

TOURISM AND TOUR OPERATORS IN CANADA

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I. Introduction

Traveling for recreational or leisure purposes goes back to the Roman era where the rich sought the comfort of the beaches. The emergence of a middle class with increased leisure time and disposable income brought tourism within their reach leading to the growth and development of the tourist industry. Today it is big business and tourism has become one of the world's fastest growing industries. As stated by the Canadian Tourism Commission in its Annual Report "It is strategically important to Canada's future competitiveness that real growth originates from international tourism markets and subsequent foreign currency investments into our tourism products."

This paper begins by first reviewing the definition of tourism and providing a global view of tourism. In Part III, the tourist industry and its operators in Canada, its growth and its relationship to transportation are reviewed. Part IV touches on the effects of tourism and tourism modeling. Part V briefly examines regulations pertaining to tour operators at the provincial and federal level. In Parts VI and VII, tour operator practices in Canada, EU and UK will be examined. A few concluding remarks are then made.

II. Tourism in the World

1) Definition, Background and Growth of Tourism in the World

Tourism has existed long before attempts were made to define the term. One of the earliest definitions has been credited to Hermann Von Schullard who defined it in 1910 as a "sum total of operators, mainly of an economic nature, which directly relate to the entry stay and movement of foreigners inside and outside a certain country, city or a region." However, the most commonly adopted modern definition is that provided by the World Tourism Organization and the United Nations Statistical Commission which described it as "the activities of persons traveling to and staying in places outside their usual environment for not more than one consecutive year for leisure, business and other purposes." It is also a definition used by Statistics Canada.

** The views expressed here are those of the authors and are not purported to be those of the Commissioner or the Competition Bureau, Industry Canada.*

The pioneer of modern mass tourism has been credited to Thomas Cook who organized the first package tour in England on July 5, 1841 from Leicester to Loughborough, a eleven mile journey. With the development of the industry, specialized forms of tourism began to be developed and marketed called niche tourism ranging from adventure tourism to space tourism.

Global tourism has been on the steady rise, with the gradual increase in disposable income, achieving a 20-year high in 2005. In 2005, receipts from international tourism reached US \$682 billion, a 30.1% increase from 2003 with international arrivals reaching an all-time record. According to the Canadian Tourism Commission “This is a clear indication of the vitality of the tourism sector and of the opportunities it holds.” It also demonstrates “...the sector’s resilient ability to bounce back from the negative effects of terrorism, SARS and natural disasters.”

Besides this rise, international tourism statistics reveal two trends: a gradual erosion of the market shares of the traditional tourist destinations; and an emergence of Asiatic countries as tourist destinations. This is revealed in the statistics presented hereafter:

Table 1 - International Tourism Receipts and Market Share of Top Ten Tourist Destinations (1980-2005)

World	US.	Spain	France	Italy	J.K.	Germany	Austria	Mexico	Switzerland	Canada
1980 (US\$ billion)										
107.3	10.1	7	8.23	8.21	6.9	6.6	6.4	5.4	3.1	2.3
100%	9.4%	6.5%	7.7%	7.6%	6.4%	6.1%	6.0%	5.0%	2.9%	2.1%
2005 (US \$billion)										
								China	Turkey	Australia
682	81.7	47.9	42.3	35.4	30.4	29.2	15.5	29.3	18.2	14.9
100%	12%	7%	6.2%	5.2%	4.5%	4.3%	2.3%	4.3%	2.7%	2.2%

These trends were noted by the Commission which stated “The world’s top ten tourism destinations ... effectively experienced a drop in market share from 58.4 percent to 47.8 percent between 1980 and 2004. During that same period, emerging destinations improved their rankings significantly: China moved from 16th place to 4th; Hong Kong from 21st to 7th; Malaysia from 23rd to 13th; and Thailand from 24th to 16th.”

The global statistics also reveal that Canada’s position as a tourist destination has gradually been eroded, using total international arrivals, falling from a market share of 4.5% of the world market in 1980 to 2.5% in 2004. This trend is in accordance with the above observation.

In sum, tourism is no longer the preserve of the wealthy. It has been on a steady rise recently achieving a 20-year high. Two observable trends are: erosion of traditional markets and emergence of Asian destinations. Tourism has direct,

indirect and induced economic effects.

III. Tourism and Tour Operators in Canada

1) The Tourist Industry in Canada

Tourism is the 16th largest industrial sector in Canada, accounting for expenditures (domestic and non-residents) of \$62.7 billion[1] and providing employment for 625,800. There has been a steady increase of both indicators

Table 2 - Major indicators of Tourist Activities (Seasonally Adjusted)

Indicators	1986	1990	1995	2000	2005
Tourism Expenditures (\$m)	22,344	31,585	37,782	61,781	62,742
Total Employment (Tour Activities) ('000)	401.7	483	494.8	564.5	625.8

Source: *National Tourism Indicators, Historical Estimates 1987-1996*, Statistics Canada, Catalogue no. 13-220-XPB.

from \$22.3 billion and 401,700 in 1986 (Table 2). According to one source “Impressive as they may seem, these statistics don’t do justice to the scale of tourism’s importance to the economy, and certainly not to its spinoff effects. The total estimated economic activity generated by tourism in Canada in 2005 is of the order of \$223 billion, and it is expected to double, to over \$400 billion, by 2015.”[2]

The breakdown of tourism expenditures is shown in Table 3. Transportation, accommodation, food and beverages account for the bulk of tourist expenditures, accounting for 65% of the total of which transport accounts for 37%. The three also accounts for 63% of employment of which accommodation accounts for 30%.

Table 3 - Breakdown of Expenditures of Tourist in 2005

Transportation	Accommodation	Food & Beverages	Other Tourism	Total Other	Total
23,143	9,542	9,322	10,491	10,244	62,742
36.88%	15.21%	14.86%	16.72%	16.33%	100%

Compiled from *National Tourism Indicators, Historical Estimates, Quarterly Estimates, Catalogue no. 13-009-XPB*.

International traveller (inbound and outbound) statistics which include crew, seasonal workers and commuters are shown in Table 4. The statistics are revealing in that they show a steady decline in both. The inbound travellers peaked in 2000 and the outbound in 1990. In both cases, the majority were accounted for by travellers from or to the United States (87% and 86%) in 2005. Besides United States, the largest number of travellers were from UK, Japan,

Table 4 - International Travellers (Not Seasonally Adjusted)

Indicators ('000)	1986	1990	1995	2000	2005
International Total Inbound	40, 459	37, 990	41, 657	48, 638	36, 160
Canadian Outbound travel	40, 404	73, 585	55, 697	47, 182	44, 031

Source: National Tourism Indicators, Historical Estimates 1987-1996, Statistics Canada, Catalogue no. 13-220-XPB.

France, Germany, and Australia (2.5%, 1.2%, 1%, .9% and .6%, respectively).

2) Tour Operators in Canada

A tour operator is a company which specializes in the planning and operation of planned vacation packages. These packages are sold to the public in Canada through travel agents but with the growth of the Internet they can be purchased directly from the operator or other web portals. These tour and vacation packages may include air and/or land transportation, ground arrangements such as accommodations, meals, local tour guides and other related services.

There are many tour operators in Canada the largest are: 1. Transat A.T. Inc.; 2. Sunquest Vacations; 3. Signature Vacations; 4. Air Canada Vacations; 5. Sunwing Vacations; 6. Conquest Vacations; and 7. Sunflight Vacations. National Bank Financial Inc. estimates that Transat holds the lead among the top tour operators in Canada with a market share of 32.5%. Toronto-based Sunquest Vacations, owned by MyTravel, has a market share of 18%, Signature has 13.2%, Air Canada Vacations has 10.3% and Sunwing Travel Group, owned by Toronto's Hunter family, has 6.8%.

Transat A.T. Inc. is the largest travel wholesalers and charter airline in Canada. Its business consists of tour operators in North America and Europe and its position in the industry was confirmed when it acquired Thomas Cook Travel Limited's Canadian travel agency for \$7.4 million in May 2006. Transat has distribution network in Canada of about 430 outlets including: 102 Club Voyages agencies, 62 Voyages en Liberté agencies, 53 TravelPlus agencies, 22 tripcentral.ca agencies, the exit.ca online agency and the 190 Thomas Cook and Marlin Travel agencies.

Besides the regular tour operators, there are also speciality tour operators that specializes in specific destinations, regions, types of travel such as cycling tours, trains travel or adventure travel. The well known speciality tours are: British Airway Holidays, Contiki, Elder Treks, Goway Travel, Hola Sun, Jade Tours, Gap Adventures, Obsession Tours, Trek Holiday's, etc.

3) The Changing Tourist Industry in Canada

The travel agency/operator industry is undergoing dramatic changes brought about by fundamental developments in technology, behaviour patterns and the market. One economist defined the industry as being between a rock and a hard place. First, the intermediary role between travellers and suppliers is gradually being eroded (disintermediation). Second, new online travel agencies are emerging and gaining popularity. Third, the travel industry has been faced with a gradual elimination of airlines' base commissions. This has led to a reduction in the number of traditional brick-and-mortar travel agencies and agency locations and is forcing travel agents to change their role by operating a transaction-driven web site, a call centre and a well established centre. Further, since their value depends more on information that cannot be found or easily put together online, it is forcing them to provide services such as first hand experience, trust, re-intermediation (i.e., information for complex tourism, etc.), specialization in emerging niche markets, B2B services and B2C services.

Not surprisingly, new structural relationships are emerging. Many larger companies in the travel agency and tour operator business have vertically integrated (some owning their airline) - for example, Transat AT, First Choice and North American Leisure Group. Looser forms of agreements or alliances between them are also beginning to spring up. Airlines which were prohibited or discouraged from owning CRS are attempting to own on-line agencies besides their own tour agency (Air Canada Vacations or WestJet Vacations) so as to cut down costs in airline ticket distribution. Examples include Orbitz and Hotwire being owned and controlled by several airlines. CRS have acquired unregulated on-line agencies for example Sabre owning Travelocity.

These changes have been attributed to fundamental developments such as emergence of new technology (e-commerce and the Internet); changes in consumer purchasing habits and market evolution. One prominent person in the industry noted that the Internet, as a source of information, a marketing tool, a distribution channel, is changing many aspects of the tourism dynamics. The Internet by facilitating direct sales to consumers is turning the very structures of the industry on its head. There are few industries that have felt, and continue to feel, the impact of the Internet as significantly as that of travel.[3] This is beginning to be verified in the statistics. About 34% and 35% of travel agencies and tour operators use their web sites to sell travel goods and services; and 75% and 84% of them advertise travel products and services. It is estimated that tour operators earned about 14% of their revenue in 2003 through their web sites. Consumer habits are also changing and Statistics Canada reports that "The 'do-it-yourself' or independent traveller is becoming more prevalent in the Internet age. Consumers can take greater control over their travel plans if they are on-line. Not only is the Internet a useful tool of information gathering, it allows people to

compare prices and options to locate the best deals available. ... Demand for on-line travel arrangement services has been steadily growing in Canada.”[4] In other words, the market is evolving - there has been a metamorphosis of the industry’s customers, the traditional sources of tourists are slowing down, the origin of tourists is changing and the destination of tourist is changing together with demand for niche markets.

4) Tourism and Transportation in Canada

Tourism and transportation have always been closely connected, in fact the first organized mass tour referred to earlier involved the use of rail transportation. Today, however, the most popular form of transportation used by tourist is air transportation followed by private vehicle and then by bus transportation and rail. The significance of tourism and transportation is shown in tables 5 and 6 in terms of expenditure and employment. The two are interdependent, prices of transportation affect the volume of tourism and the prices of tourism affects the volume of transportation. International tourism is particularly sensitive to the price of air transportation. The two generate demand for other transport modes such as bus, cars, rail, etc.

Table 5 - Tourism Expenditures on Transportation - (Seasonally Adjusted)

Tourism Expenditures (m\$)	1986	1990	1995	2000	2005
Air transportation	4,969	7,247	8,280	12,863	12,143
Rail transportation	188	183	177	230	290
Bus transportation	385	485	515	603	922
Vehicle rental transportation	823	1,099	1,196	1,322	1,696
Other	2575	3,542	3,964	5,575	8,092
Total Transport Expenditures	8,938	12,557	14,132	20,594	23,143

Table 6 - Tourism Generated Employment in the Transportation - (Seas. Ad.)

Employment ('000)	1986	1990	1995	2000	2005
Air transportation	41.9	52.4	53.4	62.3	56.6
Rail transportation	3.8	3.1	2.5	2.3	2.8
Bus transportation	1.4	1.4	1.5	1.9	1.9
Vehicle rental transportation	6	6.5	7	7.4	9.6
Other	9.6	12.2	12.1	13.5	13.4
Total Employment (Tour Activities)	62.6	75.6	76.5	87.4	84.4

Source: *National Tourism Indicators, Historical Estimates 1987-1996*, Statistics Canada, Catalogue no. 13-220-XPB.

In sum, tourism is the 16th largest industrial sector in Canada. The four largest

tour operators in Canada account for 74% of the market. Tourism and transportation have always been closely connected and tourism is particularly sensitive to the price of air transportation. Vertical integration involving the latter is one of the ongoing structural changes due to dramatic changes affecting the industry.

IV. The Effect of Tourism

Tourism can have significant positive and negative effects. The World Travel and Tourism Council (WTTC) indicates that it generates around 200 million jobs world-wide and accounts for 10% of global GDP, with varying estimates for countries. The economic effects of tourism expenditure are generally considered under three headings: **direct**; **indirect** and **induced**. The first results from income and employment for household and businesses and revenue (taxes) for government. The second arises from the income or revenue that is re-spent to provide products and services purchased by tourist. The third is the result of additional consumption expenditure induced by the additional income received from tourism.

In other words, tourism expenditure has multiplier effects on income and employment. These multipliers are affected by leakages, eg. tourist expenditure on imports. Besides the three direct effects, there are other effects on: economic growth, balance of payments, regional development, sector dependence for foreign exchange, entrepreneurship and new small businesses.

Tourism also has its cost, at the most general level if the economy is operating at full employment it may 'crowd-out' the use of factors in other sectors. If the economy is not operating at full employment there are still costs such as: advertising and marketing destinations, operating national tourism organizations, developing and maintaining relevant infrastructure, and providing subsidies or other incentives.

Evaluating the economic impact of tourism can be quite complex.[5] The WTTC has done the most comprehensive work using simulated Tourism Satellite Accounts (TSA) for countries. A TSA uses input-output tables to estimate the impact of tourism expenditure. However, it does not address indirect and induced effects of tourism whose measurement is usually undertaken through general equilibrium techniques i.e. methods of tourism impact analysis which recognizes the impact of interdependence between different sectors of the economy. One of the most widely used general equilibrium techniques is input-output analysis

which builds on the input-output table, it provides linkages and relationships between different sectors together with the overall contribution of tourism expenditures. The input-output analysis approach does have its limitations as it does not allow for factor substitution and prices are taken as given. This has led to the development of Computable General Equilibrium modeling.

Computable General Equilibrium modeling is based around a mathematical specification of key relationships within the economy (what determines levels of supply, demand, etc.), and is calibrated to real data to ensure that the model provides a good representation of the economy. With a comprehensive model of the economy which incorporates businesses, governments and consumers, it is possible to analyze the economy-wide impacts of changes in tourism spending, changes in subsidies or taxation, and other policy and market changes.[E&C] This approach is more versatile than the earlier approaches in that it permits factor substitution and flexible price, enabling more accurate predictions of the impact of changes in tourism expenditure. In addition, it permits a study of the impact of various policy changes.

Besides the effect of tourism, a number of studies and articles have concentrated on forecasting tourism demand. This literature has used two techniques: qualitative - simple survey, Delphi models, and judgment-aided models; and quantitative - time series, gravity and trip generation models and multivariate regression models / multivariate Box-Jenkins method.

In general the quantitative studies reveal that the important variables that affect the demand for tourism are: *income, prices, exchange rate, foreign income, transportation costs, accommodation and meal costs and off-shocks (political crises), etc.*

V. Regulations Pertaining to Tour Operators

Tourism and tourist operators are affected by industry specific and general regulations. The industry falls under the jurisdiction of the provincial government, however, the federal government has jurisdiction over matters of general interest. The most important regulations are briefly reviewed.

a. Provincial: Three provinces - Ontario, Quebec and British Columbia - have specific regulation applicable to travel retailers and wholesalers. The need for regulation originated from the industry, at least in one of these provinces. In all the other provinces, this sector is governed by general or specific consumer protection legislation.

In Ontario, the Travel Industry Council of Ontario regulates the travel industry under the *Travel Industry Act* 2002 and the Ontario Regulation 26/05. In Quebec, the Office de la protection du consommateur regulates the industry under the *Travel Agents Act* and Regulations respecting travel agents. In British Columbia, the Business Practices and Consumer Protection Authority regulates the industry under the *Travel Agents Act 1976*, the *Business and Consumer Protection Act*, and the *Miscellaneous Statutes Amendment Act (no. 2), 2005*. The three areas of regulation that have evoked a great deal of interest are: licensing; consumer protection; and false advertising/pricing disclosure. Some of these matters were the subject of recent amendments (see table 7).

Table 7 - Regulatory Framework of Travel Agents by Provinces

Province	Regulated	License	Funds Protected	False Advertising/ Pricing Disclosure
British Columbia	Yes	Yes (s. 143 BPCPA) Regs (s. 5)	Yes Regs. (ss. 17-22)	Yes (s. 4-6 BPCPA)
Ontario	Yes	Yes (s. 4 TIA)	Yes (ss. 25 & 41 TIA) Regs. (ss. 50-54 and s. 57)	Yes (s. 28 TIA) Regs (ss. 32 & 33)
Québec	Yes	Yes (s. 4 TIA)	Yes Regs (ss. 18 & 21-23 & 28)	Yes Regs (ss. 14.116)

b. Federal: At the federal level, the industry is subject to the *Competition Act*, a law of general application. It applies to mergers, abuse of dominance, conspiracies, illegal trade practices (price discrimination and predation), deceptive marketing practices, restrictive trade practices, etc. Other laws that may be applicable are: the *Canada Transportation Act*, etc. especially those that operate air charters.

In sum, the travel industry falls under provincial jurisdictions. It is also subject to laws of general application such as the competition laws that apply to other industries. Recently, one of the major tour operators called for a more level playing field due to the proposed elimination of the GST/HST Visitors' Rebate Program which will effectively apply a new 6% tax on travel packages sold abroad by Canadian tour operators. In addition, they have called for changes that affect the travel industry in general such as reduction of airport rents, etc.

VI. Tour Operators in Canada and Unfair Practices

Tourism is affected by tour operator practices and the structural characteristics in the industry since they can affect demand (i.e., misleading advertising of a product can discourage travel by providing the product a bad reputation), prices and supply or quantity of tourist products that are made available to the general

public (which are affected by the structure of the industry). We shall therefore review some of these practices in Canada, UK and the EEC.

1) Review of Successful Cases in Canada

In Canada there have been more than 20 formal investigations specifically involving tour operators and travel agencies over the period 1976-2006. Nearly half resulted in successful prosecutions. These are shown in Table 8.

Table 8- Criminal Law Cases Involving Tours (1976-2006)

	Misleading Advertising
1. Atcan Travel Service Ltd (Ottawa, Ontario) / Tour Service	One charge was laid against Atcan Travel Service Ltd. at Moncton, N.B. under paragraph 36(1)(a) regarding false or misleading representation in a material respect regarding a tour. On May 16, 1978, the accused pleaded guilty and was fined \$500.
2. Skylark Holidays Limited (Stephenville, NB) / Travel Tours	One charge was laid on Nov. 6, 1979 against Skylark Holidays Limited at Stephenville, N.B. under paragraph 36(1)(a) regarding false or misleading representation in a material respect regarding travel tours. On April 17, 1981, the charge was dismissed. An appeal by the Crown was abandoned on April 12, 1985.
3. Henley Holidays Limited (St. Catharines, Ontario) / Air Transportation	One charge was laid on July 9, 1979 against Henley Holidays Limited at Stephenville, N.B. under paragraph 36(1)(a) regarding false or misleading representation in a material respect regarding air transportation. On July 14, 1980, the accused pleaded guilty and was fined \$200.
4. The T. Eaton Company Limited and Eaton Travel Limited / Vacations	One charge was laid on October 28, 1980, against The T. Eaton Company Limited and Eaton Travel Limited (Toronto, Ontario) regarding false or misleading representation on vacations under section 36(1)(a). On March 26, 1981, Eaton Travel Limited pleaded guilty and was convicted and fined \$5,000. The charge against The T. Eaton Company Limited was withdrawn.
5. Music Mann Tours Limited (London, Ont] / Bus Tours	One charge was laid on February 18, 1982 against Music Mann Tours Limited at London, Ontario, under paragraph 36(1)(a) pertaining to false or misleading representation in a material respect regarding bus tours. The accused pleaded not guilty but on April 12, 1983 was convicted and fined \$3,000.
6. Air Canada (Toronto, Ontario) / Travel Packages	Five charges were laid on May 10, 1982 against Air Canada under paragraph 36(1)(a) regarding misleading advertising about travel packages. The accused pleaded not guilty to four charges and guilty to one charge and was convicted on Nov. 16, 1982 on all charges and fined \$2,000 on each of four charges and \$4,500 on one charge for a total fine of \$12, 500.

7. Travelways Tours Limited/ Bus Tour	One charge was laid on June 7, 1983 against Travelways Tours Limited of Markham, Ontario under paragraph 36(1)(a) concerning false or misleading representation in a material respect regarding bus tours. The accused pleaded not guilty but on June 19, 1984 was convicted and fined \$3,500.
Conspiracy	
1. CP Air Holidays, Pacific Western Holidays Ltd. and Silver Wing Holidays Ltd./ Air Transportation	This inquiry commenced in August 1984 following the joint announcement that three major western Canadian inclusive tour operators had agreed to establish a uniform schedule of commission rates to be paid to retail travel agents for the sale of their products from Western Canada to continental United States destinations. An order by the RTPC required representatives from seven tour companies to appear in February 1985 for oral examination. Shortly before the hearings, a request was made on behalf of CP Air Holidays to adjourn the hearing pending the outcome of its application to the Supreme Court of British Columbia for a declaration that the oral examination procedure established in subsection 17(1) of that Act infringes section 7 of the Charter. A decision was rendered upholding the Directors' rights under section 17 of the Combines Investigation Act. CP Air Holidays filed a notice of appeal.
2. Bison Bus (1985) Ltd. and Sun Valley Tours Ltd. / Bus Transportation	On May 14, 1993, two counts of bid-rigging under subsection 47(2) of the Act were laid in Edmonton against Bison Bus (1985) Ltd. and Sun Valley Tours Ltd. relating to two charter bus contracts tendered by Supply and Services Canada. On July 20, 1993, Sun Valley Tours Ltd. pleaded guilty on both counts and the company was fined \$1,500 per count and was subject to an Order of Prohibition. On July 23, 1995, Bison Bus (1985) Ltd. was convicted on two counts of bid-rigging under subsection 47(2) of the Act. The charges relate to two tenders called by Supply and Services Canada for the provision of charter bus services to transport military personnel in Wainwright, Alberta. Bison Bus was fined \$2,500 for each count.
Abuse of Dominance	
1. Gray Line Bus / Bus Transportation	This inquiry commenced in March 1982 following receipt of a complaint from a small sight-seeing tour operator in Vancouver. The complainant alleged that Gray Line of Vancouver Inc., owned and operated by Pacific Northwest Bus Company Ltd., was engaged in activities in order to establish a monopoly in the sight-seeing tour market in readiness for Expo '86. On February 13, 1985, the evidence in the inquiry was referred to the Attorney General of Canada. An Information under subsection 30(2) was laid at Ottawa on July 16, 1985, against Pacific Northwest Bus Company Ltd. On July 16, 1985, the Order of Prohibition under subsection 30(2) was granted.

The above list indicates that the sections of the *Competition Act* that have most commonly been violated are: misleading advertising, sale above advertised price,

and misrepresentation to the public. It is worthwhile noting that these formal investigations are a fraction of the number of complaints as most of the complaints are closed after a preliminary investigation. Recently, amendments were made to the *Canada Transportation Act* to require airlines to provide up-front the true cost of the airfare, including the amount of fees, surcharges and taxes added to the original price of the ticket to reduce the number of problems arising from these sources.

2) Most Recent complaint

In August 2006, the Competition Bureau began an investigation against large tour operators in Toronto and Montreal concerning alleged unfair competition. The investigation was the result of a complaint by tour operator, Go Travel Direct, who accused the larger tour operators of putting pressure on hotels in southern hotspots not to do business with it. Go Travel Direct unlike the other tour operators sells packages directly to the public instead of through travel agents as its competitors, allowing it to save agent commissions and to undercut the prices of its competitors.[6] As of this date, the results of the investigation have not been made public.

VII. Tour Operators Practices in the UK and EEC

In the UK and the EEC, practices of tour operators and structure of the industry have led to investigations. These will be briefly described.

United Kingdom: In 1997, the UK Monopolies and Mergers Commission released a report on its investigation of the supply of travel agents' and tour operators' services in the UK in relation to foreign package holidays. The matter was referred to them by the Director General of Fair Trading due to concerns of vertically integrated groups and practices among travel agents of linking travel insurance with holiday discounts.

A foreign package holiday was defined as a package involving transport between UK and a foreign destination together with accommodation. The investigation revealed that there were 5 large tour operators and 4 large travel agents accounting for 57% of each of these markets. Further, the latter were subsidiaries of four of the former and each of the tour operators ran its own charter airline. The remaining market share was accounted for by about 1,000 tour operators and 2,000 travel agents. Concentration and profits were not considered excessive and competition in the trade was considered strong given the lack of barriers. Independent operators and agents contended that increasing vertical integration is bringing about various anti-competitive practices.

A number of practices were identified in the trade which distort competition: the tying of travel insurance to the purchase of discounted holidays; the so-called 'most favoured customer' clauses (i.e., requiring same discount on the tour package as that offered on other tour operators' holiday); and the lack of transparency of the vertical ownership links between operators and agents. The first practice enabled agents to inflate the advertised discount due to the large margins made on the sale of insurance, thereby misleading consumers and discouraging shopping. The second practice led to some agents not offering discounts which they would be prepared to offer resulting in higher prices. The third practice discouraged shopping. The result is less competitive pressure on agents and less value to consumers.

The Commission concluded that given the current levels of concentration, the anti-competitive effects of vertical integration are slight. Further grounds for condemning vertical integration were not found so as to call for structural remedies. Regarding the practices, the Commission recommended that the first two practices should be prohibited together with measures to reveal ownership ties.[7]

EEC: A couple of years after the Report of Monopolies and Merger Commission, a merger between First Choice and Airtours Group PLC was considered by the European Commission. The Commission after reviewing the matter squashed it in September 1999. The merging parties activities overlapped mainly in the supply of leisure travel services in the UK and Ireland. In considering this merger, the Commission reached the conclusion that the relevant product market was short-haul foreign package holidays as their prices are not constrained by domestic or long-haul package holidays since they are not effective substitutes. Further, UK and Ireland were considered as separate geographic markets due to problems of cross-border purchase.

The Commission found that the market shares of the merging parties would be 32% (First Choice 11% and Airtours 21%), and that of the remaining majors would be 27% for Thomson and 20% for Thomas Cook. As a result, the Herfindahl-Hirshman index would rise to 2150 from 1700 from the merger. Further, the removal of a significant competitor and the only one with growth potential, the vertical integration of the majors upstream (charter airline) and downstream (travel agency), the cost advantage of these integrated operators together with other advantages, and the large number of small niche suppliers would remove effective competition if any. Furthermore, the market

characteristics (low price sensitivity of demand, similar cost structures of the main suppliers, high market transparency, extensive commercial links between the major suppliers, substantial entry barriers and insignificant buyer power) make it conducive to oligopolistic dominance. As a result, increasing capacity is likely to be cautious.

On the basis of its competition analysis, the Commission came to the conclusion “that the substantial concentration in the [UK] market structure, the resulting increase in its already considerable transparency, and the weakened ability of the smaller tour operators, and of potential entrants to compete will make it rational for the three major players that would remain after the merger to avoid or reduce competition between them, in particular by constraining overall capacity.”[8] If capacity is constrained, prices and profits will be higher than otherwise. In light of the above, the Commission declared that the merger would be incompatible with the common market and the EEA Agreement.

VIII. Concluding Remarks

Global tourism has been on the steady rise, with the gradual increase in disposable income, achieving a 20-year high in 2004 with receipts of US \$623 billion with international arrivals reaching an all-time record of 760 million. As the industry matures, it is becoming more global in nature.

In Canada tourism is the 16th largest industrial sector, accounting for expenditures (domestic and non-residents) of \$62.7 billion and providing employment for 625,800. Of the four largest tour operators in Canada, Transat A.T. Inc. is the largest travel wholesalers and charter airline in Canada with tour operators in North America and Europe. Tourism and transportation have always been closely connected and tourism is particularly sensitive to the price of air transportation. The tourism industry falls under provincial jurisdiction, however it is also subject to federal laws of general application, eg. the *Competition Act*.

The travel agency/operator industry has been undergoing dramatic changes (disintermediation, online travel agencies, elimination of airlines’ base commissions, shift from brick and motor agencies), brought about by fundamental developments in technology (e-commerce and the Internet), behaviour patterns and the market (shifts from traditional sources of tourists and destinations).

Tourism can have significant positive and negative effects. The economic effects of tourism expenditure are generally considered under three headings: **direct**; **indirect** and **induced**. Tourism expenditure has multiplier effects on income and

employment together with other effects. It also has its cost. The WTTC has done the most comprehensive work using simulated Tourism Satellite Accounts for countries. Shortcomings in this approach have led to general equilibrium techniques (input-output analysis) and computable general equilibrium modeling (to allow for factor substitution). A number of studies have concentrated on forecasting demand using qualitative and quantitative methods.

Tourism is also affected by practices of tour operators and the structure of the tourist industry. Misleading advertising, sale above advertised price, and misrepresentation to the public affects the demand for tourism as tourists are discouraged from traveling again. The structure of industry through mergers also affects the supply of tourist products and the price. If capacity is restricted, prices will be higher and the demand for tourism will decline.

One of the major recent developments is mergers among the largest tour operators in Europe. Two important mergers occurred in 2007: 1. Thomas Cook, Europe's second-biggest travel firm, with sales of 12 billion euros, bought British rival MyTravel; and 2. Germany's TUI AG unveiled a tie-up of its tourism unit with Britain's First Choice on March 19, 2007 making it Europe's biggest travel firm. The TUI-First Choice merger will create a tourism group with revenues of about \$23.4b. Both mergers have received clearance from the competition authorities with the condition that TUI divests its Irish subsidiary Budget Travel.

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Endnotes

1. Tourism's share of gross domestic product in 2005 was 2.04% (at basic prices). National Tourism Indicator cycles are found to be highly correlated with the Canadian business cycle. Further cyclical swings in the overall tourism sector tend to be larger than the cyclical swings in Canadian GDP. See Wilton, D., Long term trends and cycles in Canadian tourism, *Research Report 2004-8*, August 2004, p. 2.
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3. See Eustache, Jean-Marc, International tourism: A vastly changing market, January 23, 2006.
4. V. Utovac and J. Stafford, Changing market trends: How technology and global conditions affect the Canadian travel industry, Statistics Canada, *Paper No. 049*, January 2006.
5. Ennew, C., Economic Impact of Tourism, Som Nath Chib Memorial Lecture, Feb. 14th 2003.
6. See Competition Bureau probes big-name tour operators, *The Globe and Mail*, August 25, 2006, p. B5 and Travel Groups probed for price fixing, *Financial Post*, August 25, 2006, p. FP16.
7. See Reference 2 in Bibliography.
8. See Reference 3 in Bibliography.