

ITB Convention Workshop: RUSSIAN OUTBOUND TRAVEL

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by The Travel Business Partnership



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ITB CONVENTION WORKSHOP: RUSSIAN OUTBOUND TRAVEL

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Website: www.itb-berlin.de
Email: itb@messe-berlin.de

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Acknowledgements

This report is based on presentations made at the ITB Convention Workshop on 'Russian Outbound Travel' by:

Antje Merschel, Senior Consultant, IPK International, Munich

IPK International is the founder and producer of the World Travel Monitor, the largest and most comprehensive continuous survey of outbound travel trends in the world, covering 54 source countries. It was founded in 1988. The Russian Travel Monitor has been conducted since 1995 and its results are based on 4,000 representative sample interviews a year.

Website: www.ipkinternational.com

John Koldowski, Director, PATA's Strategic Intelligence Centre (SIC), Bangkok

The Pacific Asia Travel Association (PATA) is the leading authority, advocate and catalyst for the responsible development of Asia Pacific's travel and tourism industry. Its uniquely structured organisation comprises some 100 government, state and city tourism bodies, more than 55 airlines and cruise lines, and hundreds of companies from all sectors of the travel industry. In addition, it has thousands of members through its global network of PATA chapters. PATA's SIC provides unrivalled insights and statistical data on trends in travel and tourism demand and supply in and to the region. Website: www.pata.org

Helene Lloyd, Managing Director, TMI Consultancy, Moscow

TMI Consultancy is a boutique marketing and public relations company providing a full spectrum of integrated services in Russia and the CIS. Headquartered in London, TMI has its main representative office in Moscow, which opened in 1999. TMI has an international team of professionals who combine industry experience with PR, marketing and consulting. Its clients include national tourism organisations, hotels, tour operators and other travel and tourism and related groups. Website: www.tmiconsultancy.com

Elena Vetrova, Publisher, TTG Russia, Moscow

TTG Russia is the leading travel trade publication in Russia, the Baltic States and other countries of the Commonwealth of Independent States. It has been published since 1993 and is distributed to a tightly controlled circulation including travel agents, tour operators, hotels, airlines and tourist offices. The group also organises workshops, seminars and conferences, including an annual Luxury Tourism event in Moscow. Website: www.ttg-russia.ru

Organiser of the workshop and moderator was **Nancy Cockerell**, Editor/Research Director of The Travel Business Partnership.

Additional material has come from research conducted by The Travel Business Partnership on behalf of different organisations, including PATA and the World Travel & Tourism Council. Other sources are cited where relevant.

Foreword

One of the world's fastest-growing outbound travel markets

In response to interest among ITB exhibitors and trade visitors, Russia was chosen as the subject of one of this year's ITB Convention Workshops on outbound travel markets, held in the context of Berlin's International Tourism Exchange.

Why Russia? In the last few years the increasing sight of intrepid Russian travellers around the globe has confirmed the growing importance of this emerging travel market. And prospects for future growth are enormous. Over the next 50 years Russia, like Brazil, India and China – dubbed the BRICS economies by Goldman Sachs, the authors of the October 2003 report *Dreaming with BRICS* – is expected to become a major force in the global economy, stimulating demand for travel.

Life is clearly still very difficult for the majority of the population, with a significant number of Russians still living below or close to the poverty line. Yet measures taken by President Putin over the last couple of years have contributed to improving the standard of living of the average Russian. While they still have a long way to go before catching up with West Europeans, average incomes have surged with the booming Russian economy and a fast-expanding middle class has emerged in the major cities, increasingly enthusiastic about foreign holidays.

ITB's role as a think tank for the global travel industry

This report summarises the presentations and ensuing discussions that took place during the Russian Outbound Travel Workshop, which is just one example of the extensive programme of seminars, conferences and workshops that ITB Berlin organises every year as part of the ITB Convention – in line with its role as a think tank for the global tourism industry. All sessions are bilingual (in German and English) and are open to ITB trade visitors and exhibitors at a modest cost, or free of charge. ITB welcomes suggestions as to possible subjects for future seminars and workshops at the annual ITB Convention.

Details of 2007's programme will be available on the designated ITB Convention website at www.itb-kongress.de. Further information can be obtained through Messe Berlin's press office: contact Astrid Ehling, ehring@messe-berlin.com.



Dr Martin Buck
Director
ITB Berlin



David Ruetz
Senior Manager
ITB Berlin

Overview of Russian Outbound Travel

Operating environment

A desire to travel the world

The collapse of the Soviet Union in 1991 released huge pent-up demand for travel to foreign countries. It was not that Russians had never travelled abroad. On the contrary, it was quite common practice under the Soviet regime for the average Russian to enjoy state-subsidised holidays in other Communist countries – whether on the Black Sea or, for the most privileged, in destinations such as India or Vietnam. But like their fellow East Europeans, Russians dreamed of visiting Paris or Rome, London or New York, as well as more exotic climes.

Although the growth patterns in Russian outbound travel were fairly erratic during the 1990s – particularly in the run-up to the country's financial crisis in 1998 – the last few years have seen a steady, strong increase in demand for foreign trips. In the last two years, Russia has been one of the fastest growth markets in Europe in terms of outbound trip volume and spending on travel abroad.

Rising incomes boost travel demand

Since the end of the 1990s, the political situation has more or less stabilised and GDP has shown renewed strong growth, boosted by rising oil prices. Although Russian consumers have a long way to go before catching up with West Europeans, their incomes have surged over the past few years with the booming Russian economy. Estimates suggest that disposable income, adjusted for inflation, has risen by about 9% for each of the past 3-4 years. And, according to the World Bank, the number of Russians living in poverty (on less than US\$1 a day) has fallen sharply – from over 30 million in 1999 to under 13 million in 2002. Estimates put the figure to around 10 million in 2005.

Economic growth and political stabilisation

Over the last few years, the political situation has also stabilised. The central government, personified in President Putin, has reasserted its authority over the national institutions and regional governments and over the powerful corporations and their tycoons. This stability is underpinning economic growth. In 2005, real GDP grew by 5.8%, surpassing average growth rates in all other G8 countries, and marking the sixth consecutive year of economic expansion. On the downside, there is plenty of evidence that President Putin is inclined to use this authority to re-centralise the economy to a degree, and to manage domestic and international commercial relations for political purposes.

Economic growth has of course very largely been fuelled by energy exports, particularly given the boom in Russian oil production and rising world oil prices over the last few years. Russia accounts for 5-6% of the world's oil reserves and one third of global natural gas reserves, and it is also one of the largest coal producers in the world. Although this type of growth makes the Russian economy dangerously dependent on oil and natural gas exports, the government's stabilisation fund – a rainy-day storage facility for windfall oil receipts that came into effect on 1 January 2004 – could help to offset the oil market's volatility.

Figure 1
Key economic indicators for Russia, 2000-06

	2000	2001	2002	2003	2004	2005 ^a	2006
Population (mn)	146.0	145.5	145.0	144.9	144.4	143.2	142.9 ^b
Exchange rate:							
Rb:US\$	28.1	29.2	31.3	30.7	28.8	28.3	27.1 ^c
Rb:€	25.9	26.1	29.5	34.6	33.7	35.1	33.9 ^c
GDP growth (%)	10.0	5.1	4.7	7.3	7.2	6.0	6.2 ^b
Consumer price inflation (%)	20.8	21.5	15.8	13.7	10.9	12.7	10.4 ^b
Unemployment (%)	10.5	9.0	8.0	8.5	8.2	7.6	na

^a Estimates ^b Forecasts ^c June 2006

Sources: International Monetary Fund; State Statistics Committee of Russia (Goskomstat); Central Bank of Russia (CBR); Economist Intelligence Unit

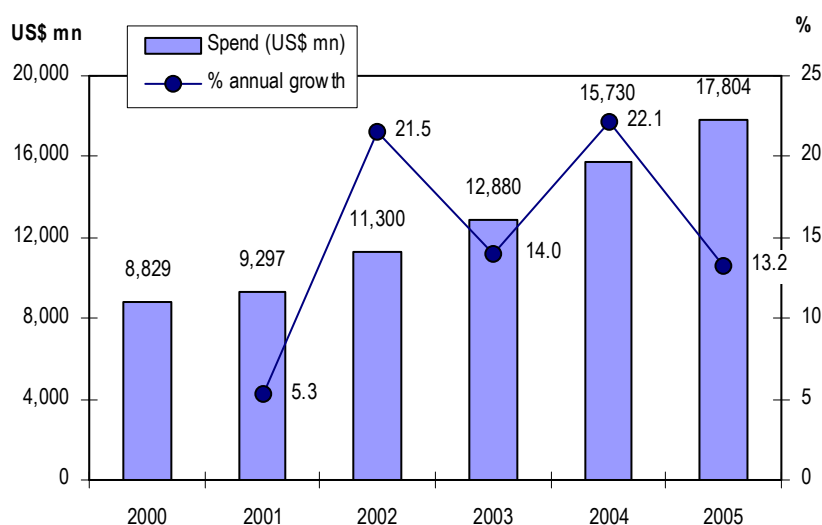
Expenditure

The world's ninth biggest spenders on travel abroad

Over the past five years, international tourism expenditure by Russians has increased by an average of 15% a year, reaching an estimated US\$17.8 billion in 2005. This compares with an estimated 9% average per annum rise in outbound trip volume to 28 million trips over the same period.

IPK International puts the total spending per trip by Russians at around €635, or €60 per night for an average 10-11-night trip.

Figure 2
Russian spending on travel abroad, 2000-05



Sources: Goskomstat; World Tourism Organization (UNWTO)

Russians are big spenders, especially on retail

The reputation of Russian tourists as big spenders is reflected in numerous surveys conducted over the past year or two. According to research led by MasterCard Europe, Russians spent €220 million using MasterCard and debit Maestro while travelling in Europe in 2004 – 39% more than in the previous year. As much as 97% of all spending during their trips using MasterCard was on retail goods. The most popular country for purchases was Italy, which attracted expenditure of €56.5 million.

The same trend has been identified by Visa International, although the country generating the highest Visa spend in 2004 by Russians in Europe was France, with Germany, Italy and the UK close behind.

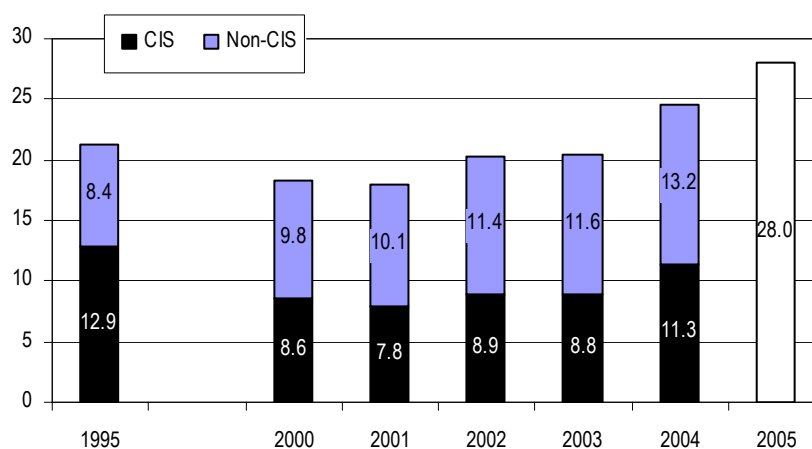
Meanwhile, Global Refund – one of the main players in tax refund services – says that, in terms of global sales on tax- and duty-free goods, Russia is number three after Japan and the USA, accounting for 10% of total spending. Italy accounted for 22% of this spending in 2005, followed by Germany (16%), France (14%) and Finland (12%). Russia is also one of the few markets to increase spending in recent years. The total increase year on year in 2005 was 22%, with average spend per transaction at €405 – ranging from a low of €134 in neighbouring Finland to about €1,000 in France.

Outbound trip volume

Official data from Russia is unreliable ...

Official data on Russian outbound travel needs to be interpreted with caution. However, for want of any more reliable statistics, it is still useful to refer to this data as an indicator of trends. As figures 3 and 4 show, outbound trip volume fell during the second half of the 1990s and reached a low of 17.9 million in 2001. Since then it has recorded consistent annual increases, reaching an estimated 28 million trips in 2005.

Figure 3
Russian outbound travel, 1995 and 2000-05
(mn trips)



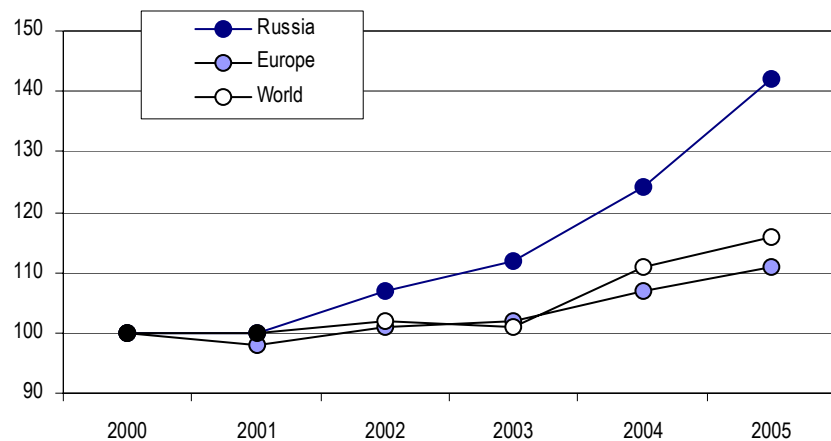
Source: The Travel Business Partnership, from Goskomstat data



... but IPK International data confirms the steady growth

Data from IPK International’s Russian Travel Monitor, which is part of the World Travel Monitor – and cannot strictly be compared with the official statistics – confirms the Russian market’s stronger than average growth trends. Since 2000, Russian outbound trip volume has risen by 42%, or an average 7.3% a year, as against 16% (3.0%) for world travel generally and 11% (2.1%) for European outbound travel.

Figure 4
Russian outbound travel growth compared with that for Europe and the world, 2000-05 (2000 = 100)



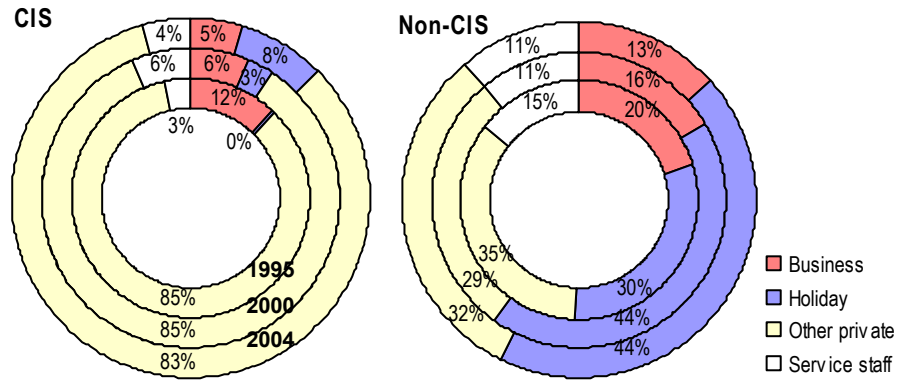
Source: IPK International’s Russian Travel Monitor

Holidays dominate in terms of purpose of trip

According to official data from the Russia State Statistics Committee (Goskomstat), the bulk of trips are for visits to friends and/or relations (VFR) and other private trips, including same-day trips. However, this is deceptive as Goskomstat counts same-day trips within the total, which distorts overall shares. Many so-called ‘other private’ trips are simply for cross-border shopping or shuttle trading.

If destinations within the Commonwealth of Independent States (CIS, or former Soviet Union) are excluded, holidays generated a 44% share of trips in 2004, while other private trips accounted for 32%, business travel for 13% and travel by service staff (ie not real tourists) for 11%.

Fig 5
Russian outbound travel to CIS and non-CIS destinations, 1995, 2000 and 2004
 (% shares)



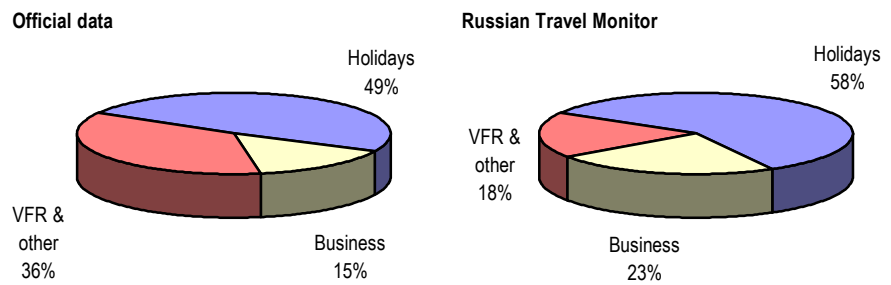
Notes

'CIS' = Members of the Commonwealth of Independent States, or the former Soviet Union
 'Other private' includes a large number of cross-border trips for shopping and shuttle trading
 'Service staff' includes drivers and crews of ships, aircraft and trains, but excludes armed forces

Source: Goskomstat

A more reliable breakdown is provided by IPK's Russian Travel Monitor, which looks only at overnight trips. The VFR/other share is a more believable 18%, while business trips account for 23% of total trip volume and holidays for 58%.

Figure 6
Purpose of Russian outbound trips

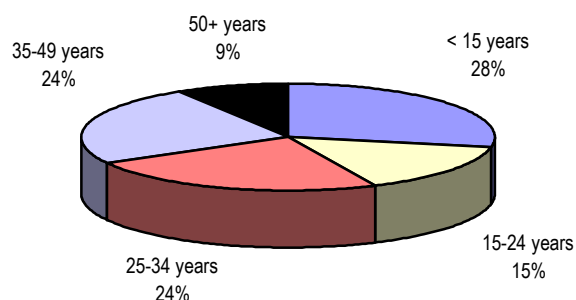


Sources: Official data from Goskomstat; Russian Travel Monitor data from IPK International

Travel demand drops off sharply after the age of 50

As might be expected, 25-49 year-olds are the most enthusiastic outbound travellers in Russia of all age segments, and travel demand drops off sharply after the age of 50 – especially with regard to leisure travel.

Figure 7
Russian outbound holiday travellers by age, 2004



Source: Goskomstat

Destinations

Mixed performances from one destination to another

Neighbouring countries, such as Finland, China, Poland and the Baltic States, attract a significant share of Russian outbound travellers, although – as is the case with those travelling to CIS destinations – many of their trips are for shuttle trading or simply shopping. In addition, in the case of the Baltic States – and possibly to a lesser extent with the other leading destinations – VFR trips are also fairly significant in terms of share.

IPK International's overall destination ranking shows that eight destinations – counting Southern CIS and the Baltic States as two individual destinations – generated nearly two thirds of all trips in 2005, with the top three pulling in 39%.

Figure 8
Top destinations for Russian outbound travel, 2005

Destination	% share of total trips
Ukraine	14
China	13
Turkey	12
Southern CIS	8
Baltic States	7
Germany	6
Poland	4
Finland	4
Other	32
Total	100

Source: Russian Travel Monitor, IPK International

For obvious reasons, it is not easy to compare Russian Travel Monitor trends with those from official sources. However, the official statistics are useful in that they do track longer-term trends, highlighting the fact, for example, that over the four years to 2004 there were very mixed performances from one destination to another. Poland, a traditional favourite for small traders, seriously lost share while, at the other end of the scale, Turkey and Egypt have gained sharply.

Among West European countries, Finland is the clear leader, with 2.1 million visits by Russians in 2004 – many of them same-day trips – ahead of Germany, with 837,000. In third place, a long way behind, is France with 286,000.

Figure 9
Top 15 non-CIS destinations for Russian outbound travel, 2000-04

Destination	Trips ('000)			% change 2004/03	% share of total trips 2004
	2002	2003	2004		
Finland	1,889	2,029	2,094	3.2	8.5
China	1,232	1,372	1,765	28.6	7.2
Turkey	913	1,312	1,756	33.8	7.2
Estonia	na	na	972	na	4.0
Germany	625	790	837	5.9	3.4
Lithuania	na	na	798	na	3.3
Egypt	279	418	662	58.4	2.7
Poland	897	666	559	-16.1	2.3
France	196	232	286	23.3	1.2
Italy	227	201	247	22.9	1.0
Spain	273	215	239	11.2	1.0
UAE	219	193	229	18.7	0.9
UK	139	170	210	23.5	0.9
Japan	188	177	175	-1.1	0.7
Czech Republic	94	89	159	78.7	0.6
Others	na	na	2,208	na	9.0
Total non-CIS	11,436	11,645	13,196	13.3	53.8

Note: Figures have been rounded which might cause some distortion

Source: Goskomstat

**Business travel share
higher than in more
mature markets**

As already indicated, business travel accounts for an estimated 23% of all trip volume, split 19% for regular business travel and 4% for meetings, incentives, conferences and exhibitions (MICE). Anecdotal evidence points to more than 50% of Russian corporate meetings being held abroad.

Not only is the overall business share higher than the official data would lead one to believe, but it is also a lot higher than the average for European outbound travellers. This is typical of less mature markets, in which leisure travel demand is still well below its potential.

Needless to say, leisure travel out of Russia is currently growing at a much faster rate than business travel as more and more Russians can afford to go abroad on holiday. But anecdotal evidence, if not statistical trends, suggest strongly that demand for business travel is picking up after several years of depressed demand.

IPK's Russian Travel Monitor suggests that China generates as many as 22% of all business trips out of the country, with Germany and Finland in second and third places in the ranking. The Baltic States and Ukraine are also important as neighbouring countries with which Russia carries on a lot of trade, but other destinations are developing as emerging partners, eg Turkey and South Korea.

Figure 10
Top business travel destinations for Russian outbound travel, 2005

Destination	% share of total trips
China	22
Germany	9
Finland	7
Baltic States	6
Ukraine	6
Turkey	5
Spain	4
South Korea	3
Other	38
Total	100

Source: Russian Travel Monitor, IPK International

Favourite holiday destinations are attracting growing incentive travel

One of the sectors offering the greatest growth opportunities is corporate sponsored leisure travel, or incentive travel. While most interest seems to be coming from foreign firms established in Russia, the trend is spreading to Russian businesses – and not just those operating out of the major centres of Moscow and St Petersburg. Yekaterinburg, for example, is an important centre of mineral wealth and there are other key centres of industry – from oil and gas to aluminium, etc – scattered across the country.

The attraction of incentive travel is that it is new and exciting for the beneficiaries. Foreign travel was beyond the budgets of much of the population for so many years, and everyone is now eager to visit as many destinations as possible. So travel is a very popular form of reward or motivation.

... especially those offering visa-free entry or visas on arrival

Interestingly, while the Russian Travel Monitor indicates that China, the Baltics, the western CIS, Germany and Finland were the top destinations for business travel in 2003, the pattern appears to be changing fast. The growth in demand for incentive travel last year, for example, was for the favourite holiday destinations – notably Turkey and Egypt – because of ease of access. Destinations which either do not require visas, or for which visas can be obtained on arrival, have the best chance of success in the short term.

Countries set to gain greater share of Russian MICE and, in particular, incentive travel include points in Asia such as Thailand. Thai Airways International's planned new route to Moscow from Bangkok should help stimulate demand. The Tourism Authority of Thailand says that it has already received expressions of interest from companies such as Panasonic and Pepsi-Cola in Russia.

Sun & beach holidays predominate

Figure 11 shows the top destinations for holiday travel out of Russia to non-CIS countries, according to official Goskomstat data. Even though the count for some destinations undoubtedly includes a significant share of non-holiday trips – as already indicated, there is a lot of VFR traffic to neighbouring countries, for example – the overall ranking is probably as close to reality as one can expect to get.

The trends of the past few years clearly highlight the importance of sun & beach holidays for the Russian travel market. And the destinations that have grown the fastest are those for which no visas are necessary, or which offer visas on arrival. Turkey, Egypt, Dubai, Tunisia and Thailand are good examples. A lot of trips are decided, and booked, at the last minute, so Russians obviously prefer to avoid the hassle of having to apply for a visa – just in case there are delays which put their departure at risk.

Figure 11
Top 15 non-CIS destinations for Russian outbound holiday travel, 2002-04

Destination	Trips ('000)			% change 2004/03	% share of total trips 2004
	2002	2003	2004		
Turkey	686	1,039	1,446	39.2	82
China	617	688	941	36.8	53
Egypt	240	368	586	59.2	89
Finland	406	327	377	15.3	18
Poland	635	422	322	-23.7	58
Germany	209	278	256	-7.9	31
Spain	229	168	191	13.7	80
UAE	170	146	175	19.9	76
Italy	148	119	156	31.1	63
France	87	112	138	23.2	48
Czech Republic	46	51	105	105.9	66
Cyprus	139	107	105	-1.9	79
Greece	90	91	100	9.9	68
Bulgaria	55	73	91	24.7	70
Others	1,264	1,591	1,480	-7.0	11
Total non-CIS	5,044	5,640	6,557	16.3	50

Note: Figures have been rounded which might cause some distortion

Source: Goskomstat

General trends for the leading destinations

Poland and Cyprus lost share in 2004 – due mainly to the two countries' entry into EU membership and consequent need to impose visa requirements on Russian visitors. Demand for Poland has also fallen as more and more 'newer' destinations become accessible to Russian holiday travellers. All other destinations in the top 20, with the exception of Germany and Switzerland, registered strong growth in 2004. And holiday travel overall increased by 16% in terms of trips.

The best performers over the first half of the 2000s have been Egypt, Turkey, Tunisia, Thailand and the United Arab Emirates (read Dubai), although all have suffered annual fluctuations to a greater or lesser degree as a result of the Iraq war (especially the UAE), the December 2004 tsunami (Thailand) and a temporary imposition of visas (Tunisia). China has also increased its share

significantly, although there are still questions as to the real content of holiday travel in the overall 'holiday/leisure' count.

Interestingly, some former East European countries, notably the Czech Republic, which were initially shunned by Russians after the collapse of the Soviet Union, have regained their Soviet era popularity as holiday destinations. And in Western Europe, both France and the UK have shown above average growth, albeit from lower bases. But Italy was the big European favourite last year, according to preliminary data.

Holiday travel is the main driver of growth ...

Even without accounting for the fact that many travellers apply for leisure tourist visas when they really want to visit a destination on business – or to combine business with pleasure – it is clear that holiday travel dominates demand for most of the leading destinations, and certainly the fastest growing ones.

... and visa-free access is a major draw

One of the keys to the phenomenal success of Turkey and Egypt is the very aggressive marketing by their respective national tourism organisations (NTOs) and the huge budgets allocated to marketing and promotions in Russia – around €7.5 million in the case of Turkey and €5 million for Egypt in 2004. But, in addition, the fact that both destinations are easily accessible is also important – charters are organised by several different tour operators – and the range of tour package prices is very wide, appealing to all budgets. Turkey starts at around €330-€420 for a week in a three-star hotel and packages for Egypt can be bought at little more than €835.

Europe attracts a range of market segments

Most travel to Western Europe from Russia is by scheduled carriers but there are numerous exceptions – Cyprus being the most obvious. Transaero also launched a regular twice-weekly charter to Spain in summer 2005, and there are regular charters to Greece, Italy, Croatia and all winter ski destinations. Around 3% of Russians spend New Year abroad and skiing is almost as popular as a winter sun & beach holiday. Austria, France, Italy and Switzerland (in order of importance) are the favourite ski destinations.

As reflected in the growth trends for 2004 and 2005, Italy is a hot favourite for Russians at the moment, thanks largely to increased marketing and promotions by its NTO, ENIT, and individual suppliers. There has also been a big increase in charter flights to Italy, which has opened up new destinations in the country, like Sardinia and Sicily. As with Greece, another steady European favourite, culture is rated highly by Russians, but it still takes a poor second place to sun & beach activities and relaxation. Nevertheless, with the strong euro, many West European destinations are seen as overly expensive – at least for the typical package tourist from Russia's emerging middle classes.

France and the UK are both popular, primarily for their capital cities, which offer shopping, entertainment and nightlife – frequent draws for younger Russians in particular. A UK inbound tour operator was recently asked by a Russian client to help him deal with 1,000 kg of excess baggage. London also has a rapidly growing Russian population, and an increasing number of Russians send their children to British public schools and universities. They are also big investors in real estate in the country, notably in London, as well as in UK businesses such as Chelsea Football Club.

France's appeal to Russians centres on Paris, where the families of many 'white Russians' have been established residents since the Russian Revolution, but the Côte d'Azur and the Alpine ski resorts are also favourite destinations where the Russians like to go to see and be seen.

Travel to Asia Pacific

Double-digit annual growth in arrivals since 2000

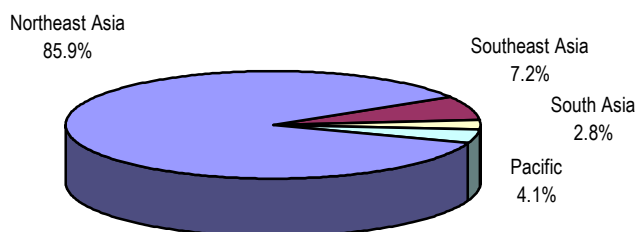
The Pacific Asia Travel Association (PATA), through its Strategic Intelligence Centre, published a major report on Russia's travel and tourism industry in 2005, entitled *Total Tourism: Russia*. Although much of the report focused on domestic and inbound travel in/to Russia, the background research looked closely at the development of outbound travel, highlighting the fact that, since the beginning of the decade, despite the impact of SARS, the Iraq war and the Indian Ocean seaquake and tsunami, the PATA region has attracted close to 12% annual growth in arrivals from Russia. Moreover, annual growth has accelerated over the past couple of years.

The sharp increase in demand for the Asia Pacific region out of Russia is attributable in large part to the huge expansion of direct airline capacity, both scheduled and charter, from Russia to different countries in the region. This has involved Russian and Asian carriers. Thailand is the destination to have benefited most, but Hong Kong, Singapore, Indonesia, Malaysia and the Maldives have also seen good growth.

Northeast Asia dominates arrivals in the region

Northeast Asia is the favourite region in terms of arrivals from Russia by an extremely wide margin, accounting for 86% of total estimated arrivals in the region in 2004. And in the four years from 2000-04, it recorded average annual growth from Russia of 12%. However, the strongest performance in terms of growth was achieved over the period by South Asia, up 29% a year in terms of arrivals, albeit from a low base.

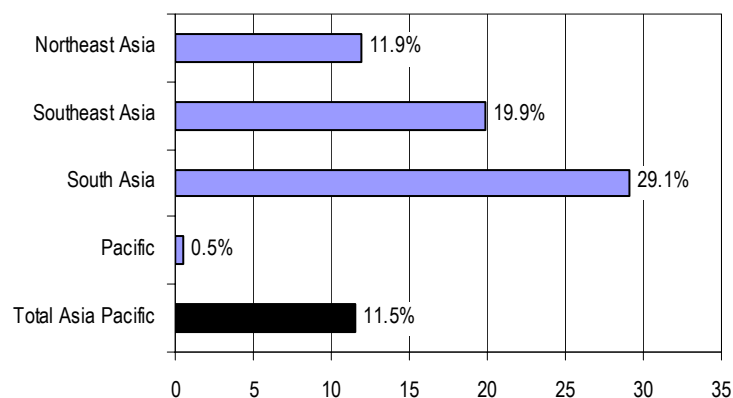
Figure 12
Russia's share of arrivals in Asia Pacific's different sub-regions, 2004



Source: Pacific Asia Travel Association (PATA)

By comparison, Southeast Asia achieved an annual average increase of 20% and was the second most important PATA region in 2004, with a share of just over 7%. The average annual growth has been much more modest for Australia/New Zealand and the Pacific (+0.5%), which is only just starting to feature in Russian tour operator programmes.

Figure 13
Annual growth in Russian arrivals in Asia Pacific's different sub-regions, 2000-04



Source: PATA

Forecast growth is even more impressive

According to PATA's recently published Forecasts for the period 2004-08, the annual growth in arrivals in some destinations in the region is also expected to rapidly outpace the annual growth seen in the first half of the 2000s.

Myanmar is projected to see the highest annual increases, of around 30%, followed by Thailand (+24%). But there will also be double-digit growth for Sri Lanka, Vietnam and China, with Japan and the Maldives coming very close.

Based on performance in the first few months of 2006 – admittedly, over the post-tsunami trough of 2005 – these forecasts could even prove overly modest.

Figure 14
Forecast annual growth of Russian arrivals in selected Asia Pacific destinations, 2004-08

Destination	Arrivals 2004	Forecast % annual change 2004-08
Myanmar	760	30.1
Thailand	118,966	24.4
Sri Lanka	5,000	13.7
Vietnam	12,249	13.3
China	1,792,193	12.2
Japan	56,554	9.7
Maldives	18,075	9.1

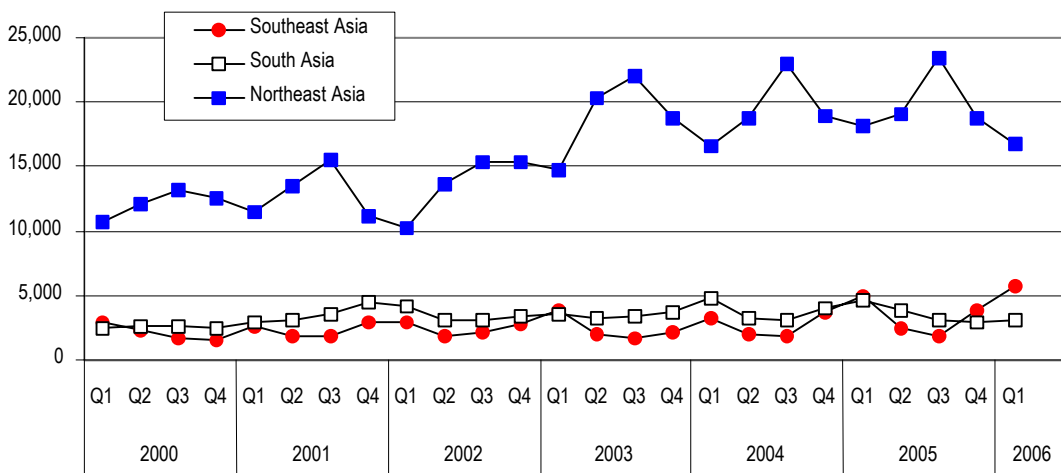
Source: PATA

Airline capacity increases also set to continue

The good news for Asia Pacific is that the recent increase in airline flight and seat capacity is also set to continue, not just from the main centres of Moscow, St Petersburg and Russia's Far East – a main source of visitors for the region – but also from other parts of the country, such as Siberia, the Caucasus, etc.

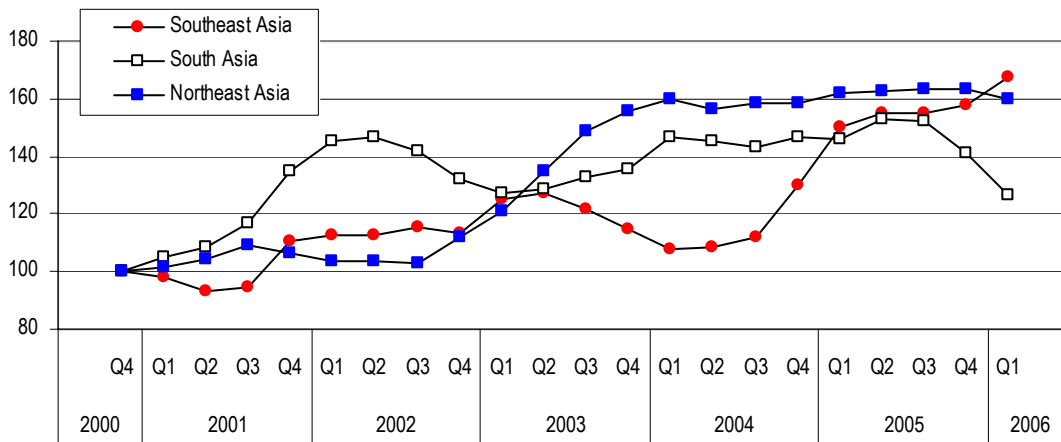
The Asian sub-region expected to see the biggest rise in capacity will be Southeast Asia – as in the 2000-05 period – with South Asia also recording significant growth, albeit from a lower base.

Figure 15
Number of airline seats weekly from Russia to Asia, Q1 2000 to Q1 2006



Source: PATA

Figure 16
Number of airline seats weekly from Russia to Asia, indexed from Q4 2000 to Q1 2006



Source: PATA

Profile of the Russian Traveller

Five different types of consumer

One mistake often made by foreign suppliers trying to sell to the Russian market – whether national tourism organisations, hotels, or other suppliers – is that they assume all Russian travellers are more or less the same in terms of their holiday aspirations and travel habits. It is simply the fact that some have more money and can afford to travel more frequently, they think. Well, this thinking could not be more misguided.

A study conducted by Moscow-based TMI Consultancy (Tourism, Marketing, Intelligence) for some of its foreign clients offers some very useful insights into the different categories of Russian consumers and travellers. The following is a brief overview of TMI's findings.

Figure 17
Who are the Russian consumers?

Approximate numbers (mn)	
Rapidly emerging middle class	8
Funky young professionals	1-2
Upper income	1.5
Golden youth	0.5-1.0
Filthy rich	0.1

Source: TMI Consultancy

The rapidly emerging middle classes

TMI estimates put the total number of consumers in this category at around 8 million, the vast majority of whom live in urban environments – in cities such as Yekaterinburg, Irkutsk and Kazan as well as in Moscow and St Petersburg. Average incomes start at around US\$800 a month but disposable income is high, especially for those living outside Moscow. In addition, many of them inherited property on the break-up of the Soviet Union, so they do not have to pay monthly rents.

In St Petersburg and secondary cities in the regions there is less ready-made entertainment, so people have less to spend their money on locally and opt to buy goods and travel. The average middle-class consumer thinks saving is important, but he/she will have at least one annual holiday and will also buy designer clothes once a year – often in their holiday destinations where branded goods are perceived to be cheaper. It is very important to look good, as the emerging middle classes believe this is a reflection of their success. And they are most likely to choose holiday destinations that do not require visas or that offer visas on arrival, because they like to decide at the last minute when and where to travel.

Funky young professionals

Aged between 20 and 30 years old, the funky young professionals – who number 1-2 million and generally live in Moscow and St Petersburg – are usually employed by multinationals or big Russian groups and their average salaries range from €1,000 to €3,000 per month. They are fairly cosmopolitan and Western-focused, are likely to speak good English, and have travelled widely.

Funky young professionals understand the value of money because they work hard for it. But they are still extremely brand conscious – much more so than their equivalents in other parts of Europe. And they are hedonistic. They will put off marrying until their late 20s so they can have a good time. But when they do settle down, they are likely to have one or two children.

This group is the most internet-savvy of all the consumer groups covered, and often book their trips online. But as they are nervous about putting their credit card details on the internet, they are more likely to use the internet to check out prices at the destinations they plan to visit.

The upper income group

According to TMI, this is the most attractive of all five consumer groups for destinations and other suppliers as they are the easiest to handle. They are rarely ambitious and aggressive because they have achieved what they wanted and have nothing to prove.

Comprising about 1.5 million people, they live mainly in Moscow and St Petersburg and work in sectors such as banking, financial services, oil and gas. Average incomes start at €3,500 a month.

Consumers from the upper income group travel frequently as couples or in small groups. They are slightly older than the young professionals and may well be married with children. But they tend to leave their children at home when they travel. Nevertheless, they are very family oriented, usually own their own homes, and may even have second/holiday homes in Russia or abroad. They are also into wellness, alternative medicine and drink green tea.

Although travel is extremely popular, they have a lot of other commitments when it comes to spending money – such as their ageing parents, private schooling for their children, regular sporting activities, furniture and furnishings for their homes, the latest gadgets, etc. So value for money is one of the most important criteria when choosing a destination.

The golden youth

Numbering between 500,000 and 1 million, these privileged young people are 18-25 years old, probably live in Moscow and have usually been educated abroad – most likely in the UK. They are very good at using their connections to secure employment and have substantial disposable incomes as a result, especially since they continue to depend at least partly on their parents for income support.

Life is a ball for Russia's golden youth, since they are the children of the rich and filthy rich and have no money problems. Their favourite food is sushi but they love all things Russian, especially if they were educated abroad. They travel frequently, popping over to London or Paris, say, to see their friends for the weekend, but are less likely to make long trips.

Russia's filthy rich

With an average age of between 32 and 45 years old, the 100,000 or so 'filthy rich' Russians do not earn salaries, but have investments of their own from which they live. The majority were simply lucky to be in the right place at the right time when the Soviet Union collapsed.

This group is more interested in power than money, but their lifestyles vary sharply. Some are very conspicuous in their consumption, running around in flashy cars, dripping with expensive jewellery. Others – usually the most successful – remain quietly in the background enjoying their villas in secluded places. They are likely to own their own planes and/or yachts and have several holiday properties abroad but, on day-to-day basis, they have no need to acquire goods.

Entering the Russian Market

The Russian travel trade

Turnover of the leading operators is now approaching €150 million a year

There are around 20 leading tour operators in the country, which employ 60-100 staff and recorded annual turnovers of between €37.5 million and €136 million in 2004. Media reports suggest that a significant number of these operators achieved double-digit growth in both client numbers and turnover in 2005.

With some notable exceptions – eg TUI Mostravel, which only started operations in 2005 – most have been in business since the beginning of the 1990s and have offices across several regions. They tend to offer a variety of destinations, dealing directly with suppliers in those countries, and often have their own airlines, or charter full planes themselves. They offer primarily group tours but also tailor packages for independent travellers (FITs), and they can also be airline ticket consolidators.

The ranking of the leaders tends to change from year to year – and will certainly have changed in 2005 with the rise of TUI Mostravel – but the biggest in terms of turnover and number of sales in 2004 were Tez Tour, Inna Tour, Pegas Touristik, Natalie Tours, VAO Intourist and Neva. Most have their own agency network – for some, this can include several thousand retail travel agents across the country – but also deal directly with consumers.

Marketing and promotions

Foreign representation in Russia

There are currently between 35 and 40 foreign tourist offices in Russia – including offices representing some regions or provinces. As an example, Valencia and Catalonia have offices in Moscow as well as Turespaña, Spain's national tourism organisation (NTO). Tuscany is also opening an office of its own following a 30% increase in Russian visitors in 2004 (many of whom were more interested in purchasing real estate than in simply having a holiday).

Around 18 European NTOs have full offices – ie they are not represented by marketing agencies – but not all have independent office premises. Some are housed with their respective embassies, and others with their national airlines. Finland and Germany also have offices in St Petersburg. Dubai, another competitor for Europe, has been established in Moscow for ten years and is extremely aggressive in its marketing and promotions.

Nevertheless, few NTOs' marketing and promotions budgets for the Russian market come anywhere near those of Turkey and Egypt, the Russians' holiday destination favourites. Turkey spent more than €7.5 million in 2004 on advertising and promotions, while the total annual budget for Russia of, say, VisitBritain was a modest €292,000.

Increased numbers of foreign hotel groups establish a presence

Setting up an office in Russia is nonetheless very expensive and fraught with bureaucracy, which is why many prefer to work through local marketing agencies. Hotels, like NTOs, are now actively promoting their products and services through workshops and seminars, as well as participation in trade fairs – not just in Moscow and St Petersburg, but also smaller regional fairs in Novosibirsk, Yekaterinburg, Irkutsk and other main cities not within the watershed of Moscow and St Petersburg.

The number of hotel groups setting up their own sales offices, or using hotel representation companies, has hugely increased over the last two years. Leading Hotels of the World was the first group to set up its office in Russia seven years ago. Le Méridien and Kempinski followed quickly with offices of their own, in addition to international hotel brands such as Starwood, Marriott, Radisson/Rezidor and Hyatt, which have had sales offices in the capital since the respective hotels opened.

More recently, smaller, more elite hotel groups, such as Rocco Forte (which owns and operates two hotels in St Petersburg), have opened one-man representative offices in Moscow. And 2004 saw the arrival of luxury groups such as One & Only, Mandarin Oriental and Oberoi Hotels & Resorts, which have all preferred to work through representation companies rather than incur the expense of opening their own offices.

Quick returns make the investment worthwhile

The latest arrivals, all intent on attracting the wealthy, high-spending, high-maintenance Russian leisure traveller, include the high-end, fashionable hotels that seem to be gaining in many destinations over the mass-branded business hotels.

So-called boutique hotels are doing particularly well. Morgans Hotels (previously Ian Schräger), for instance, started its sales activities in the Russian market only two years ago and now find that Russians are their fifth most important nationality in terms of bookings at their famous London properties, The Sanderson and St Martins. Nobody could have imaged that tastes would evolve so quickly since 2000. Designer Hotels organised its first workshop in Moscow in 2005 prior to the annual travel trade fair, MITT, where Lungarno Hotels from Florence also made its debut in the Russian market.

Experience shows that hotels that have invested in the Russian market tend to obtain good returns. As an example, the Baglioni Hotel group, which has in total of 14 hotels in Italy, France and the UK, recorded a 30% growth from the Russian market in 2004.

Future Prospects and Challenges

Travel propensity

Intrepid travellers ... Although estimates put the total share of Russians who have travelled abroad at only 10-15% of the 143 million population, Russians are becoming some of the most enthusiastic travellers in the world, and are rated by tourism destinations as having the same kind of growth potential as China or India. Current trends suggest that Russia will fulfil its promise in the short to medium term and more and more NTOs are entering the market to ensure their share of the expanding business.

Most importantly, it is no longer just the elite of Russian society who can afford to travel, although these 5 million or so elite travellers are clearly the most sought-after segment. But the middle Muscovite classes now go on holiday once a year – primarily in search of sun and beach – or even two or three times annually, while 5-10% of the population travel abroad every couple of months, including at Christmas and/or the New Year.

... benefiting from increasingly favourable exchange rates Demand has also been boosted by the strength of the rouble against the US dollar and euro, which has helped maintain the price of package tours for Russians, despite numerous fuel price surcharges as a result of oil price rises.

Holiday entitlement Working Russians are entitled to leave of 24 working days per year, although the first paid holiday can only be given after six months from the start of a job. Paid holidays in northern parts of the country are longer in order to compensate for living in the severe climate zone and school staff also take a long leave through July and August, as in Western countries, related to the summer school vacation.

The trend to shorter but more frequent trips is now becoming popular in Russia – at least, among the more affluent middle classes. In general, people prefer to take two shorter trips of around ten days each during the year instead of one longer holiday. Winter weather can be particularly harsh in Russia – even in Moscow and St Petersburg – so the desire to escape to the sun is all the more common. There are about ten days of public holidays a year, and when these fall on a weekend, people are entitled to take the following Monday off work.

Short breaks have been boosted by the expansion of low-cost/no-frills airline capacity to/from Russia. Germanwings and Germania Express have been operating services for around two years now, but 2006 has seen the arrival of new no-frills carriers, including MyAir operating from Moscow to Bologna.

A large number of other airlines have launched new airline services this year – both scheduled and charter – to holiday destinations on the Mediterranean, especially in Italy, Spain and Greece.

Increasing competition from long-haul destinations

But if short-haul destinations in Europe are still the favourites for Russians going on holiday, there is increasing competition from long-haul destinations, especially in Asia. Demand is strong for the USA but visas are not easy to obtain. Also, because of the uncertainty over visas and the possibility that travellers will have to cancel their bookings at the last minute if they are not successful in obtaining one, charter flights are not viable, and scheduled services are expensive.

Constraints to growth**Demographic influences do not look favourable**

As already indicated, the most travelled Russians are the younger generation. Although official statistics are not available for children under 15, they are estimated to account for some 28% of all holiday trips – international and domestic. The 15-24-year-olds generate a further 15% and their parents, with whom they generally travel, account for 48% (24% by the 25-34-year age group and 24% by Russians aged 35-49 years). Their holiday habits are comparable with those of their Western counterparts, demanding the same facilities and resorts.

Over the age of 49, holiday trip taking falls off sharply and pensioners hardly travel at all because most of them simply do not have necessary resources. The average pension merely allows people to survive, with no money left over for luxuries or leisure and tourism. Annual growth of around 3-4% in number of trips by the 65-plus age group is due to younger family members offering trips to their retired relatives as gifts, rather than the rising purchasing power of pensioners.

One concern for the future of Russian outbound travel is that Russia is facing a major demographic crisis. As in most of the developed world, birth rates have fallen off sharply and are now well below levels that can sustain the population. At the same time, Russian death rates have skyrocketed, particularly among working-age males, due to post-Soviet poverty. The country's population has fallen from 149 million a decade ago to 143 million today. Male life expectancy now stands at 59 years, with the average Russian woman living 72 years.

The impact of visa requirements on travel demand

One other negative influence, albeit not for all destinations, is the visa issue. Russian outbound travel trends over the past five years have been very clearly influenced by different countries' visa policies. Destinations that offer Russians visa-free access or visas on arrival have seen the strongest growth in outbound leisure travel demand by Russians. These include Turkey, Egypt, Dubai, Thailand, Tunisia and the Maldives.

Russians are notoriously late-bookers when it comes to outbound holiday travel and therefore prefer not to deal with the hassle of applying for a visa, since their application may not be successful if they apply at the last minute.

A few cases are worth noting. Tunisia temporarily introduced a visa requirement for Russians 2-3 years ago and suffered a big drop in demand as a result. But as soon as the decision was reversed some months later, demand picked up again.

Both Poland and Cyprus – important destinations for Russian outbound travellers – suffered a decline in arrivals from Russia after 1 May 2004, when they joined the European Union and had to introduce visas for Russians. Poland, which is more of a shopping/shuttle-trading destination for Russians, continued to suffer through 2005, but Cyprus introduced measures to speed up visa processing and, as a result, saw a return to growth from the market.

Recent measures re visa facilitation and/or abolition

A number of countries have followed Cyprus's example and introduced measures to ease and speed up visa processing. These include Norway and Estonia. Estonia introduced five-day visas for Russians in January 2006. These are issued within 24 hours with no need for invitation letters and other formalities.

Russian travel to Asia was boosted last year by the fact that Indonesia introduced visas on arrival for Russians from August 2005 and the Chinese and Thai governments both signed bilateral agreements with Russia to allow visa-free entry for their respective citizens to each other's countries. Japan and Russia signed a similar agreement easing visa regulations (eg abolishing the need for letters of invitation).

Russia and Switzerland were also due to sign an agreement this summer to relax their visa regulations. The agreement, announced in a Swiss newspaper in March, provides for measures to reduce red tape in issuing visas and to make them cheaper. The ultimate goal is reportedly to scrap visas altogether.

Schengen visas

In late 2005, under the UK presidency, the EU also signed a deal with Russia to ease visa regulations, particularly with new EU member countries, with most of which Russia used to have a visa-free regime. Part of the deal was for Russia to agree to take back Russians who migrated illegally to the EU.

There has been no real indication until now as to the practical implications of the EU-Russia agreement, although the EU claims it is now easier for Russian diplomats, students and business travellers to obtain visas for travel to EU member countries. (Many business travellers, of course, travel on leisure visas as they are cheaper and easier to obtain.)

Visa fees for Russians to Schengen countries are also a lot less expensive than for other countries' citizens as Russians have been exempted from a recent hike in the price of a Schengen visa from €35 to €60 for a single-entry visas for up to three months.

The UK visa situation

Although the UK is not among Russians' top destinations, it is becoming increasingly popular due, in no small part, to the ease of obtaining visas. A single- or multiple-entry visa for the UK, valid for up to six months, costs £30 (€43.50) but multiple-entry visas are increasingly being issued for a minimum of one year – and even up to five or ten years – at a cost of £80 (€116). One-year visas are almost automatically granted for Russians who have made previous visits to the UK.

The UK Government has consulates in Yekaterinburg and St Petersburg and visa applicants can, in theory, be required to go to Moscow to be interviewed by the British Embassy. But, in practice, this happens less and less frequently.

In fact, Russians who have already travelled to the UK are likely to be granted visas within a few days and, in line with the practice adopted by some other governments, such as the USA, the UK Government has recently introduced measures to facilitate visa application and issuance for Russians living in regions far from Moscow.

The British Embassy's Consul General has outsourced the function of gathering documents and applying for British visas to a courier company, India-based Visa Facilitation Services (VFS), which was due to start performing these functions from April or May 2006 in partnership with a Russian travel agency, Star Travel. VFS apparently carries out the same service for the UK in other countries. Not surprisingly, however, the move has, however, not been well received by other travel agents and tour operators, who believe this puts Star Travel into a privileged position. Official complaints have been made by the Russian Union of Travel Industry (RUTI) and a response is pending.