marked seasonality suffered by the Algarve's tourism. Arrivals peak in July and August, but fall sharply in the winter months. In fact, this seasonality would probably not be so marked if overnights in all other forms of accommodation were included in the overall count. Although details are not available, it is well-known that many retired seniors from northern Europe visit the Algarve for several weeks at a time – or even months – during this period.

Tourist overnights and average length of stay in registered accommodation by month



Source: Turismo do Algarve

This would also have an impact on official average length of stay, which fluctuates from only 4.9 nights in the month of December to 6.7 nights in July.

Average daily spend by foreign tourists is reported to be around €88 – up from €50 in 1990. However, this contradicts information from ICEP (Investimentos, Comércio e Turismo de Portugal) – the government body responsible for the promotion of trade and tourism for the country overall – which suggests that average daily spend by foreign tourists in Portugal has fallen sharply since the 1980s.

ACCOMMODATION

The Algarve boasts a wide range of tourist accommodation although, as already indicated, much of this is not registered/classified and is not therefore included in official capacity or performance counts.

Huge, unclassified tourist accommodation capacity

In 2001, there were some 410 classified hotels and similar establishments with a total of 32,341 rooms and 86,667 beds. These generated some 12 million tourist overnights. Estimates suggest there could be as many as two to three times more beds in parallel or unclassified accommodation of varying types – such as private apartments and villas rented out to tourists – plus an unknown number of beds in rural areas and many in campsites, youth hostels, etc. These are estimated to account for as many as 30 million additional – unregistered – tourist nights.

Registered tourist accommodation capacity in the Algarve, 2001

Type of accommodation	No. of rooms	No. of beds	Bed occupancy (%)
Hotels	9,539	23,617	na
5-star	1,981	7,848	57.9
4-star	4,857	10,118	64.4
3-star	2,082	4,456	56.2
2-star	619	1,195	47.2
Suite hotels	5,418	14,812	55.4
4-star	2,956	8,175	na
3-star	2,086	5,574	na
2-star	376	1,063	na
Motels	257	545	55.4
Pousadas	76	152	54.9
State inns	264	556	na
Inns/pensions	2,151	4,453	na
Sub-total	17,705	44,135	na
Holiday apartments	9,601	29,884	47.8
Holiday villages	5,035	12,648	48.3
Total	32,341	86,667	52.7

Source: Turismo do Algarve; Gabinete de Incentivo ao Investimento Turístico no Algarve (GIITAL)

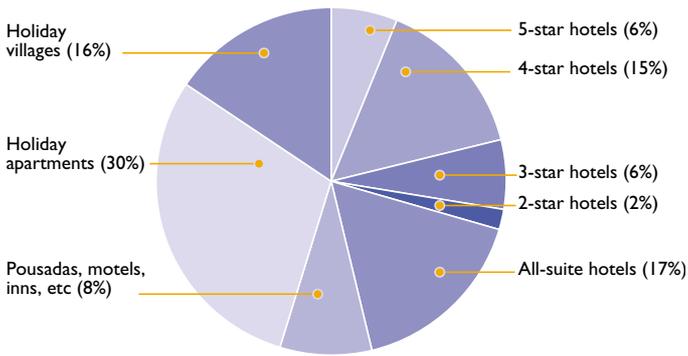
A 2001 census also identified 106,000 secondary/holiday homes in various parts of the Algarve – primarily in Albufeira, Loulé and Portimão – whose owners, families and friends must spend millions of tourist nights a year in the region, contributing to tourism revenues. Even more significantly, some of the best golf courses are located in some of these privately owned resorts, many of which are the pride of the Algarve.

Timeshare is underdeveloped

Timeshare was very important in the 1960s and 1970s, but heavy restrictions on both the construction and the sale of timeshare and mixed use properties mean that this sector of the market is underdeveloped, especially in the more upmarket categories.

Although not reflected in year-round occupancy rates, restrictions on hotel construction in coastal areas have resulted in a shortage of good quality and high-end luxury boutique hotels as well as mixed-use resort developments in the Algarve. It is more than eight years since the last five-star hotel was developed. Conventional hotels, including all-suite hotels, account for some 46 per cent of rooms in registered/classified accommodation. The largest share of rooms for tourists can be found in holiday apartments and villages.

Breakdown of registered accommodation capacity in the Algarve, 2001 (% of rooms)



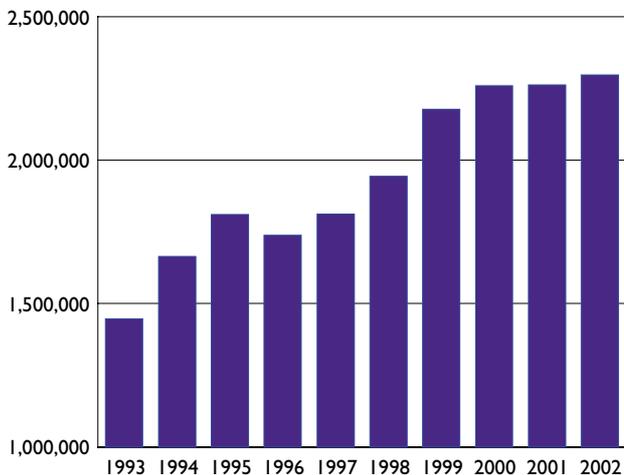
Sources: Turismo do Algarve; GIITAL

TRANSPORT

Algarve’s international airport at Faro is the leading charter airport in Portugal, handling around 70 per cent of all international charter traffic to and from the country. In the first ten months of 2002 its total passenger throughput was 4.4 million, up 1 per cent on the same period in 2001. (This figure includes Algarve residents to domestic and international destinations, so dividing the totals by two does not yield an accurate international arrivals figure.)

The number of disembarking passengers at Faro for the full 12 months of 2002 was 2.3 million, up 1.5 per cent. Almost half of this traffic is to and from the UK, while about one-third is to/from Germany. There is no significant charter – or indeed scheduled – air traffic between Faro and France, Italy or Spain. Furthermore, a shortage of Lisbon-Faro services inhibits the MICE growth potential of the region.

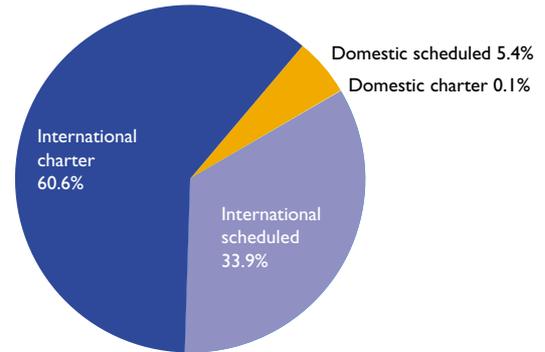
Airline passengers disembarking at Faro airport, 1993-2002



Source: Faro International Airport

In the past nine years disembarking passenger traffic has risen by an annual average of 5.3 per cent. This is a healthier growth than that of tourist nights in registered accommodation and adds weight to the argument that the importance of the Algarve’s tourism is significantly underestimated.

Scheduled versus charter traffic through Faro airport, 2001



Note: Excludes 79,000 passengers in transit

Sources: Airports Council International

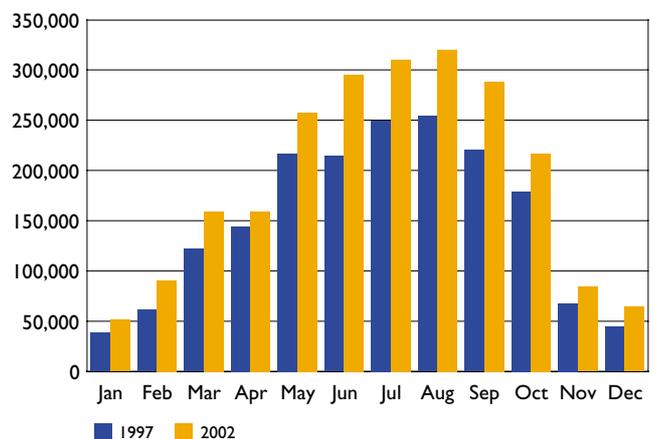
International traffic dominates, with 94.5 per cent of passengers travelling to/from foreign points. Of these, more than 95 per cent are from within the European Union. Almost all domestic passenger traffic is on scheduled airlines (98.8 per cent) but non-scheduled/charter flights account for almost two-thirds (64.1 per cent) of international traffic.

Faro has not yet been developed as a low-cost airline destination – probably because of the availability of charter services offering seat-only sales. But Virgin Express has been successful out of Brussels and tour operators are likely to face increasing competition from this sector if demand justifies the addition of new services. The UK’s Air 2000, a subsidiary of the tour operator First Choice, will be operating daily scheduled services into Faro from July 2003, and Air Berlin is also inaugurating low-cost flights.

SEASONALITY

Excessive seasonality has long been a problem for tourism in the Algarve – and, in fact, in the whole of Portugal – but there has not been a major improvement in recent years despite efforts to ease the problem. The last

Airline passengers disembarking at Faro airport by month of arrival, 1997 and 2002



Source: Faro International Airport

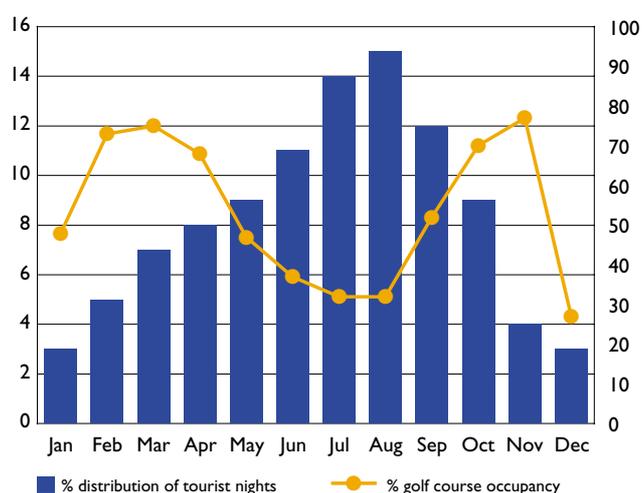
graph on the previous page shows that seasonality affects passenger traffic almost as much as it affects tourist overnights.

Golf tourism

A comparison of the monthly figures for golf course occupancy and distribution of tourist nights in 2000 shows quite dramatically the advantages that can be gained from diversifying the tourist offer in terms of a more even distribution of demand through the year.

Golf tourism is already fairly big business in the Algarve since the countryside and mild climate are ideal for golf. There are currently more than 25 courses, the majority of which are of high quality, if rather expensive in comparison with golf courses in, say, Spain.

Comparison of the seasonality in demand for golf and total tourism in the Algarve, 2000



Sources: Direcção-Geral do Turismo; Algarve Golf Association

In February 2002 the Região de Turismo do Algarve (the Algarve Regional Tourist Authority) – better known now as Turismo do Algarve – published its three-year action plan, the Plano de Acção Plurianual do Turismo do Algarve (PAPTA) 2002-2004. This was elaborated within the framework of the national Tourism Consolidation Plan (published in December 2001) and its associated Intervention Programme – the Programa de Intervenções para a Qualificação do Turismo (PIQTUR).

Diversification of the tourism product and markets

One important goal of PAPTA is to diversify the region's tourism products and markets – a goal that has been identified numerous times in the past with little effect. Different studies and surveys among existing consumers have shown that, while sun and beach is clearly the main draw, the Algarve could boost demand by developing and promoting alternative attractions and activities. Most important are off-season and shoulder-season activities that can help reduce seasonality. These include many sports, such as golf, as well as health and wellness – the Algarve has a limited number of destination and hotel spas.

In terms of markets, sectors seen as offering the best growth potential are seniors, because of their year-round interest in visiting the destination, and meetings, incentives, conferences and exhibitions

(MICE) business. The last convention centre to be built was in Vilamoura in 1992, but a new multi-purpose pavilion is scheduled to open in the Arade region next year, and this will feature a 1,300-seat capacity convention centre. With the appropriate infrastructure, facilities and promotion, the MICE business will help to increase tourism yield as well, counteracting the trend towards declining average spend.

More activities

Sports, culture and gastronomy are also considered major strengths as far as distinguishing the Algarve's tourist appeal, although many professional sports teams travel elsewhere to find better infrastructure and facilities. The region offers a diversity of local crafts, as well as cultural festivals and events, and it has a fascinating history. Sporting activities range from beach-centred pursuits, such as scuba- and skin-diving and windsurfing, to countryside pursuits such as horse-riding and organized hiking. Much of the hinterland of the Algarve is extremely attractive in terms of the richness and variety of its natural environment, providing an ideal setting for relaxing outdoor leisure pursuits.

ORGANIZATION OF TRAVEL & TOURISM

Tourism in the Algarve is the responsibility of the Região de Turismo do Algarve (RTA)/Turismo do Algarve, which nevertheless works closely with ICEP and the Ministry of Economy, as well as with other government agencies such as the airport authorities. Turismo do Algarve's budget comes almost exclusively (95 per cent) from government sources. It used to come from the tax (value added tax) collected within the region but is now allocated from the national budget. As the most important tourism region in Portugal, the Algarve receives the biggest regional share.

The 5 per cent are funded through specific projects financed by multilateral organizations such as the European Commission.

The president of Turismo do Algarve is elected by the 33 members of the RTA, half of whom are representatives of central government agencies, 16 are from the different municipalities of the Algarve, and the remainder private sector industry associations.

The University of the Algarve also plays an important role in providing Travel & Tourism analysis, investigation and development to public and private sector organizations.

Minor role for the private sector

In reality, the private sector appears to play a minor role in tourism development and promotion in the Algarve, although the RTA undertakes cooperative marketing and promotional campaigns for specific sectors, for which the private sector can be asked to fund up to 50 per cent. Such partners include the Algarve Golf Association and the Convention Bureau, which is itself a public-private sector partnership set up in 2002.

Turismo do Algarve's annual budget for 2003 is €14.6 million, with €2.4 million earmarked for advertising and promotion, €3.2 million for events and €1.3 million for communication and image building.

TRAVEL & TOURISM SATELLITE ACCOUNT

TOURISM SATELLITE ACCOUNTING

THIS REPORT FOLLOWS THE CONCEPT OF SATELLITE ACCOUNTING DEFINED IN THE *TOURISM SATELLITE ACCOUNT: RECOMMENDED METHODOLOGICAL FRAMEWORK (TSA:RMF)*, AND DEVELOPED UNDER THE AUSPICES OF THE WORLD TOURISM ORGANIZATION.

Over the last three decades, countries have estimated the economic impact of Travel & Tourism through a range of measures using a variety of definitions and methodologies. Such approaches have prevented meaningful comparisons among nations. Even for the same nation over different periods of time, they have frustrated business and government attempts to draw valid conclusions about the nature and course of Travel & Tourism demand in national economies. This regime has obscured the substantial, positive role the industry plays in national economies and has thwarted business and government attempts to optimize economic programmes and policies.

The World Travel & Tourism Council (WTTC) recognized the dearth of crucial Travel & Tourism intelligence from the time of its establishment in 1990 and it published the first detailed estimates of world tourism's economic impact that same year.

Since then WTTC has worked to improve its methodologies and to encourage individual countries to enhance their measurement and understanding of tourism's impact on their national economies. Furthermore, in the spirit of joining forces to enhance world comprehension of the role of Travel & Tourism in national economies, WTTC has strongly supported the programmes of the World Tourism Organization (WTO) to improve tourism statistics worldwide.

WTTC'S RESEARCH

WTTC and its economic/research partners – Oxford Economic Forecasting, (OEF), since 1999, and Global Insight (previously known as DRI•WEFA), from 1990–1999, have developed and published research on the economic contribution of Travel & Tourism to the world, regional and national economies.

Starting in 1990, WTTC's research team has been working to develop practical, real-world models to illustrate Travel & Tourism's economic contribution based on the needs of private sector leaders, public sector policy-makers and industry researchers, and on the interpretation of the system of national accounts. The research is now firmly anchored in the international standard for tourism satellite accounting that was developed by WTO, OECD and Eurostat, and approved by the United Nations Statistical Commission in 2000. It was launched at the TSA Conference held in Vancouver in May 2001 and published as the *Tourism Satellite Account: Recommended Methodological Framework (TSA:RMF)* in 2001.

Since 1999, WTTC's research has assumed the conceptual framework of the UN-approved standard with a number of discretionary extensions, and it combines the most sophisticated economic modelling and forecasts available with the most up-to-date, publicly available data to generate a comprehensive implementation of Travel & Tourism satellite accounting.

This special simulated TSA for the Algarve is the product of work commissioned by the Região de Turismo do Algarve (RTA)/Turismo do Algarve working in cooperation with the Observatório do Turismo, Universidade do Algarve. In carrying out the work, OEF has drawn extensively on the methodology developed over the years by WTTC to develop TSAs as operational tools, and has worked closely with the RTA and Observatório do Turismo and the project steering committee to review the assumptions, models and results produced by this exercise.

WTTC has endeavoured to implement and produce the most comprehensive TSA provided for within the

WTTC'S APPROACH TO TOURISM SATELLITE ACCOUNTING

TSA:RMF – by developing the narrow concept of the ‘Travel & Tourism Industry’ in addition to the broader concept of the ‘Travel & Tourism Economy’. WTTC advocates full implementation of the TSA as defined in the TSA:RMF in order to achieve the highest level of benefits for industry and governments. These include:

- A wealth of customer and consumer information on tourism-related purchases (before, during and after trips – whether domestic or international, imported or exported – as well as services, durables and non-durables) that has never been identified until now;
- Comprehensive documentation and analysis of the full tourism-product service chain and government’s ability to deliver quality and timely service to visitors;
- Linkages between Travel & Tourism and other sectors of the economy such as agriculture and manufacturing to illustrate the flow-through of spending;
- Complete outlook for public works that benefit visitors and Travel & Tourism companies in order to leverage public sector plans and priorities for growth;
- Focused opportunities for domestic production, as well as incentives from the public sector, to aid in the growth of businesses that help alleviate trade balance issues;

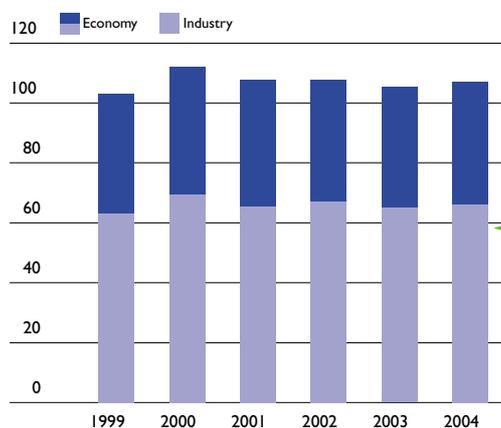
- Demand- and supply-side information on employment that allows for human resource planning and development.

WTTC has worked towards developing a comprehensive TSA – not because it is eager to exaggerate the size of Travel & Tourism’s impact, but because the information that can be garnered from the exercise by governments and industry is crucial for making intelligent and informed policy and business decisions. WTTC believes that history will document its pioneering implementation of the simulated TSA as one of the most important turning points for Travel & Tourism’s long overdue economic recognition.

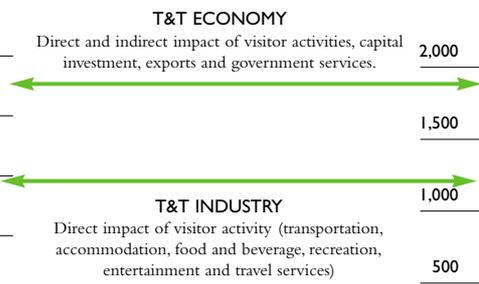
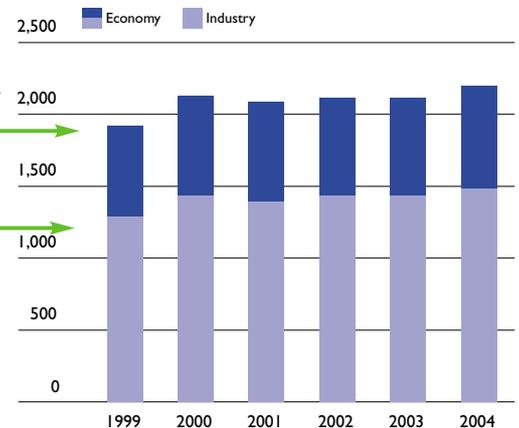
In the WTTC research, no country receives special treatment or favours. WTTC uses internationally available data sources and the same scope of tourism satellite accounting for all countries, as well as the same basic assumptions through the same system of models. WTTC’s TSA research utilizes a universal and internally consistent modelling framework and generates harmonized results and forecasts for 161 countries around the world. Details of the methodology used by WTTC/OEF in its TSA research are available on WTTC’s website (www.wttc.org).

THE ALGARVE

Travel & Tourism Employment
(‘000 Jobs)

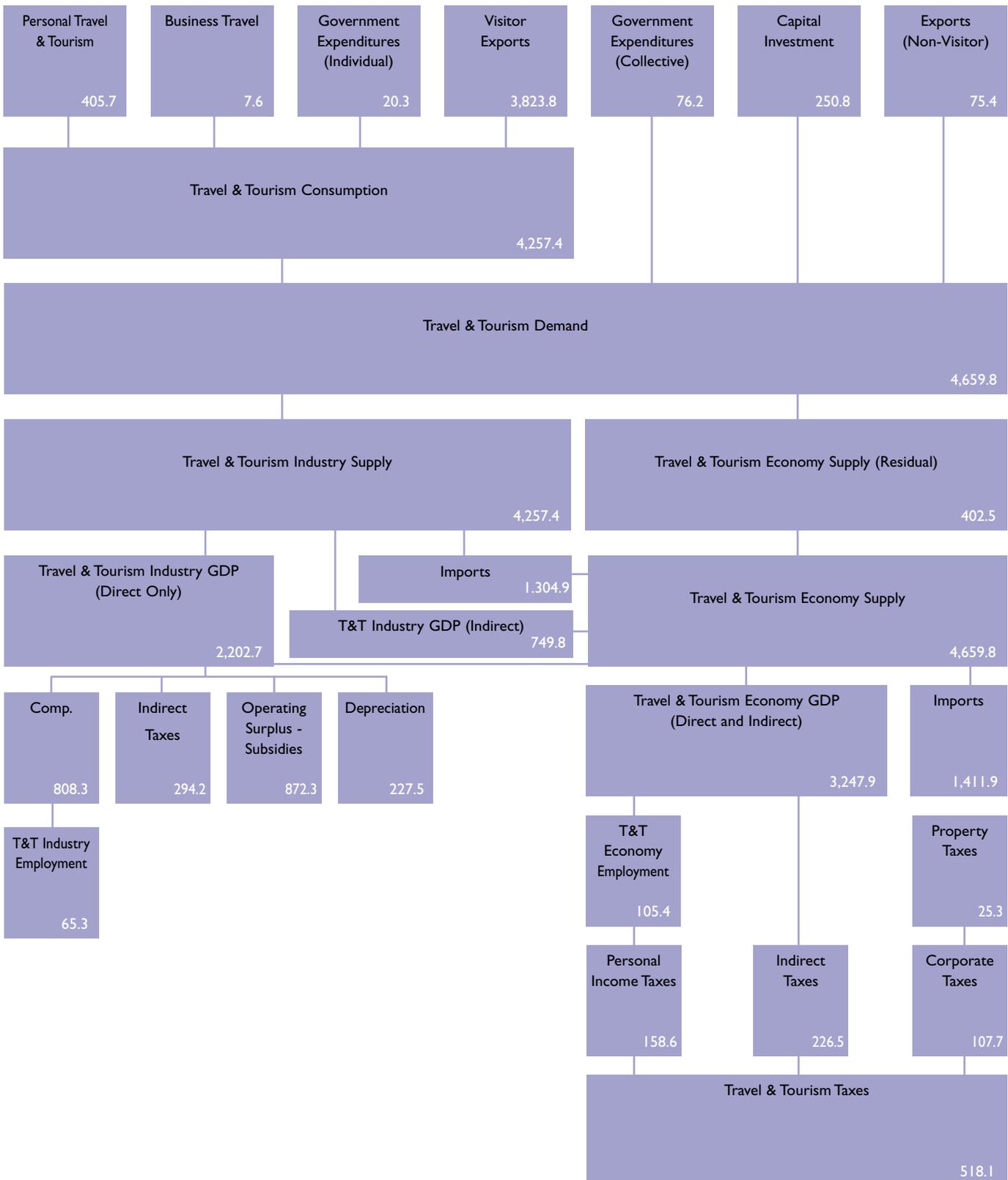


Travel & Tourism Gross Domestic Product
(1990 Constant US\$ mn)



TSA CONCEPTS & STRUCTURE

Year 2003 (US\$ mn, '000 Jobs)



Travel & Tourism Satellite Accounting research for the Algarve reflects a comprehensive simulation of the new international standard adopted by the United Nations following the Enzo Paci World Conference on the Economic Impact of Tourism (Nice, France, June 1999), ten years of model development and TSA experience by WTTC and Oxford Economic Forecasting (OEF), and application of OEF's latest macro-economic forecasts.

TSA Economic Concepts

The Travel & Tourism Satellite Account is based on a 'demand-side' concept of economic activity, because the industry does not produce or supply a homogeneous product or service like traditional industries (agriculture, electronics, steel, etc). Instead, Travel & Tourism is an industrial activity defined by the diverse collection of products (durables and non-durables) and services (transportation, accommodations, food and beverage, entertainment, government services, etc) that are delivered to visitors. There are two basic aggregates of demand in the TSA:

I **Travel & Tourism Consumption** represents the value of products and services that have been consumed by visitors. It is the basic demand-side aggregate used to construct an explicitly defined production-side 'industry' equivalent for comparison with all other industries. Travel & Tourism Consumption includes:

- **Personal Travel & Tourism**, more formally known as consumer expenditures, which captures spending by Algarve residents on traditional Travel & Tourism services (lodging, transportation, entertainment, meals, financial services, etc) and goods (durable and nondurable) used for Travel & Tourism activities.
- **Business Travel** by government and industry, which mirrors Personal Travel & Tourism's spending on goods and services (transportation, accommodation, meals, entertainment, etc), but represents intermediate inputs used in the course of business or government work.
- **Government Expenditures (Individual)** by agencies and departments which provide visitor services such as cultural (art museums), recreational (national park) or clearance (immigration/customs) to individual visitors.
- **Visitor Exports**, which include spending by international and ex-Algarve domestic visitors goods and services.

II **Travel & Tourism Demand** builds on Travel & Tourism consumption to include Travel & Tourism products and services associated with residual components of final demand. It is used to construct a broader 'economy-wide' impact of Travel & Tourism. The residual elements of Travel & Tourism demand are:

- **Government Expenditures (Collective)** made by agencies and departments associated with Travel & Tourism, but generally

made on behalf of the community at large, such as tourism promotion, aviation administration, security services and resort area sanitation services.

- **Capital Investment** by Travel & Tourism providers (the private sector) and government agencies (the public sector) to provide facilities, equipment and infrastructure to visitors.
- **Exports (Non-Visitor)** which include consumer goods sent out of the Algarve for ultimate sale to visitors (such as clothing, electronics or petrol) or capital goods sent out of the Algarve for use by industry service providers (such as aircraft or cruise ships).

By employing input/output modelling separately to these two aggregates (Travel & Tourism Consumption and Travel & Tourism Demand), the Satellite Account is able to produce two different and complementary aggregates of **Travel & Tourism Supply**: the **Travel & Tourism Industry** and the **Travel & Tourism Economy**. The former captures the explicitly defined production-side 'industry' equivalent, direct impact only, for comparison with all other industries, while the latter captures the broader 'economy-wide' impact, direct and indirect, of Travel & Tourism. Through this process, the Satellite Account is also able to determine that portion of supply, which it **Imports**.

Next, the satellite account breaks down both aggregates of supply (Industry and Economy) into the direct and indirect impacts of **Gross Domestic Product (GDP)**, the main descriptor of economic production, as well as the various components of GDP (**Wages & Salaries, Indirect/Transaction Taxes, Operating Surplus, Depreciation and Subsidies**). Beyond the regular TSA accounts, a separate analysis is also provided of **Personal Income Taxes** paid by Travel & Tourism generated employment and **Corporate and Property Taxes** paid by Travel & Tourism companies.

Finally, one of the most important elements of the Travel & Tourism Satellite Account are the Employment results, which can now be quantified for the basic Travel & Tourism Industry and the broader Travel & Tourism Economy.

- **T&T Industry Employment** generally includes those jobs with face-to-face contact with visitors (airlines, hotels, car rental, restaurant, retail, entertainment, etc).
- **T&T Economy Employment** includes T&T Industry Employment plus those faceless jobs associated with:
 - Industry suppliers (airline caterers, laundry services, food suppliers, wholesalers, accounting firms, etc).
 - Government agencies, manufacturing and construction of capital goods and exported goods used in Travel & Tourism.
 - Supplied commodities (steel producers, lumber, oil production, etc).

TRAVEL & TOURISM'S ECONOMIC IMPACT

TRAVEL & TOURISM – ENCOMPASSING TRANSPORT, ACCOMMODATION, CATERING, RECREATION AND SERVICES FOR VISITORS – IS THE ALGARVE'S HIGHEST PRIORITY INDUSTRY AND EMPLOYER.

In the European Union (EU) in 2003, Travel & Tourism is expected to post €1.5 trillion (US\$1.5 trillion) of economic activity (Total Demand) and this is forecast to grow to €2.7 trillion (US\$2.8 trillion) by 2013.

Travel & Tourism Total Demand in Portugal is expected to total €28.5 billion (US\$28.4 billion) in 2003, growing to €51.2 billion (US\$53.7 billion) in 2013.

In the Algarve, in 2003, Travel & Tourism is expected to post €4.7 billion (US\$4.7 billion) of economic activity (Total Demand), growing to €7.6 billion (US\$8.0 billion) by 2013.

In 2003, the Travel & Tourism Industry should contribute 4.1 per cent to EU GDP while the broader Travel & Tourism Economy should contribute 11.5 per cent.

In Portugal, the Travel & Tourism Industry is expected to post a GDP contribution of 5.8 per cent in 2003, while the Travel & Tourism Economy contribution will be 15.2 per cent.

In the Algarve, the Travel & Tourism Industry is expected to contribute 44.7 per cent to GDP in 2003 (€2.2 billion, or US\$2.2 billion), rising to €3.7 billion, or US\$3.9 billion (47.4 per cent of total GDP), by 2013. The Travel & Tourism Economy contribution should grow from 66.0 per cent (€3.3 billion, or US\$3.2 billion) to 70.9 per cent (€5.5 billion, or US\$5.8 billion) over the same period.

Travel & Tourism is a high-growth activity, which is forecast to increase its total economic activity by 4.2 per cent per annum EU-wide in real terms over the next ten years.

In Portugal, Travel & Tourism is expected to post average annualized gains of 3.9 per cent between 2004 and 2013.

For the Algarve, Travel & Tourism economic activity is expected to grow by 2.9 per cent per annum in real terms between 2004 and 2013.

Travel & Tourism is human resource intensive, creating quality jobs across the full employment spectrum. In 2003, one in eight jobs is generated by the EU Travel & Tourism Economy. The Travel & Tourism Industry accounts for 4.4 per cent of EU employment. Today there are 7.4 million Travel & Tourism Industry jobs and 20.7 million jobs in the EU Travel & Tourism Economy, and these will rise to 8.4 million Travel & Tourism Industry jobs and 23.6 million Travel & Tourism Economy jobs by 2013.

Portugal's Travel & Travel Industry is expected to generate 311,900 jobs in 2003 (6.3 per cent of total employment), while the broader Travel &

Tourism Economy will account for 819,400 jobs (16.7 per cent of total employment).

In the Algarve, in 2003, Travel & Tourism Economy employment is estimated at 105,400 jobs, or 59.9 per cent of total employment. By 2013, this should grow to more than 116,100 jobs – 64.4 per cent of total employment. The 65,300 Travel & Tourism Industry jobs will account for 37.1 per cent of total employment in 2003 and are forecast to rise to 71,500 jobs, or 39.7 per cent of the total, by 2013.

Travel & Tourism is a major exporter, with inbound visitors injecting foreign exchange directly into the economy.

Travel & Tourism exports in Portugal are expected to represent 17.7 per cent of total exports in 2003, growing to 20.6 per cent in 2013.

In the Algarve, exports are the fundamental component of Travel & Tourism's contribution to GDP. Of the Algarve's total exports – visitor (foreign and ex-Algarve Portuguese) as well as services and merchandise – Travel & Tourism is expected to generate 74.7 per cent (€3.9 billion, or US\$3.9 billion) in 2003, increasing to €6.2 billion, or US\$6.5 billion (62.9 per cent of total exports), by 2013.

Travel & Tourism is a catalyst for construction and manufacturing. In 2003, the public and private sectors combined are expected to spend €195.1 billion (US\$194.4 billion) in new Travel & Tourism capital investment EU-wide – 10.4 per cent of total investment – rising to €324.0 billion (US\$340.2 billion), or 10.5 per cent of the total, in 2013.

Portugal's Travel & Tourism Capital Investment is expected to total €4.9 billion, or US\$4.8 billion, in 2003 – 13.0 per cent of total capital investment.

Year 2003 capital investment in the Algarve's Travel & Tourism Economy is estimated at €251.7 million (US\$250.8 million), or 20.4 per cent of total investment. By 2013, this should reach €412.8 million (US\$433.5 million), or 20.9 per cent of total capital investment.

Travel & Tourism is both a generator and receiver of government funds. In the Algarve, Travel & Tourism taxes in 2003 are expected to total to €519.6 million (US\$517.7 million), or 47.4 per cent of total taxation, growing to €792.1 million (US\$831.7 million), or 54.2 per cent of total. Government Travel & Tourism operating expenditures in the Algarve in 2003 are expected to total to €96.9 million (US\$96.5 million), or 8.6 per cent of total government spending. In 2013, this spending is forecast to rise to €149.0 billion (US\$156.4 billion), or 8.8 per cent of total government spending.

ALGARVE ESTIMATES AND FORECASTS

	2003			2013		
	€ mn	% of Total	Growth ^a	€ mn	% of Total	Growth ^b
Personal Travel & Tourism	407.2	14.3	10.8	866.6	19.9	5.7
Business Travel	7.6	---	2.6	12.0	---	2.6
Government Expenditures	96.9	8.6	1.9	149.0	8.8	2.3
Capital Investment	251.7	20.4	3.7	412.8	20.9	3.0
Visitor Exports	3,838.0	73.3	-0.8	5,955.6	60.9	2.4
Other Exports	75.7	1.4	2.3	195.1	2.0	7.8
Travel & Tourism Demand	4,677.1	---	0.5	7,591.1	---	2.9
T&T Industry GDP	2,210.8	44.7	-0.2	3,686.9	47.4	3.2
T&T Economy GDP	3,260.0	66.0	0.1	5,514.6	70.9	3.3
T&T Industry Employment ^c	65.3	37.1	-2.7	71.5	39.7	0.9
T&T Economy Employment ^c	105.4	59.9	-2.1	116.1	64.4	1.0

^a2003 Real Growth Adjusted for Inflation (%); ^b2004-2013 – Annualized Real Growth Adjusted for Inflation (%); ^cEmployment in '000 Jobs

PORTUGAL ESTIMATES AND FORECASTS

	2003			2013		
	€ mn	% of Total	Growth ^a	€ mn	% of Total	Growth ^b
Personal Travel & Tourism	10,667.0	12.5	1.5	17,586.8	13.5	3.0
Business Travel	2,572.9	---	1.2	4,210.8	---	3.0
Government Expenditures	1,582.0	6.3	0.8	2,378.4	6.3	2.1
Capital Investment	4,856.2	13.0	3.3	7,835.3	13.1	2.8
Visitor Exports	5,944.6	11.9	0.4	13,986.7	15.0	6.8
Other Exports	2,862.7	5.7	5.2	5,182.2	5.6	4.0
Travel & Tourism Demand	28,485.4	---	1.9	51,180.2	---	3.9
T&T Industry GDP	7,904.0	5.8	0.3	14,113.3	6.6	3.9
T&T Economy GDP	20,732.1	15.2	1.0	36,193.0	16.8	3.6
T&T Industry Employment ^c	311.9	6.3	-2.1	373.0	7.4	1.8
T&T Economy Employment ^c	819.4	16.7	-1.4	955.5	18.9	1.6

^a2003 Real Growth Adjusted for Inflation (%); ^b2004-2013 – Annualized Real Growth Adjusted for Inflation (%); ^cEmployment in '000 Jobs

EUROPEAN UNION ESTIMATES AND FORECASTS

	2003			2013		
	€ mn	% of Total	Growth ^a	€ mn	% of Total	Growth ^b
Personal Travel & Tourism	654,980.5	12.0	2.0	1,062,381.2	13.1	3.1
Business Travel	171,970.3	---	0.7	278,342.9	---	3.1
Government Expenditures	60,873.1	3.2	0.5	88,982.9	3.2	1.9
Capital Investment	195,125.1	10.4	3.9	323,962.0	10.5	3.3
Visitor Exports	211,836.4	6.0	0.2	484,838.2	6.3	6.7
Other Exports	202,592.5	5.8	7.3	464,304.8	6.0	6.9
Travel & Tourism Demand	1,497,388.0	---	2.5	2,702,762.4	---	4.2
T&T Industry GDP	387,008.4	4.1	0.5	629,114.4	4.4	3.1
T&T Economy GDP	1,078,452.6	11.5	1.5	1,792,952.7	12.5	3.4
T&T Industry Employment ^c	7,388.5	4.4	-1.5	8,356.1	4.8	1.2
T&T Economy Employment ^c	20,678.0	12.4	-0.7	23,629.0	13.6	1.3

^a2003 Real Growth Adjusted for Inflation (%); ^b2004-2013 – Annualized Real Growth Adjusted for Inflation (%); ^cEmployment in '000 Jobs

TOTAL DEMAND

TRAVEL & TOURISM IN THE ALGARVE IS EXPECTED TO TOTAL €4.7 BILLION (US\$4.7 BILLION) OF TOTAL DEMAND IN 2003, INCLUDING:

- €407.2 million (US\$405.7 million) of Personal Travel & Tourism consumption by residents of the Algarve (14.3 per cent of total personal consumption);
- €7.6 million (US\$7.6 million) of Business and Government Travel by Algarve companies and government employees;
- €96.9 million (US\$96.5 million) of Government Expenditures, or 8.6 per cent of total government spending in the Algarve, to provide individual and collective services to the Algarve's Travel & Tourism Industry and its visitors;
- €251.7 million (US\$250.8 million) of Capital Investment, or 20.4 per cent of total capital investment in the Algarve, in personal, commercial and public Travel & Tourism facilities, equipment and infrastructure by residents, visitors, Travel & Tourism companies and government agencies;
- €3.8 billion (US\$3.8 billion) of Visitor Exports, or 73.3 per cent of total exports in

the Algarve, generated from international and Portuguese visitor markets; and

- €75.7 million (US\$75.4 million) of Merchandise Trade Exports, 1.4 per cent of total exports in the Algarve.

In Portugal, Travel & Tourism Total Demand is expected to total €28.5 billion (US\$28.4 billion) in 2003. This would indicate that the Algarve is responsible for 16.4 per cent of Portugal's Travel & Tourism Economy.

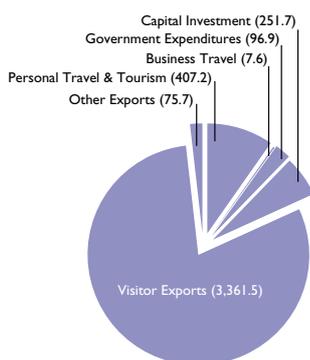
This breakdown of the Algarve's Travel & Tourism Demand clearly illustrates the fact that international and Portuguese (ex-Algarve) visitor spending accounts for almost 81 per cent of the Algarve's Travel & Tourism Economy. These results make it painfully obvious that significant attention must be paid to the development, nurturing, protection and growth of Travel & Tourism visitor exports.

Over the past 14 years (1988-2002), the Algarve's Travel & Tourism activity has surged and receded with a mixed history of gains and losses totalling 25.4 per cent cumulative real

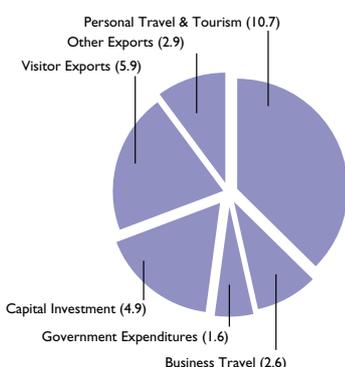
growth. This compares with a more steady but still mixed history totalling 45.9 per cent cumulative real growth over the same period for Portugal and a mostly positive but slower 38.5 per cent cumulative real growth for the European Union overall.

The long-term outlook for growth in the Algarve's Travel & Tourism Demand is expected to be positive but disappointingly slow after rebounding from two years of small declines, of -2.4 and -2.5 per cent in 2001 and 2002 respectively. It is expected that relatively weak growth in visitor exports – ranking the Algarve well down the list of competing destinations – will be a limiting factor for significant growth in the Algarve's premier industry. Overall, the Algarve's Travel & Tourism is expected to grow by 2.9 per cent per year over the next decade, ranking it between Switzerland in 159th place and Japan in 160th in the list of WTTC's 161 fastest growing Travel & Tourism economies in the world.

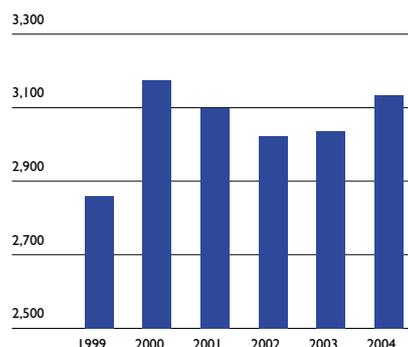
THE ALGARVE
Travel & Tourism Total Demand
(2003 Est € bn)



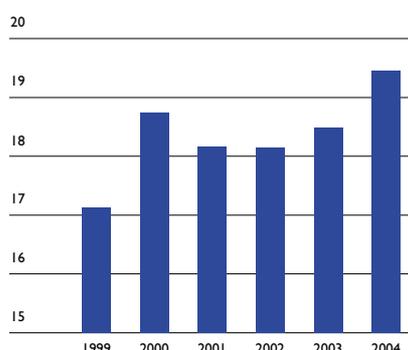
PORTUGAL
Travel & Tourism Total Demand
(2003 Est € bn)



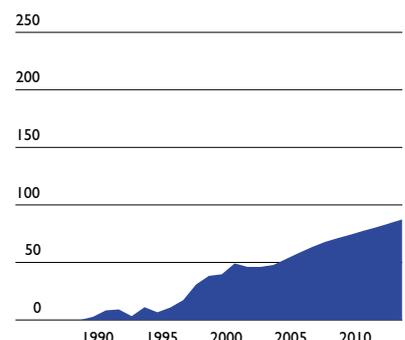
THE ALGARVE
Travel & Tourism Total Demand
(1990 Constant US\$ mn)



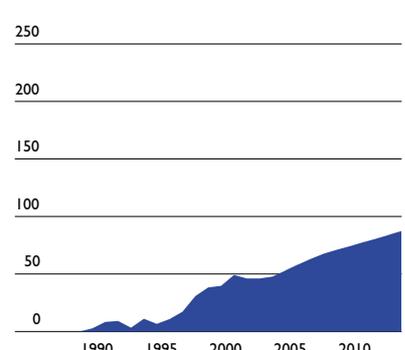
PORTUGAL
Travel & Tourism Total Demand
(1990 Constant US\$ bn)



THE ALGARVE
Travel & Tourism Total Demand
(Cumulative Real Growth, %)



PORTUGAL
Travel & Tourism Total Demand
(Cumulative Real Growth, %)



EMPLOYMENT

THE TRAVEL & TOURISM INDUSTRY IN THE ALGARVE IS EXPECTED TO YIELD DIRECTLY 65,300 JOBS IN 2003.

A total of 105,400 jobs (direct and indirect) are expected to be generated across the broader spectrum of the Travel & Tourism Economy encompassing:

- travel company employment,
- government agency employment, and
- supplier company employment.

The first category represents Travel & Tourism Industry jobs, while all three categories together represent Travel & Tourism Economy jobs.

In Portugal, 311,900 jobs are directly generated by the Travel & Tourism industry, while 819,400 jobs are directly and indirectly generated by the Travel & Tourism economy.

Travel & Tourism Industry jobs in the Algarve represent 37.1 per cent of the region's workforce. By 2013, Travel & Tourism Industry employment is expected to increase by more than 6,000 jobs to 39.7 per cent of total employment in the Algarve. In Portugal, the Travel & Tourism Industry is responsible for 6.3 per cent of total employment and is

expected to increase its share to 7.4 per cent by 2013.

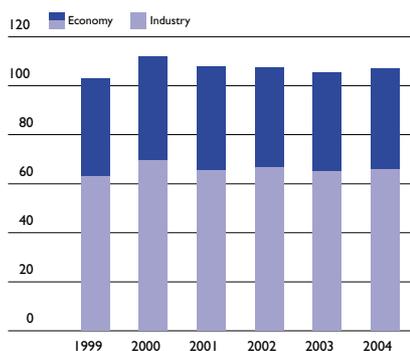
The 105,400 Travel & Tourism Economy jobs in the Algarve in 2003 represent 59.9 per cent of the total workforce. By 2013, Travel & Tourism Economy employment is expected to increase by nearly 11,000 jobs in the Algarve to 64.4 per cent of total employment. In Portugal, the equivalent numbers are 16.7 per cent of 2003 employment, growing by 136,000 new jobs to 18.9 per cent of total employment in 2013.

Over the past 14 years, Travel & Tourism in the Algarve has created more than 12,400 jobs. In Portugal, over this same period, nearly 75,000 jobs have been lost as a result of increases in productivity and, more recently, the weaker economy. If, as assumed, this slow economic growth in the Algarve and Portugal continues, the prospects for Travel & Tourism employment growth over the next decade are disappointing. Only 1,100 new jobs every year will be created in the Algarve and 13,600 new

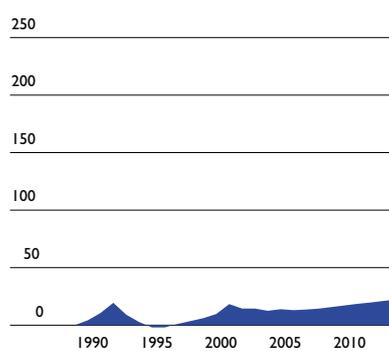
jobs every year in Portugal.

In the charts below, the Algarve's Travel & Tourism employment growth has shown huge fluctuations from year to year, but is overall below its growth level of Travel & Tourism Demand, indicating gains in productivity. If Travel & Tourism employment as a percentage of total employment is compared with other Mediterranean economies, the Algarve ranks at the top of the list and Portugal comes well within the top tier of the list of 161 countries. More importantly, although the relative number of jobs in the Algarve is impressive, the region ranks well down the list in terms of future growth performance estimates. Portugal's level of employment growth is only marginally better in 144th position in the ranking. This suggests that, contrary to conventional thinking, Travel & Tourism will only be a major contributor to employment growth in the Algarve and Portugal if greater attention is paid to the industry.

THE ALGARVE
Travel & Tourism Employment
('000 Jobs)



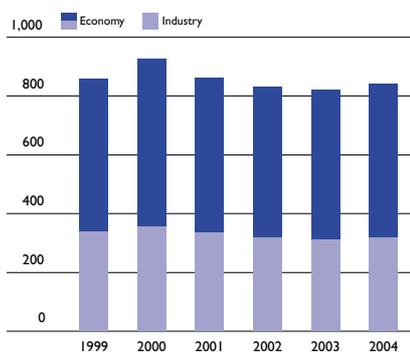
THE ALGARVE
Travel & Tourism Economy Employment
(Cumulative Real Growth, %)



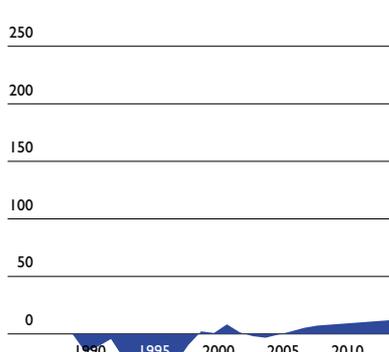
WTTC LEAGUE TABLE EXTRACT
Travel & Tourism Economy Employment
(2003, % of Total Employment)

Algarve	59.9
13 Cyprus	36.3
15 Malta	35.6
17 Croatia	27.4
28 Spain	19.9
32 Greece	16.8
33 Portugal	16.7
39 Tunisia	15.1
43 France	13.9
49 Italy	12.2
55 Morocco	11.1
132 Turkey	4.9

PORTUGAL
Travel & Tourism Employment
('000 Jobs)



PORTUGAL
Travel & Tourism Economy Employment
(Cumulative Real Growth, %)



WTTC LEAGUE TABLE EXTRACT
Travel & Tourism Economy Employment
(10-Year Real Growth, Annualized, %)

48 Tunisia	4.7
84 Malta	3.9
86 Croatia	3.8
91 Morocco	3.6
109 Cyprus	3.1
121 Spain	2.6
126 Greece	2.2
133 Turkey	2.0
136 France	1.9
144 Portugal	1.6
152 Italy	1.1
Algarve	1.0

GROSS DOMESTIC PRODUCT

THE TRAVEL & TOURISM INDUSTRY IN THE ALGARVE IS EXPECTED TO PRODUCE DIRECTLY €2.2 BILLION (US\$2.2 BILLION), OR 44.7 PER CENT OF TOTAL GROSS DOMESTIC PRODUCT (GDP) IN 2003.

Although the term 'gross domestic product' is normally associated with a national economy, we have adopted it in this report to refer to the Algarve economy as well.

The broader Algarve Travel & Tourism Economy (direct and indirect) is expected to produce €3.3 billion (US\$3.2 billion), or 66.0 per cent of total GDP. The long-term expectations for Travel & Tourism GDP growth are modestly positive – just exceeding 3.2 per cent annualized real growth. By 2013, Travel & Tourism Economy GDP is forecast to gain more than four full percentage points to total 70.9 per cent, or €5.5 billion (US\$5.8 billion).

In Portugal, the Travel & Tourism Industry is expected to produce directly 5.8 per cent of total GDP in 2003, growing to 6.6 per cent in 2013. The broader direct and

indirect measure of the Travel & Tourism Economy is expected to account for 15.2 per cent of total GDP in 2003 and 16.8 per cent in 2013. Both indicators are projected to grow at a rate exceeding 3.6 per cent per annum over the coming decade.

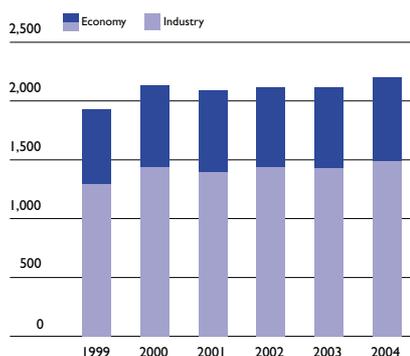
The Travel & Tourism Economy results and forecasts illustrate the massive economic stimulus of Travel & Tourism. The first set of charts (stacked bar) shows how the tourism industry acts as a leading economic catalyst as its contribution permeates through both Travel & Tourism economies. These charts also illustrate how positive and negative changes in the Travel & Tourism Industry result in a much larger impact on the broader Travel & Tourism Economy.

In the second set of charts (Cumulative Real Growth), the Algarve's Travel & Tourism

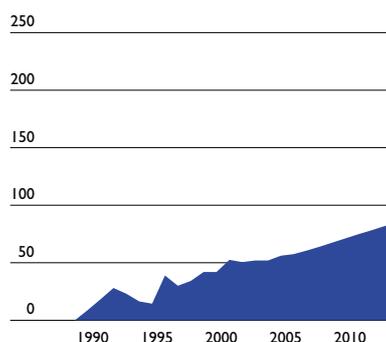
Economy shows two cycles of growth and recession over the past 14 years. On the other hand, Portugal was mostly flat during the early 1990s, picking up in the mid- to late 1990s. The outlook for the regional and national economies is poor in terms of growth over the next ten years. This level of modest growth is reflective of the overall Portuguese economy, which continues to post only minor gains.

The third set of charts (right) compares the Algarve and Portugal with WTTC estimates for their Mediterranean neighbours. The Algarve and Portugal, ranked about second and 37th respectively, are currently among the top-tier tourism-intensive economies. In addition, the second league table extract illustrates how their prospects for GDP growth are well behind those for competing destinations.

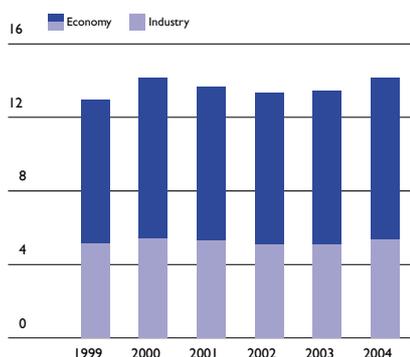
THE ALGARVE
Travel & Tourism GDP
(1990 Constant US\$ mn)



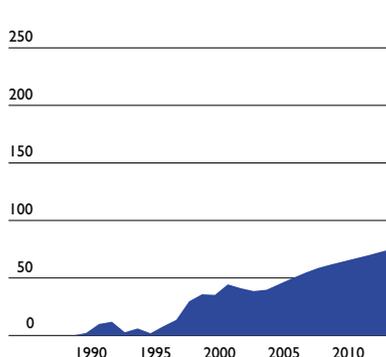
THE ALGARVE
Travel & Tourism Economy GDP
(Cumulative Real Growth, %)



PORTUGAL
Travel & Tourism GDP
(1990 Constant US\$ bn)



PORTUGAL
Travel & Tourism Economy GDP
(Cumulative Real Growth, %)



WTTC LEAGUE TABLE EXTRACT
Travel & Tourism Economy GDP
(2003, % of Total GDP)

Algarve	66.0
15 Malta	29.1
17 Cyprus	27.9
22 Croatia	22.4
32 Spain	18.3
35 Tunisia	16.3
37 Portugal	15.2
39 Greece	14.6
45 Morocco	12.9
49 France	12.3
58 Italy	11.4
99 Turkey	8.1

WTTC LEAGUE TABLE EXTRACT
Travel & Tourism Economy GDP
(10-Year Real Growth, Annualized, %)

4 Turkey	9.1
16 Croatia	7.5
95 Cyprus	5.5
96 Morocco	5.5
97 Tunisia	5.4
104 Malta	5.3
125 Greece	4.6
131 Spain	4.3
139 France	3.8
142 Portugal	3.6
Algarve	3.3
148 Italy	3.2

CAPITAL INVESTMENT

IN 2003, TRAVEL & TOURISM CAPITAL INVESTMENT IN THE ALGARVE IS EXPECTED TO REACH €251.7 MILLION (US\$250.8 MILLION) OR 20.4 PER CENT OF TOTAL INVESTMENT.

In Portugal, Travel & Tourism Capital Investment is expected to approach €4.9 billion (US\$4.8 billion) in 2003, or 13.0 per cent of total capital investment.

In both cases, the largest component of capital investment originates from the private sector in new facilities, plant and equipment, while the public sector invests in new Travel & Tourism infrastructure. Visitor purchases of holiday homes also fall into this category.

This level of spending reflects a very modest rate of investment in the Algarve for Travel & Tourism. Expectations for increased levels of investment through 2013 are also very modest, with annual growth in real terms forecast at 3.0 per cent per annum. For the Algarve, this level of future investment places it in about 127th place in terms of growth among the 161 countries analysed by WTTC.

This ranking sends a message to Travel & Tourism operators at home and abroad that the Algarve is only modestly positioned to compete for attractive new ventures.

Although Portugal's history of Travel & Tourism capital investment has been less positive than the Algarve's, future expectations are nearly identical with annual growth estimated at 2.8 per cent. This would put Portugal in 136th position in the ranking of 161 countries forecast by WTTC/OEF.

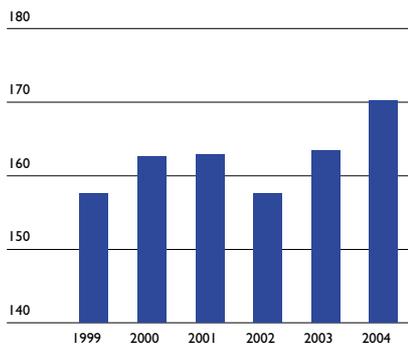
Typically, examination of Travel & Tourism Capital Investment results and forecasts lends greater insight into the market forces at work in a given economy, and the expectations by the public and private sectors to meet challenges and opportunities in the years ahead. For the most part, Travel & Tourism Capital Investment tends to be cyclical, with strong links to major

public policy initiatives, the business market cycle, major events (such as natural disasters) and significant socio-political changes.

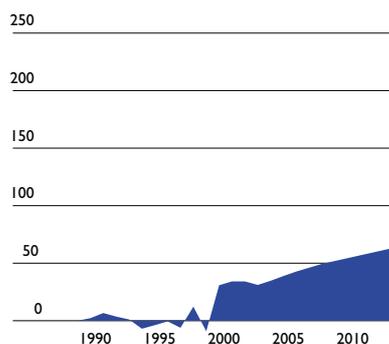
In the European Union overall, Travel & Tourism Capital Investment is expected to reach 10.4 per cent of total investment in 2003. The expectation for EU growth for the years 2004–2013 is 3.3 per cent per year (in constant US dollars).

The charts below illustrate several additional points. First, The Algarve's Travel & Tourism Capital Investment is almost identical to its growth record for employment. Second, the Algarve currently falls in the top tier of the ranking in investment percentage terms for 2003. With Travel & Tourism representing 20.4 per cent of total investment, the Algarve is placed about 39th in the ranking. Portugal ranks much lower, in 73rd position.

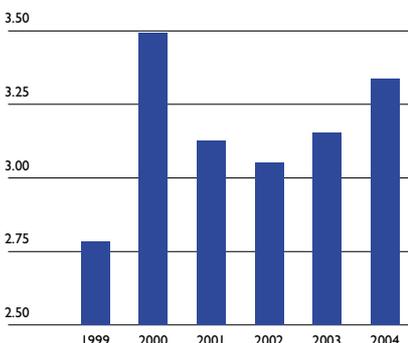
THE ALGARVE
Travel & Tourism Capital Investment
(1990 Constant US\$ mn)



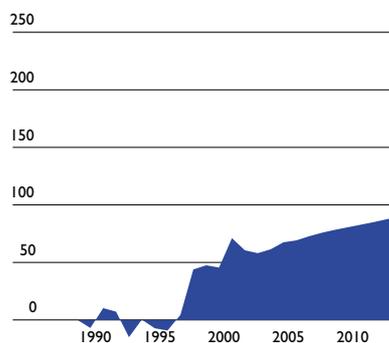
THE ALGARVE
Travel & Tourism Capital Investment
(Cumulative Real Growth, %)



PORTUGAL
Travel & Tourism Capital Investment
(1990 Constant US\$ mn)



PORTUGAL
Travel & Tourism Capital Investment
(Cumulative Real Growth, %)



WTTC LEAGUE TABLE EXTRACT
Travel & Tourism Capital Investment
(2003, % of Total)

18	Malta	30.6
32	Greece	22.5
38	Cyprus	20.6
	Algarve	20.4
40	Tunisia	18.4
53	Spain	14.9
70	Morocco	13.4
73	Portugal	13.0
89	Croatia	11.1
117	Italy	8.9
125	France	8.2
136	Turkey	7.4

WTTC LEAGUE TABLE EXTRACT
Travel & Tourism Capital Investment
(10-Year Real Growth, Annualized, %)

2	Turkey	8.5
32	Croatia	5.2
45	Greece	4.8
69	France	4.2
91	Italy	4.0
102	Tunisia	3.7
108	Morocco	3.3
	Algarve	3.0
134	Cyprus	2.9
136	Portugal	2.8
138	Malta	2.7
140	Spain	2.7

PERSONAL & BUSINESS

IN 2003, THE ALGARVE IS EXPECTED TO GENERATE €407.2 MILLION (US\$405.7 MILLION) OF PERSONAL TRAVEL & TOURISM CONSUMPTION BY RESIDENTS, OR 14.3 PER CENT OF TOTAL PERSONAL CONSUMPTION.

In the Algarve, business travel in 2003 is expected to total €7.6 million (US\$7.6 million) – of which 82 per cent corporate and 18 per cent government. On a relative scale, Portugal shows a slightly lower portion of Total Personal Consumption from Travel & Tourism at 12.5 per cent. In 2003, Portugal's residents expect to spend €10.7 billion (US\$10.6 billion) on Personal Travel & Tourism and €2.6 billion (US\$2.6 billion) on Business Travel.

Unlike visitor exports, which depend on international markets for consumers, the business generated in these two categories depends on the economies of the Algarve and Portugal. As the Portuguese economy grows, Portuguese consumer and business travel follows suit. The same is true for the Algarve. Since 1988, Personal Travel & Tourism in Portugal has grown by 52.3, while growth has

totalled 24.4 per cent for the Algarve – clearly indicative of the region's struggle to keep up with the rest of the country's growth.

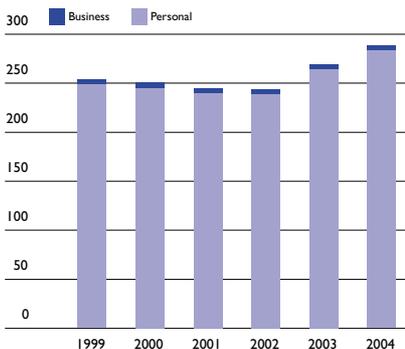
Over the next decade (2004–2013), Personal Travel & Tourism in the Algarve is expected to grow at an annual rate of 5.7 per cent, while Business/Government Travel is forecast to grow at a much lower annual rate of 2.6 per cent. In Portugal, expectations for Personal Travel & Tourism growth are actually weaker, at 3.0 per cent annual growth, but slightly better for Business/Government Travel, at 3.0 per cent annualized.

Analysis of the Algarve's results highlights a few interesting points. First, residents of the Algarve have recently spent about 14.3 per cent of their personal expenditures on Travel & Tourism. This percentage is greater than the European Union average of 12.0 per cent and generally higher than for other countries in

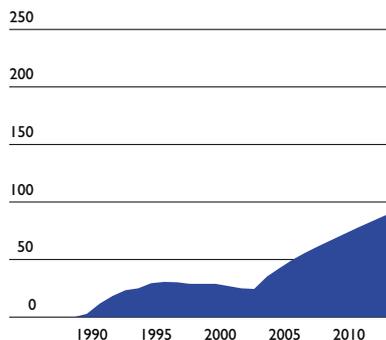
the region. Second, the Algarve's overall macroeconomic situation since the mid-1990s has manifested itself in decreasing resident spending on Travel & Tourism, as illustrated in the stacked bar and cumulative growth charts below. In contrast, Portugal has seen more positive and steady growth.

Nevertheless, the cumulative growth charts below illustrate the stronger future growth outlook for Travel & Tourism spending in the Algarve. If, as expected, the economy continues to show positive growth, spending by residents of the Algarve on personal and business Travel & Tourism is also likely to grow. Finally, the league table extracts reinforce this message of stronger positive spending for the Algarve vis-à-vis Portugal as a whole.

THE ALGARVE
Personal & Business Travel & Tourism
(1990 Constant US\$ mn)



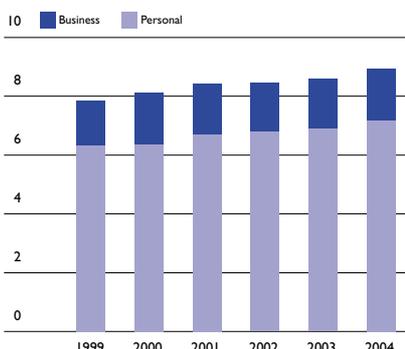
THE ALGARVE
Personal Travel & Tourism
(Cumulative Real Growth, %)



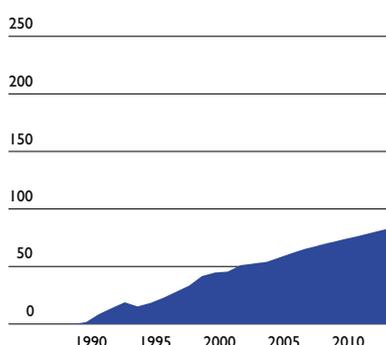
WTTC LEAGUE TABLE EXTRACT
Personal Travel & Tourism
(2003, % of Total Personal Consumption)

13	Spain	14.5
	Algarve	14.3
20	Portugal	12.5
22	France	12.4
32	Croatia	11.0
35	Italy	11.0
51	Malta	9.4
56	Cyprus	8.7
59	Greece	8.3
61	Turkey	7.8
90	Tunisia	5.8
97	Morocco	5.6

PORTUGAL
Personal & Business Travel & Tourism
(1990 Constant US\$ bn)



PORTUGAL
Personal Travel & Tourism
(Cumulative Real Growth, %)



WTTC LEAGUE TABLE EXTRACT
Personal Travel & Tourism
(10-Year Real Growth, Annualized, %)

2	Turkey	9.4
9	Tunisia	8.1
42	Croatia	6.6
	Algarve	5.7
72	Malta	5.7
83	Cyprus	5.4
96	Morocco	5.1
125	Spain	4.2
129	Greece	4.0
150	France	3.1
151	Italy	3.0
152	Portugal	3.0

EXPORTS

TRAVEL & TOURISM EXPORTS PLAY A FUNDAMENTAL ROLE IN THE ALGARVE'S TRAVEL & TOURISM BUSINESS.

In 2003, Travel & Tourism services and merchandise exports for the Algarve are expected to total €3.9 billion (US\$3.9 billion) – 86 per cent by foreign visitors, 12 per cent by domestic visitors from outside the Algarve, and 2 per cent by exported consumer and capital goods – representing more than 82 per cent of regional Travel & Tourism Demand. To be precise, foreign visitor spending in the Algarve accounts for 72 per cent of the Algarve's Travel & Tourism Economy and 57 per cent of total visitor exports for the country overall.

In contrast, Portugal as a whole expects to produce €5.9 billion (US\$5.9 billion) of Travel & Tourism Exports (services and merchandise) in 2003. This business represents only 21 per cent of total Travel & Tourism Demand in Portugal.

In short, Travel & Tourism Exports to

foreign visitors in the Algarve represents the fundamental component of the Algarve economy. For example, if foreign visitors represent 82 per cent of the Algarve's Travel & Tourism, and the Algarve's Travel & Tourism in turn represents 66.0 per cent of the regional economy, then foreign visitor spending is responsible for 54 per cent of the regional economy.

In the case of Portugal as a whole, foreign visitor spending is responsible for only 3.2 per cent of the national economy. In the Algarve, the health and vitality of the local Travel & Tourism sector and regional economy will follow the same trend as this category grows and contracts.

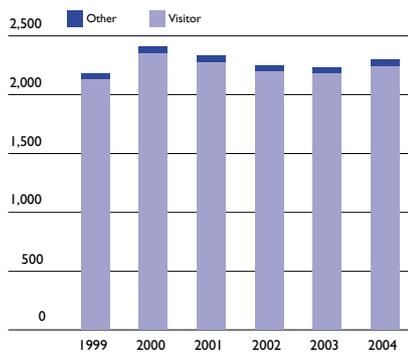
Over the past 14 years, the results for Travel & Tourism Visitor Exports have been inconsistent in Portugal with several gains and losses. In the Algarve, the trends show a surge

in the early 1990s, a decline in the mid-1990s and another surge in the late 1990s. Following a recent weakening of the economy, the future outlook is modestly positive, if not disappointing by world standards.

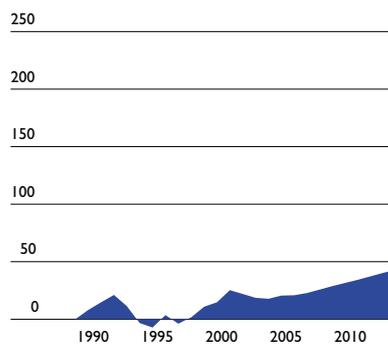
Over the next ten years, the Algarve's Visitor Exports are expected to grow by an unremarkable 2.4 per cent per annum, while Travel & Tourism Visitor Exports in Portugal overall are expected to be stronger at 6.8 per cent real growth per annum. These forecasts place the Algarve and Portugal at the bottom of the ranking and in 94th position, respectively, in WTTC's country ranking.

Clearly, based on these forecasts, the Algarve's Travel & Tourism Visitor Exports' growth should be a major concern for the future growth of the regional industry.

THE ALGARVE
Travel & Tourism Exports
(1990 Constant US\$ mn)



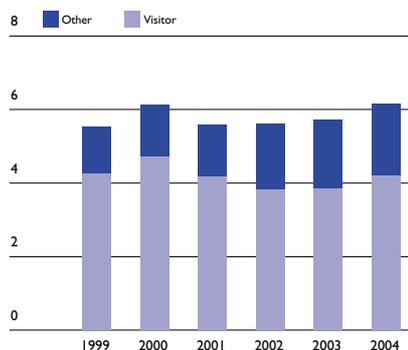
THE ALGARVE
Travel & Tourism Exports
(Cumulative Real Growth, %)



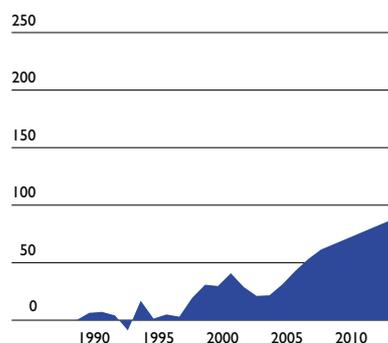
WTTC LEAGUE TABLE EXTRACT
Travel & Tourism Visitor Exports
(2003, % of Total Exports)

Algarve	73.3
7 Cyprus	50.2
13 Croatia	39.3
29 Greece	24.9
36 Malta	21.6
37 Morocco	21.5
39 Tunisia	21.0
48 Spain	15.3
62 Turkey	12.3
64 Portugal	11.9
87 France	7.8
95 Italy	7.0

PORTUGAL
Travel & Tourism Exports
(1990 Constant US\$ bn)



PORTUGAL
Travel & Tourism Exports
(Cumulative Real Growth, %)



WTTC LEAGUE TABLE EXTRACT
Travel & Tourism Exports
(10-Year Real Growth, Annualized, %)

21 Turkey	8.6
63 Croatia	7.3
83 France	6.9
94 Portugal	6.8
109 Tunisia	6.4
110 Spain	6.4
122 Greece	6.3
129 Italy	6.2
131 Morocco	6.1
137 Cyprus	6.0
139 Malta	5.9
Algarve	2.4

GOVERNMENT

IN 2003, NATIONAL AND LOCAL GOVERNMENT AGENCIES IN THE ALGARVE ARE EXPECTED TO SPEND €96.9 MILLION (US\$96.5 MILLION) OF CURRENT OPERATING FUNDS FOR TRAVEL & TOURISM.

This represents 8.6 per cent of total government expenditures, which are allocated to providing individual and collective government Travel & Tourism services to visitors, travel companies and the community at large. Over the next ten years (2004-2013), Travel & Tourism Government Expenditures in the Algarve are expected to increase by an average of 2.3 per cent per annum in real terms.

In Portugal as a whole, government agencies are expected to allocate and spend €1.6.2 billion (US\$1.6 billion), or 6.3 per cent of total government operating expenditures, for Travel & Tourism. This is expected to increase by 2.1 per cent per annum over the next decade – a modest rate of growth for Portugal and the Algarve as indicated by the league table below.

In the European Union overall,

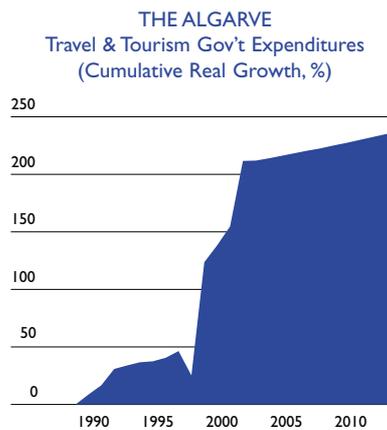
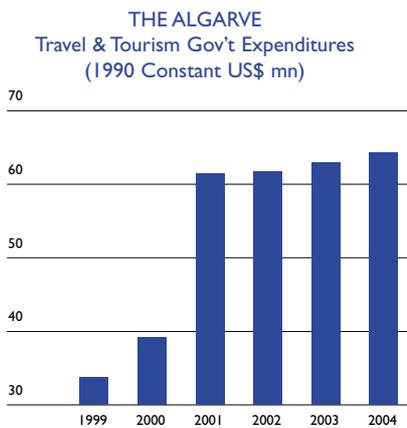
governments are generally expected to contribute an average 3.2 per cent of expenditures to Travel & Tourism-related functions, and to increase this spending by 1.9 per cent per annum over the next ten years.

Based on these results, the Algarve government's 2003 contribution of 8.6 per cent places it in the top-tier ranking of regional and global competitors (about 32nd among 161 countries) for Travel & Tourism support and services. Portugal's current ranking is slightly lower – 43rd position among 161 countries from around the world.

In this WTTC report, 2003 government expenditures include individual expenditures of €Y20.4 million (US\$20.3 million) that can be linked to individual visitors, such as museum subsidies or immigration services. But they also include collective expenditures of €76.5.0 million (US\$76.2 million) that are

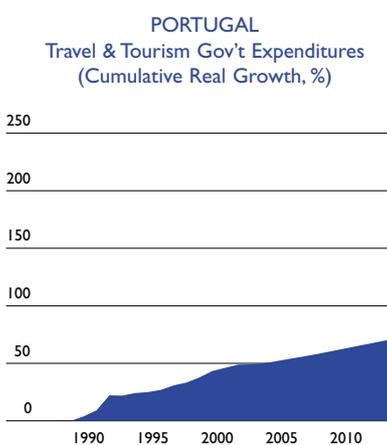
undertaken for the community at large – such as airport administration or tourism promotion – but which have a logical service connection to Travel & Tourism.

One would naturally assume that there should be a direct link between the impact of an industry/sector like Travel & Tourism on the economy (in terms of GDP) and the amount of funding allocated by governments towards that industry/sector. In the Algarve, the 2003 ratio of Travel & Tourism GDP (percentage of total GDP) to government expenditures is 5.2:1.0. EU-wide and in Portugal, this ratio is 1.3:1.0 and 0.9:1.0 respectively. This would suggest that the Algarve receives four to five times less in terms of the government's contribution for each dollar of GDP than is the case in the EU and in Portugal overall.



WTTC LEAGUE TABLE EXTRACT
Travel & Tourism Gov't Expenditures
(2003, % of Total Gov't Expenditures)

25	Malta	11.0
30	Cyprus	8.9
	Algarve	8.6
38	Tunisia	7.2
39	Spain	6.8
43	Portugal	6.3
62	Greece	4.4
76	Italy	3.7
83	Morocco	3.5
86	France	3.2
152	Croatia	1.1
159	Turkey	0.6



WTTC LEAGUE TABLE EXTRACT
Travel & Tourism Gov't Expenditures
(10-Year Real Growth, Annualized, %)

34	Croatia	4.5
77	Morocco	3.9
90	Tunisia	3.5
117	Cyprus	2.9
118	Malta	2.9
128	Italy	2.6
	Algarve	2.3
140	Portugal	2.1
142	Spain	2.0
157	France	1.2
160	Turkey	0.3
161	Greece	0.1

THE POLICY FRAMEWORK

POLICY RECOMMENDATIONS

The importance of Travel & Tourism to the Algarve is undisputed, whether in terms of its contribution to gross domestic product (GDP), employment or visitor exports. It is hardly surprising that Travel & Tourism pervades the daily lives of both the regional authorities and the local population, and that it is seen as crucial to the region's future economic growth and well-being.

Travel & Tourism directly contributes 45 per cent of GDP but, since it touches all sectors of the economy, its real impact is even greater, and WTTC/Oxford Economic Forecasting (OEF) estimates this at 66 per cent. Travel & Tourism Economy employment accounts for 60 per cent of total jobs in the region, and visitor exports generate 73 per cent of total exports.

Nevertheless, despite Travel & Tourism's importance in so many areas, neither the regional/national authorities nor local residents appear to appreciate the scope of the industry, or its role as a catalyst for the development of other economic activity, such as agriculture, manufacturing or financial services. Moreover, they seem to underestimate the full potential of Travel & Tourism – encompassing accommodation, transport, catering, recreation and travel services – and the fact that the industry can help reduce disparities between urban and rural areas.

This lack of appreciation of Travel & Tourism's potential means that government policies tend to be drawn up without sufficient attention to their impact on the industry. Government expenditures allocated to providing individual and collective government Travel & Tourism services to visitors, travel companies and the community at large are relatively low, and there are inadequate incentives to encourage capital investment by the private sector. Neglect of this kind endangers the long-term success of Travel & Tourism.

The latest forecasts from WTTC/OEF point to an average annual growth in the Algarve's Travel & Tourism Demand of only 2.9 per cent over the next ten years, and the growth in Travel & Tourism GDP will not be much higher at 3.3 per cent. Other measures of successful Travel & Tourism are also expected to show modest growth. Several challenges clearly lie ahead for the Algarve, and these must be addressed to ensure the long-term sustainable development of the region's Travel & Tourism, with maximum benefits for all stakeholders and at all levels of the economy. These challenges include the enhancement and diversification of products and quality services, as well as the development of much needed infrastructure and human capital.

This would seem to be an opportune time for the regional government and tourist authority to take stock of the reality of the

Algarve's Travel & Tourism, and adopt measures to ensure that the interests of the industry are factored into all strategic planning and decision-making. The time is particularly opportune because the revision of the existing regional land-use plan, PROTAL (Plano de Ordenamento Territorial do Algarve), which will define future land-use planning in the Algarve is currently underway. The right decisions regarding PROTAL are essential for the development of the kind of tourism that can help the region compete for tourism in the global, and even European, marketplace.

Against this background WTTC recommends that the Portuguese Government and regional authorities:

PLAN FOR THE FUTURE

Long-term tourism planning

The Algarve's future tourism development requires long-term planning, since the industry can be fragile and is often adversely affected by short-term political or commercial considerations. The elaboration of a new, clearly defined Regional Tourism Policy is a first important step.

In February 2002 the Região de Turismo do Algarve (the Algarve Regional Tourist Authority - RTA) – better known now as Turismo do Algarve – published its three-year action plan, the Plano de Acção Plurianual do Turismo do Algarve (PAPTA) 2002-2004. This was elaborated within the framework of the national Tourism Consolidation Plan (published in December 2001) and its associated Intervention Programme – the Programa de Intervenções para a Qualificação do Turismo (PIQTUR). However, industry response to the PAPTA suggests that it is not as comprehensive as it should be and that it badly needs updating, despite being only 14 months old.

One example of the problems being faced by the industry in the Algarve is the increased competition from lower-cost, largely east Mediterranean destinations, which encourages unhealthy and unsustainable rate cutting by the region's suppliers. Another difficulty with which the region's suppliers have had to contend – and with which

they continue to be challenged – is the huge buying power of the leading European tour operators. Again, it is important to stress that the desire for short-term gain through rate-cutting to guarantee business is not a sustainable policy for the long term.

The regional land-use plan for the Algarve (PROTAL), which was approved in 1991 and is now in revision (the revision is due to be completed by the end of 2003), is an important starting point for all long-term Travel & Tourism planning for the Algarve. The current PROTAL, for example, inhibits the construction of hotels and resorts outside city centres. This makes little sense given the importance of coastal and rural areas for tourist resorts, marinas, golf courses and other competitive facilities and attractions – not to mention the excessive construction that has already taken place in some urban areas causing massive seasonal invasions and major carrying capacity issues during the peak summer season.

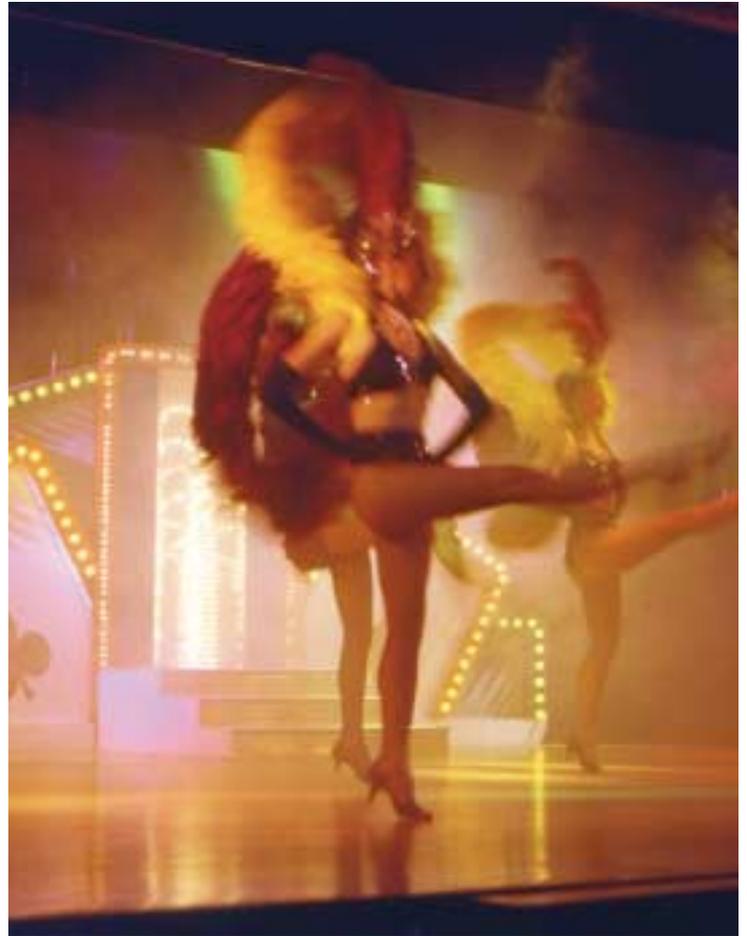
As Travel & Tourism impacts all sectors of the economy – from wholesale and retail business to real estate and construction – planning must involve all levels of regional and local government and the private sector, including local communities. This will help overcome possible conflicting interests, as well as encourage growth that is sustainable economically, environmentally and socially. It will also help spread the benefits equitably across the region to all stakeholders, thereby stimulating support and commitment from all sectors.

The tourism policy must start from a vision of what kind of Travel & Tourism government and the residents of the Algarve wish to develop – in physical and marketing terms. The policy must include certain basic elements:

- Clearly defined goals, objectives and benchmarks;
- Indications of best practice in tourism development;
- Measures to support existing industry, as well as for the promotion of new developments;
- An articulated strategy for product diversification;
- A long-term strategy for tourism marketing and promotion in line with the policy's long-term goals and objectives;
- Clear branding that reinforces the basic vision for the Algarve's Travel & Tourism development; and
- Measures to attract local and international investment.

Monitor trends in Travel & Tourism demand

In a world of rapid change, monitoring trends in Travel & Tourism demand and consumer behaviour is essential – both as a means of identifying threats to growth, but also to evaluate new opportunities that could benefit the sustainable development and health of the industry. One example of such threats is the new competition from emerging destinations in the eastern Mediterranean, which have lower cost structures than the Algarve and which are eager to cut rates to attract business away from established European sun and beach holiday destinations.



At the same time, it is important to take advantage of new opportunities presented by the changing market. September 11, 2001 and its aftermath, for example, have been a catalyst for more fundamental changes that have been slowly emerging since the mid-1990s – changes that include a redefinition of personal behaviour and lifestyles. Populations in many key Travel & Tourism source countries are also ageing rapidly, resulting in major socio-demographic changes.

Leading European tour operators and destinations themselves are finding that customers are less and less loyal – they are willing to switch destinations or suppliers to obtain better value for money. Quality is increasingly important, as are environmentally friendly and socially responsible tourism products/services. But customers are not necessarily prepared to pay the price for these. New consumers are also very concerned about safety and security. Although they are prepared to take some risks, this will remain a critical issue and they will look to the industry and governments for reassurance.

These changes and many others – either already apparent or likely to emerge – will dictate the kind of tourism that the Algarve will need to provide in the future if it is to remain competitive in the market. Monitoring trends will also help anticipate new technological solutions, or anticipate future capital investment and infrastructure needs. The appropriate introduction of incentive schemes for private sector capital investment will not only help to attract international hospitality brands, but will also go a long way to ensuring optimum management of the secondary/holiday home and longer-stay visitor market.

Encourage greater market and product diversification

The Algarve's tourism has primarily focused on sun, sea and sand over the past 30-40 years. While golf is an important niche sector and other kinds of tourism are slowly developing, the region's heavy dependence on the sun and beach market is unhealthy for the future growth of the industry. Most importantly, the Algarve faces increasing competition in this sector – not only from lower-cost emerging destinations such as Croatia and Bulgaria, but also from neighbouring Spain. This has already had, and could increasingly have, a negative impact on prices and, subsequently, on yield.

Northern Europeans, who are often subject to cold and miserable winter climates, would seem to be the markets with the best growth potential for short and longer-stay tourism. These are in fact markets that have already been identified by ICEP (Investimentos, Comércio e Turismo de Portugal) as key targets for Portugal's marketing and promotional campaigns in 2003. But France is another market with good growth potential, and Spain is a long way from reaching its ceiling.

There would also seem to be potential from markets further afield, which could generate longer stays than the current 6-7 nights and, as a result, higher yields. Canada, for example, has a favourable Portuguese immigration policy, and Portuguese residents in Canada could be an interesting source market to tap.

Domestic tourism

Domestic tourism is very important for the Algarve. In terms of numbers of tourists it accounted for a 31 per cent share of arrivals in the region in 2002, and the Portuguese generated 21 per cent of total overnight volume in registered/classified hotels and similar accommodation establishments. Domestic tourists are also frequent visitors to the Algarve, and a significant share of them have secondary/holiday homes in the region, or stay with friends and/or family who do. Since there is no meaningful data on this sector of the market, its size and importance have undoubtedly been seriously underrated until now.

Sports tourism

Next year's UEFA Euro 2004 football cup has stimulated the construction of important sports stadia across Portugal, and this is expected to give a big boost to the sports tourism market, which is still relatively undeveloped. The success of Vila Real de Santo António in the eastern Algarve, close to the Spanish border, is one that other cities are hoping to emulate. Its sports stadium and related infrastructure have generated increased demand for tourism in the low seasons, as well as helping to expand length of stay.

Sports facilities clearly require public-private sector cooperation and funding, and the Sports Association of the Algarve was set up to help ensure this partnership is achieved for the benefit of all stakeholders. The Algarve is already a popular destination for soccer teams and it has also hosted other events ranging from horse-riding and tennis to sailing and other internationally known sports. Some 34 different sporting events can be held in existing facilities in 64 locations across the region.

Golf and marine tourism are other examples of sectors with big growth potential – there are more than 20 golf courses in the Arade region alone. There is also a growing interest in extreme sports – for adventure travel enthusiasts – for which the Algarve's varied terrain would seem ideally suited.

Special interest tourism

The rich variety of natural resources in the Algarve, as well as the biodiversity of its flora and fauna, make it a paradise for nature-based tourism, and this sector of the market is already beginning to demonstrate its potential for growth and increased revenue generation. Bird-watching in the region of Tavira has helped to increase hotel occupancy rates during the low season, highlighting the fact that some niche sectors can help to reduce seasonality problems.

Rural tourism is still very much a niche sector, but there are those who believe it could be better organized, in terms of supply and attractions, to handle large numbers of tourists. However, this will require improved infrastructure and new accommodation facilities in order to meet the potential demand.

Other special interest markets that could be better exploited are health/wellness tourism, gastronomic and cultural tourism.



MICE and special events

The Algarve has suffered in the past from a lack of first-class facilities for the meetings, incentives, conferences and exhibitions (MICE) sector, in particular facilities large enough to handle major international conventions and trade shows. It has also lost out to Lisbon and leading Spanish cities, which are more easily accessible. However, access is now much improved thanks to the motorway linking Portugal's capital to the main east-west highway crossing the whole of the Algarve from Spain. Complementary facilities for pre- and post-convention packages are also seen as being better in the Algarve. Possibilities for golf, marine sports, spa tourism, etc are all attractive add-ons.

More importantly, the Arade region will have a new 1,300-seat capacity convention centre within a multi-purpose pavilion as from September 2004. This is the first new one to be built since the Vilamoura conference centre in November 1992. The €15 million cost of construction of the Arade Pavilion is being funded by public and private sector interests. The establishment of the Algarve Convention Bureau as a public-private sector body in 2002 is also an important step towards attracting more MICE business to the region. The bureau already has 52 members, including Turismo do Algarve, five municipal tourist authorities, hotels, attractions and supporting companies and organizations.

More effective marketing and promotion

Annual spending on marketing and promotion by the Região de Turismo do Algarve (RTA)/Turismo do Algarve does not appear to

have kept up with inflation over the past several years, with the result that there has been a decline in effective spending in most source markets. This does not augur well for tourism growth.

Advertising and media marketing are important to sustain demand in existing markets, as well as to generate demand from new markets and to promote new products. They will help reduce the concentration of demand in time and space and spread the benefits of tourism to all parts of the state.

The RTA has prime responsibility for marketing and promotion, as well as on the provision of tourist information, effectively controlling the budget. However, campaigns do involve central government/ICEP, municipal councils, other government agencies and – most recently – the private sector.

This partnership with the private sector was recently formalized through the formation of the Association of Tourism Advertising of the Algarve. This association brings together the different interests in different sectors of the market through their respective organizations and associations – such as the Algarve Convention, Sports and Golf Bureaux – as well as individual facilities and attractions. Joint marketing and promotional efforts will include participation at international events under one umbrella and proactive campaigns in specific markets.

Another important initiative is a joint effort between all relevant stakeholders and the Aeroportos de Portugal SA (ANA), which operates the international airport at Faro. ANA is also in charge of the management and operations of six other airports including Lisbon and Porto. As a result of their efforts to date, Air Berlin is due to introduce two new low-cost scheduled airline services to Faro.

HIGHLIGHT THE STRATEGIC IMPORTANCE OF TOURISM

Recognize Travel & Tourism's economic importance

Research undertaken by WTTC/OEF confirms that Travel & Tourism is a significant contributor to the Algarve's economy – even more significant than politicians and the local residents generally realize. With careful planning and nurturing, so as to ensure the sustainable tourism development of the region, Travel & Tourism could become an even more important contributor to the whole country's economy, both in terms of wealth generation and job creation.

However, this will depend on decisions and concrete actions taken in the immediate – or very short-term – future, and which will depend on the region's politicians and local communities recognizing that the current model for tourism development is definitely not sustainable. Turismo do Algarve needs to adopt a marketing, awareness-building and value-perception campaign to ensure that all public and private sector stakeholders are fully aware of Travel & Tourism's full impact across the region's economy – not just on hotels, restaurants and retail business, but also on construction, real estate and other sectors. Even more importantly, stakeholders should be made aware of the industry's untapped potential and of the benefits of tourism that filter down through all levels of the community.

Make Travel & Tourism a strategic priority

The strategic importance of Travel and Tourism should be communicated to all levels of government, industry and local communities. All government departments affected by, or impacting on, Travel & Tourism development should be closely monitored in drawing up regional tourism policies and in planning and coordinating individual programmes.

The 'Tourism & Leisure Cluster', as it is referred to by the Algarve's Hotel and Tourist Enterprises Association (AHETA), should be factored into mainstream policies for employment, trade, investment, education and environmental protection. This last area deserves a special mention as tourism brings the customer into intimate contact with the actual land and local communities where the services and products being purchased are produced. It means that tourism depends on the permanent use of local natural and cultural resources, and can only be sustained if these resources are carefully protected and maintained.

Implement satellite accounting on an annual basis

Commitment to the sustainable tourism development of the Algarve – whether economic, social, cultural or environmental – requires decisions and actions. Yet these need to be based on solid information and meaningful statistical data. For this to be possible, effective measurement must be ensured so as to understand the full impact of



Travel & Tourism throughout the economy. As a new industry, Travel & Tourism is not discretely identified in charts of national or provincial accounts – its component parts are scattered throughout the accounts. Public sector analysis and related policies tend to overlook, or at least understate, the impact of the industry, or deal only with its smaller individual components.

The technique of satellite accounting is a significant tool for planning, policy development and decision-making and this new tourism satellite account (TSA), developed by WTTC and OEF for the Algarve, involves training and technology transfer. This will allow the RTA and the University of the Algarve to update the TSA over the next four years and ensure that it can be built into the national TSA under development by the Ministry of Economy and the State Secretary for Tourism in Lisbon.

DEVELOP THE HUMAN CAPITAL REQUIRED FOR GROWTH

Place a high priority on education and training

One of the major challenges facing the Algarve with regard to Travel & Tourism is how to become more competitive in terms of the quality of its product and services. This implies a significant improvement in the quality of human resources which, in turn, requires increased focus on education and training.

The Travel & Tourism Industry directly generates around 37 per cent of total employment in the Algarve, or some 65,300 jobs; the Travel & Tourism Economy overall accounts for a 60 per cent share, or 105,400 jobs. Although these shares are very high and are expected to rise further by 2013, it is important to point out that the annual growth in job creation will average only a very modest 1 per cent. This is below the forecast annual rise in Travel & Tourism demand (3 per cent) and its contribution to the region's GDP (more than 3 per cent). The slower growth in Travel & Tourism employment can usually be explained by productivity gains needed for businesses to stay competitive.

The situation could be exacerbated by the low level of unemployment in the Algarve and by the preponderance of unskilled workers earning low wages – mainly immigrant workers from eastern Europe and Brazil. As a result, it is likely that the Travel & Tourism industry will have difficulty recruiting a sufficiently skilled workforce and this may put additional pressure on productivity and labour costs, leading to reduced margins.

It is important to plan ahead to attract sufficient numbers of employees with the appropriate credentials. On the one hand there is a need for higher academic skills and increased technological know-how, yet there is also a need for more broad-based training, which helps develop a variety of skills and customer service skills. While it is the public sector's responsibility, to ensure a well-trained labour force, and one that is adequate for the needs of the industry in terms of quantity and quality, the private sector should not neglect its social responsibility to provide on-the-job training for its staff.

These measures are also strongly recommended by AHETA. "As our



educational system, especially secondary and middle school, is not ready to prepare young people adequately for the market, we believe it is urgent that measures are taken to establish a closer relationship between companies and secondary and middle school establishments so as to make training meet the real needs of [the] local economy.?”

In line with the increased focus on education and training, there needs to be a change in labour laws in the Algarve and in Portugal overall. Current labour laws unfairly penalize employers, which tends to discourage recruitment. As an example, the cost of terminating contracts is unreasonably high. These laws need to be reviewed to ensure that the interests of both workers and employers are taken into account.

No industry in the Algarve has such a pervasive impact on the local community as Travel & Tourism. Yet this is not reflected in the widespread image of the industry in terms of employment.

Promote a positive image of the industry as a provider of careers as well as jobs

No industry in the Algarve has such a pervasive impact on the local community as Travel & Tourism. Yet this is not reflected in the widespread image of the industry in terms of employment. The region’s government should help to promote a positive image of Travel & Tourism as an employer to young graduates, and more flexible working practices should be considered to increase industry responsiveness, productivity and innovation. At the same time regulatory rigidities and protectionism should be avoided, as these would have the reverse effect.

Since seasonality and, as a result, temporary seasonal jobs, are a reality in the region’s Travel & Tourism, more efforts should be made to attract qualified personnel during the high season – such as by making adequate employee housing available at reasonable prices.

The local population should also be made aware of the fact that career opportunities in Travel & Tourism can be extremely varied – with upstream suppliers such as hotel designers or airport engineers, or with downstream service companies like retail shops, petrol stations, clothing manufacturers, arts and crafts and food suppliers. The former depend on travel company purchases, the latter are driven by visitor expenditures. There are also jobs in the public sector catering to visitors – such as border inspectors, air traffic controllers and tourist information booth staff.

Contrary to conventional wisdom, jobs created by Travel & Tourism – both directly in and outside the industry – range across the entire employment spectrum and, in many cases, have characteristics that fit model employment patterns:

- The increasing sophistication of the industry means that there are

a growing number of high-level jobs in different sectors;

- They can be created at low cost, with few barriers to entry, and faster than most industries;
- They are service and export related;
- They provide an impetus to regeneration and social cohesion by counter-balancing the flow of people to the cities from disadvantaged rural areas;
- They are often created in small and medium-sized enterprises, or family-run businesses, encouraging traditional crafts and cultural activities;
- They provide significant opportunities for women;
- They are ideal for young or first-time employees;
- They have good capacity for education, training and skills development; and
- There are widespread opportunities for long-term careers rather than mere jobs.

A region-wide educational campaign is recommended to enhance the image of Travel & Tourism and to inform the local people about the career opportunities available. The campaign should cover all sectors of the community.

ENCOURAGE OPEN MARKETS AND REMOVE BARRIERS TO GROWTH **Improve airline access**

The air transport industry today is going through a period of great turmoil and airlines the world over are struggling to cut costs and improve profitability in order to survive. Although Faro airport has been successful in its own right, the Algarve itself does not offer the two-way traffic demand potential for airlines to queue up to start air services to Faro. There is very little transit traffic and the growth potential for outbound flights from Faro is extremely limited.

Nevertheless, the statistics show clearly that the Algarve depends heavily on airline service for a significant share of its tourist arrivals, especially international arrivals, as well as to fill rooms in hotels and other forms of accommodation. There are signs that low-cost airlines are interested in the destination, and these may to some extent reduce the share of non-scheduled, or charter, airline services as consumers increasingly make their own reservations through the internet rather than buying ready-made package programmes from tour operators.

Although farther away from the major source markets than most favourite short-break destinations, Faro and the Algarve could also become more popular for weekend or short breaks – say for golf, health/wellness or other activities. This would also encourage more low-cost airlines to fly to the destination.

However, to attract these carriers, Faro’s airport authority ANA will need to restructure the airport’s cost base and increase expenditure on marketing, which poses a major challenge if they are to ensure profitability. But the Portuguese Government should also take into

account Faro's exclusive vocation for tourism rather than business travel, like Lisbon or Porto, and the airport should receive special allowances to support its operations, as is the case with airports such as Malaga, Las Palmas, Palma de Mallorca, Seville, Larnaca and Tunis.

None of this should slow plans for a new international airport in the Algarve, and the Portuguese Prime Minister's announcement that the Beja military airport north of the Algarve will shortly be opened to civil aviation is welcome news. Airline access is all the more important to the Algarve given the fact that rail access is extremely poor, currently representing a major barrier to growth from Spain and other parts of Portugal. However, as already indicated, road access has improved considerably in recent months.

Increase private sector participation in tourism development and promotion

While responsibility for Travel & Tourism at regional level should remain with the Região de Turismo do Algarve/Turismo do Algarve, its role should be expanded. In the future it should include policy development, as well as the coordination of regional and local government tourism efforts in the management of resources, business and community development and marketing and promotion.

The region's government should take note of the existing, highly successful examples of public-private sector partnership in tourism developed in several countries around the world – at regional and local, as well as national level – in particular in Canada and Australia. For the public-private sector partnership approach to be successful it is necessary to ensure the following:

- Top-level active political support and engagement;
- A declared strategy – with clear targets and a detailed game plan for implementation;
- The involvement of major stakeholders in the development process;
- Strong public and private sector cooperation with outreach to partners across the Travel & Tourism economy;
- Increased public sector funding and exceptional inducements to attract matching private sector funding;
- Private sector leadership in drawing up marketing strategies; and
- An integrated approach across government departments, and particularly in coordinating state and local efforts.
- The revision of licensing procedures and pro-active marketing of the Algarve to attract new and established investors.

The private sector of the Algarve's Travel & Tourism lacks strong industry-wide representation – for example, an organization set up along the same lines as WTTC, but at local or even national level. AHETA fulfils this role to some degree, but it is not representative of the industry as a whole. In Portugal this is supposed to be the responsibility of the Portuguese Tourism Confederation (CTP) which, in theory, groups together all private sector industry associations. But in practice, it is not as effective as the industry would like it to be.

Perhaps there is room for a stronger regional body, linked to the CTP, that could look after the interests of the Algarve's Travel & Tourism industry – especially the many small and medium-sized enterprises – in negotiations with government at every level.

Enhance safety and security

Although public safety and security are not currently issues of particular concern in the Algarve, experience in other regions and countries has shown that they could become concerns in the future. As a precaution and a deterrent, therefore, safety and security provisions should be built into regional and local strategies and special emphasis should be placed on Travel & Tourism in overall policing strategies. Special attention should also be paid to security measures at Faro airport.

Local restaurants also need to be monitored closely so as to improve the quality of food preparation and measures taken to ensure food safety.

While Travel & Tourism should pay its fair share of taxes, the growth and prosperity of the industry – including the investment necessary to generate these future revenue flows – will depend in no small part on the competitiveness of the region's Travel & Tourism.

Tax intelligently

Care should be taken to ensure that any new taxes planned that will affect the Algarve's Travel & Tourism, directly or indirectly, are not excessive, as this could have a negative impact on demand. While Travel & Tourism should pay its fair share of taxes, the growth and prosperity of the industry – including the investment necessary to generate these future revenue flows – will depend in no small part on the competitiveness of the region's Travel & Tourism. This also depends on whether it receives equitable treatment relative to other industries and to competing destinations.

There is an increasing tendency worldwide for governments to target Travel & Tourism as a revenue generator to meet short-term budget objectives, with little thought to the longer-term consequences on demand and job creation. WTTC urges both the Portuguese Government and the Algarve's regional authorities to ensure fiscal regimes that encourage tourism growth, exports, investment, infrastructure, business innovation and job creation. The 'user pays – user benefits' principle should be given priority, with funding collected earmarked for Travel & Tourism infrastructure and promotion. New fiscal programmes, such as tax credit schemes, also need to be developed to encourage tourism growth, exports, investment, infrastructure, business innovation and job creation.



MATCH PUBLIC AND PRIVATE INFRASTRUCTURE WITH CUSTOMER DEMAND

Expand and improve infrastructure

Infrastructure remains a critical component in Travel & Tourism development if the full potential of employment generation, export earnings and regional development effects are to be achieved. In most cases public infrastructure that supports Travel & Tourism expansion will also serve other urban and regional development purposes.

Quality infrastructure is also essential to diversify the product base, remove bottlenecks, ensure good service and distribute the benefits of tourism flows around the economy. It is not only a question of coping with increasing numbers of visitors, but also of making sure that the patterns of flow do not affect the natural or built heritage, nor run counter to local interests.

WTTC recommends that an indepth investigation into infrastructure needs and resources in the Algarve be carried out, with particular importance attached to ensuring carefully planned growth. Air transport infrastructure is a priority area – as has already been discussed – but so is rail transport. Good rail connections should also be developed, particularly with Seville. The Algarve now boasts fairly good road access, although secondary roads through to the beaches, golf courses and main attractions still need improving.

Theme parks and new convention and meetings facilities are some of the capital-intensive projects identified as necessary for the future growth of tourism in the Algarve. Other aspects of infrastructure that are well below acceptable standards include the cleaning of beaches and streets, as well as public toilets near the beaches, excessive noise pollution in public areas, and poor health services available to visitors – especially during the high season. The local public transport network also leaves a lot to be desired. Given the increasing presence of senior tourists in the region – few of whom drive their own private or rental cars – priority should be given to improving public transport.

Improve land-use planning

It is generally agreed by private sector entrepreneurs and even public sector officials that the single most critical barrier to the growth of Travel and Tourism in the Algarve is the extreme difficulty faced when applying for permits and licences to open new tourism facilities. As a result, there has been a significant loss in terms of potential new investments, which would have generated thousands of jobs and millions of euro. Instead, the local hospitality industry has stagnated and suffers from a glut of ageing properties of a standard below that acceptable by many international tourists.

It has been almost a decade since the Algarve opened its last five-

star hotel, for example, and even permission to upgrade facilities takes forever to be granted. If legislation is not eased, more and more Portuguese developers will look to foreign destinations for the future growth of their operations and investments, and foreign investors will strike the Algarve off their expansion list.

As already discussed, December 2003 is the deadline for the revision of current land-use plan, PROTAL. Although responsibility for the technical evaluation and analysis has been contracted to technical experts, the final decision will certainly be a political one and, given traditional bureaucratic procedures involved in the approval of such plans, implementation will anyway take many months, if not longer. Lobbying on behalf of the industry is essential – for the benefit of all stakeholders, not just key players – and WTTC recommends that Turismo do Algarve and industry representatives unite their efforts as quickly as possible and speak with a common voice to promote their common goals.

If the Algarve is to ensure sustainable tourism development, it also needs to respond to the demands of the changing market and cater more to tourists looking for quality accommodation – or, more specifically – accommodation and services offering value for money at every level. New developments need to blend into the local environment and offer facilities that meet the need for a travel ‘experience’ rather than a pure beach holiday product. These types of developments should be favoured by the government when allocating construction permits.

Create incentives to stimulate and facilitate foreign investment

Capital investment in the Algarve’s Travel & Tourism accounts for 20 per cent of total capital investment in the region. While this is higher than for many tourism destinations, the share is in fact quite modest compared with Travel & Tourism’s contribution to GDP in the Algarve. Moreover, in the next ten years it is forecast to rise by only about 3 per cent a year. So there is no room for complacency.

Continued efforts need to be made, through the development of incentive schemes, to attract sustained capital investment in the region’s Travel & Tourism industry from domestic and foreign sources. This will require considerable efforts on the part of the public and private sectors to ensure that bureaucratic hurdles, which delay implementation of these schemes, are overcome as quickly as possible.

At the same time, it is important to guard against the dangers of excessive development that bears no relation to existing or projected demand. This can result in cut-throat competition, leading to declining operating performances and lower profits.

Thanks to its privileged climate and geographic location, Portugal offers huge unexplored potential for the secondary/holiday homes market. Spain and France each have more than one million foreign-owned properties. Yet in Portugal there are little more than 100,000.

The Algarve is a premier golf destination boasting resorts such as

Quinta do Lago, Vale do Lobo, Parque da Floresta, Pine Cliffs, Vilamoura and many others. Over the past ten years these have boosted the value of real estate in the region, increasing its attractiveness for potential foreign investors. Since the average investment on a second/holiday home is around €250,000, the sale of 10,000 properties to international investors would result in some €2.5 billion being pumped into the region’s economy. The real impact would be even greater since the sales would create jobs, generate taxes on a permanent basis, and ensure many years of visits to the Algarve by the investors/owners and their families and friends.

WTTC recommends that a study of the possibilities be carried out – preferably by the Gabinete de Incentivo ao Investimento Turístico no Algarve (GIITAL) and the University of the Algarve – focusing primarily on the impact the sector could have on the region’s and Portugal’s economy. In fact, the sector has such enormous potential that it should be incorporated into the recently created Portuguese Investment Agency (API), the responsibility of which is to attract investments in Travel & Tourism. In partnership with Turismo do Algarve, property could be marketed through the RTA’s website in a special, highly interactive section dedicated to the sale of tourist residences.



FAVOUR TECHNOLOGICAL ADVANCEMENT

E-marketing and distribution

In today's increasingly competitive global marketplace, there is a real need for a strong leadership branding that optimizes resources, focuses the myriad of interests – public and private sector, state and local – and gets the attention of travellers. This will require particular attention to a coordinated approach to internet marketing and distribution to optimize the Algarve's visibility.

Turismo do Algarve has already taken important steps in deciding to develop a comprehensive website – it plans to invest €2.6 million towards the implementation of a powerful, highly interactive website. However, this should be developed into a fully fledged regional tourism destination database, together with partners from the private sector, so as to improve distribution of the Algarve's tourism products and help small and medium-sized enterprises develop e-marketing skills.

Support for local companies should also be provided so that they can develop access to technology advances and compete more effectively with suppliers in competing destinations.

PROMOTE RESPONSIBILITY IN NATURAL, SOCIAL AND CULTURAL ENVIRONMENTS

Establish clear procedures and guidelines

Since the Rio Earth Summit in 1992, it has been widely recognized that sustainability has to be at the core of all policy-making and development planning. This holds especially true for Travel & Tourism. With huge increases in the number of people traveling for tourism purposes over the next decade, there are evident implications for consumption, waste and resource utilization.

It is imperative to ensure that the economic and social benefits that the industry brings, as well as the investment that underpins it, are sustainable in the longer term. Travel & Tourism depends heavily on conservation of the local environment and on the protection of local heritage and culture. The Algarve has a number of strengths that should help it become a universally acclaimed 'green' destination. It has managed to avoid some of the excessive exploitation of natural resources suffered by the coastal regions of its neighbour Spain. In addition, most of the local beaches in the Algarve have received the Blue Flag.

Turismo do Algarve is looking at adopting the principles of ecological preservation as outlined in Agenda 21, developed for the Travel & Tourism Industry after the 1992 Rio Earth Summit by WTTC, the World Tourism Organization and the Earth Council. This is commendable. WTTC also recommends that:

- Clear policies and guidelines are developed by the RTA for planned and sustainable tourism expansion;
- The socio-economic, cultural and environmental benefits of Travel

& Tourism are spread equitably across the population in all parts of the state; and

- The need for local community engagement and empowerment is recognized.

Sustainability will need a balance of private initiative, economic instrument and regulation. Global principles should be reflected in local action and market-based delivery mechanisms should be encouraged. Micro-loans for local community-based sustainable tourism enterprises should be provided as incentives, and pilot projects used to evaluate and demonstrate local sustainability.

Increase branding through international and/or national designations

The application to turn Sagres into a World Heritage site should receive full support from the local community in the Algarve, as well as from the central Portuguese Government. Identification of other sites – whether natural, cultural or historical – that could be considered for international or national designation should be pursued and once achieved, widely promoted and communicated. This could significantly help promote tourism to the region.

Finally, the Algarve regional authorities could also consider developing and promoting a regional heritage designation, with clearly defined criteria defined to support quality. Such a designation should result in increased funding from the Algarve authorities for the development and promotion of identified areas of particular heritage value.



SATELLITE ACCOUNT

	1998	1999	2000	2001	2002E	2003E	2013P
Algarve Travel & Tourism - € mn							
Personal Travel & Tourism	321.79	331.99	336.42	345.79	359.92	407.25	866.65
Business Travel & Tourism	6.80	5.52	7.62	7.33	7.25	7.59	12.00
Corporate	5.24	4.25	5.87	5.64	5.93	6.23	9.90
Government	1.56	1.27	1.76	1.69	1.32	1.36	2.10
Gov't Expenditures - Individual	7.26	9.13	10.66	18.70	19.60	20.39	31.35
Visitor Exports	3,046.90	3,154.10	3,669.00	3,714.90	3,788.13	3,837.99	5,955.62
Travel & Tourism Consumption	3,382.70	3,500.80	4,023.70	4,086.75	4,174.93	4,273.14	6,865.55
Gov't Expenditures - Collective	30.59	35.73	43.20	69.82	73.58	76.51	117.65
Capital Investment	145.15	209.81	223.36	234.56	237.71	251.74	412.83
Exports (Non-Visitor)	58.93	60.79	69.22	73.09	72.47	75.69	195.11
Travel & Tourism Demand	3,617.40	3,807.10	4,359.28	4,464.23	4,558.69	4,677.08	7,591.14
Travel & Tourism Industry Aggregates (Direct Impact Only)							
Employment ('000)	60.96	63.11	69.48	65.77	67.09	65.29	71.48
Gross Domestic Product	1,715.20	1,721.70	1,978.70	2,005.98	2,170.78	2,210.84	3,686.88
Travel & Tourism Economy Aggregates (Direct and Indirect Impact)							
Employment ('000)	99.51	102.96	111.86	107.68	107.66	105.36	116.13
Gross Domestic Product	2,484.60	2,559.00	2,925.91	3,002.86	3,190.38	3,259.95	5,514.60

Note: Employment in '000 Jobs

T&T Accounts as % of National Accounts

Personal Travel & Tourism	14.41	14.14	13.87	13.47	13.20	14.31	19.91
Gov't Expenditures	5.25	5.52	5.80	8.54	8.58	8.62	8.82
Capital Investment	18.71	20.31	20.23	20.25	20.31	20.41	20.93
Exports	78.92	78.37	79.29	78.87	78.63	74.70	62.90
T&T Imports	27.65	28.37	31.17	31.31	27.02	26.12	22.16

Travel & Tourism Industry Aggregates (Direct Impact Only)

Employment	36.61	36.61	39.66	37.53	38.31	37.15	39.65
Gross Domestic Product	48.11	44.22	47.51	45.17	46.03	44.73	47.39

Travel & Tourism Economy Aggregates (Direct and Indirect Impact)

Employment	59.77	59.72	63.85	61.45	61.48	59.94	64.42
Gross Domestic Product	69.70	65.72	70.26	67.62	67.65	65.96	70.89

Travel & Tourism Real Growth (% per annum, except 2013 = 10-year annualized)

Personal Travel & Tourism	0.05	0.04	-1.79	-1.98	-0.64	10.82	5.70
Business Travel & Tourism	39.33	-21.22	33.73	-8.29	-5.64	2.60	2.60
Gov't Expenditures	98.10	14.94	16.34	56.76	0.48	1.85	2.32
Capital Investment	-21.53	40.15	3.18	0.14	-3.26	3.72	2.48
Visitor Exports	12.10	0.38	12.74	-3.44	-2.66	-0.77	2.42
Other Exports	5.72	0.02	10.37	0.70	-5.36	2.29	6.42
Travel & Tourism Consumption	11.00	0.35	11.39	-3.14	-2.48	0.25	2.77
Travel & Tourism Demand	9.48	2.05	10.98	-2.35	-2.52	0.49	2.88

TABLES

	1998	1999	2000	2001	2002E	2003E	2013P
Travel & Tourism Industry Aggregates (Direct Impact Only)							
Gross Domestic Product	9.95	-2.67	11.39	-3.32	3.30	-0.25	3.16
Employment	-0.79	-0.01	10.09	-5.34	2.01	-2.68	0.91

	1998	1999	2000	2001	2002E	2003E	2013P
Travel & Tourism Economy Aggregates (Direct and Indirect Impact)							
Gross Domestic Product	7.85	-0.14	10.82	-2.13	1.42	0.08	3.30
Employment	2.61	3.46	8.64	-3.74	-0.02	-2.14	0.98

Algarve Travel & Tourism - US\$ mn

Personal Travel & Tourism	360.63	354.17	310.85	309.74	338.81	405.74	909.98
Business Travel & Tourism	7.62	5.89	7.04	6.57	6.82	7.56	12.59
Corporate	5.88	4.54	5.42	5.05	5.58	6.21	10.39
Government	1.74	1.36	1.62	1.51	1.24	1.35	2.20
Gov't Expenditures - Individual	8.13	9.74	9.85	16.75	18.45	20.31	32.91
Visitor Exports	3,414.60	3,364.80	3,390.10	3,327.60	3,566.00	3,823.77	6,253.34
Travel & Tourism Consumption	3,791.00	3,734.60	3,717.90	3,660.65	3,930.09	4,257.39	7,208.83
Gov't Expenditures - Collective	34.29	38.12	39.91	62.55	69.26	76.23	123.53
Capital Investment	162.67	223.82	206.39	210.10	223.77	250.81	433.48
Exports (Non-Visitor)	66.04	64.85	63.96	65.47	68.22	75.41	204.87
Travel & Tourism Demand	4,054.00	4,061.40	4,028.17	3,998.77	4,291.34	4,659.84	7,970.70

	1998	1999	2000	2001	2002E	2003E	2013P
Travel & Tourism Industry Aggregates (Direct Impact Only)							
Employment ('000)	60.96	63.11	69.48	65.77	67.09	65.29	71.48
Gross Domestic Product	1,922.20	1,836.70	1,828.40	1,796.83	2,043.47	2,202.69	3,871.22

	1998	1999	2000	2001	2002E	2003E	2013P
Travel & Tourism Economy Aggregates (Direct and Indirect Impacts)							
Employment ('000)	99.51	102.96	111.86	107.68	107.66	105.36	116.13
Gross Domestic Product	2,784.50	2,729.90	2,703.67	2,689.77	3,003.28	3,247.94	5,790.33

Travel & Tourism - 1990 Constant US\$ mn

Personal Travel & Tourism	249.29	249.38	244.92	240.07	238.53	264.35	460.17
Business Travel & Tourism	5.27	4.15	5.55	5.09	4.80	4.93	6.37
Gov't Expenditures - Individual	5.62	6.86	7.76	12.98	12.99	13.23	16.64
Visitor Exports	2,360.40	2,369.30	2,671.10	2,579.20	2,510.56	2,491.22	3,162.24
Travel & Tourism Consumption	2,620.60	2,629.70	2,929.30	2,837.28	2,766.89	2,773.72	3,645.42
Gov't Expenditures - Collective	23.70	26.84	31.45	48.48	48.76	49.67	62.47
Capital Investment	112.45	157.60	162.62	162.84	157.54	163.40	219.20
Exports (Non-Visitor)	45.65	45.66	50.40	50.75	48.03	49.13	103.60
Travel & Tourism Demand	2,802.40	2,859.80	3,173.79	3,099.34	3,021.22	3,035.92	4,030.69

	1998	1999	2000	2001	2002E	2003E	2013P
GDP							
Travel & Tourism Industry	1,328.70	1,293.30	1,440.50	1,392.68	1,438.66	1,435.07	1,957.64
Travel & Tourism Economy	1,924.90	1,922.20	2,130.22	2,084.77	2,114.39	2,116.06	2,928.11



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