SPEECH BY MARTHINUS VAN SCHALKWYK, MINISTER OF TOURISM AT A HIGH-LEVEL STAKEHOLDER MEETING WITH CEO'S IN THE TOURISM INDUSTRY, SHERATON HOTEL, 25 AUGUST 2011

Face the reality, stay optimistic and keep our focus

I appreciate your presence here this morning, and look forward to a very candid and productive discussion. To me, it is always very important that we make time to meet face to face: government, industry as well as the broader tourism community. Your presence here this morning once again testifies to the strength of our common resolve to build this outstanding industry in this remarkable country.

Together, we have built an excellent Team South Africa. By taking hands over the last two decades, and in particular so in the run-up to and during the FIFA World Cup, we have crafted a vision, built a strong global brand presence, and constructed lasting infrastructure that only bodes well for our future growth.

But these are also demanding times. Many of our tourists travel here from international markets that experience unrelenting economic strain. I know that it shows in some of your bottom lines, and that some of you are gripped by a sense of anxiety when you look at industry-wide occupancy rates. And even though occupancy is a relative number, and should be read in the context of the industry's massive capacity expansion over the past few years, I can understand your sense of unease about investment decisions that had been made before you knew that the worst financial crisis since the 1930s was about to make itself felt.

And yet, we have defied the global trends. In 2010, the World Cup spared us the worst impacts of the post-recession hangover. And even if we discount those impacts, we have bucked all international trends with impressive growth in arrivals.

Nevertheless, we also understand that the economic recession has changed our market place in fundamental ways, and that the path to economic recovery will take us through an unfamiliar landscape, with a global shift in the geo-political and economic centre of gravity.

Above all, our consumers' mindsets are different to what they were in the 'good times'. Travellers have changed their travelling behaviour, they are travelling for shorter periods, and many are trading down. In our traditional markets, many consumers prefer to travel closer to home, and long-haul destinations have to work harder than ever to convince tourists that they offer value for money.

This is all part of a story that is unfolding globally. It is not unique to South Africa. Even though global tourist arrival growth saw a return to positive territory, with year-on-year growth of some 7% in 2010, the sources and nature of growth have shifted.

The global recovery in arrivals is a multi-speed recovery. The traditional markets in Europe and America have stagnated, and emerging markets are the new driving forces. In the first quarter of this year, South America and South Asia led the charge with double digit growth. That contrasts sharply with the approximately 3% growth in traditional markets over the same period. In 2010, emerging economies also led the rebound in international tourism spend: Compare, for example, the increase of 22% in outbound expenditure from China, to the modest 3% from the United States of America (USA), and 2% from Germany.

At the same time, the return of value lags behind the recovery of volume. In 2010, when we witnessed 7% growth in arrivals globally, we also saw tourism receipts increasing by only 5%. This confirms what we have been observing here at home: People simply are spending less, and are more price-conscious. This is true for many markets, but especially so for some of our bread-and-butter markets, such as the United Kingdom (UK) and Germany. Our competitor destinations are feeling the same heat and occupancy is under pressure in various destinations.

In January, both the United Nations World Tourism Organisation (UNWTO) and the International Air Transport Association (IATA) predicted slower albeit positive growth in 2011. IATA forecast headwinds in leisure travel to continue for up to another three years, especially from Europe and America, as well as a mid-cycle slowdown in passenger numbers in the latter part of 2011.

The uneven economic recovery, the stagnating growth in middle classes in the USA and Europe, and the new growth in emerging markets are well recorded. The big-picture trends are clear: We are dealing with a multi-speed recovery driven by the emerging markets.

Let me illustrate this with an example from the aviation industry: In the UK, they have been struggling for years to get approval to build one more runway at Heathrow, but, in China, over the last five years, they have built 45 new airports, with another 52 in the pipeline for the next decade. This is the story of our traditional markets reaching *maturity*, and new markets *emerging*. By 2014, Asia is expected to have an additional 360 million airline passengers, with 310 million from China alone. China’s outbound tourism is expected to double by 2021.

The fact that the growing middle-income countries will become important source markets in the future does not render our traditional markets insignificant, and income per capita in these markets will still overshadow that in the emerging markets for some time to come. Yet, we cannot ignore that the meaningful long-term growth potential lies in Asia, Latin America and Africa.

I am aware of the debate in some parts of the industry about where we should invest for future growth. I know there are competing views on how we should spread our resources between domestic and international tourism marketing; between our bread-and-butter markets, Africa and the emerging markets. But, for me, this is not an 'either/or', but a definite 'as well as'. It is about balance and hedging against change and uncertainty. We should aim for both: protecting existing market share as well as penetrating new markets where we see long-term growth potential.

Colleagues, by pointing out the global realities, my intention certainly is not to cause despondency. But it is vital for us to comprehend where we are and what still lies ahead. The World Cup acted as a temporary buffer, postponing the pain, as it were. Now, with the Eurozone under extreme pressure and the USA stagnating, the pain in our traditional markets could endure for quite some time, and we will have to fight harder than ever for every inch of the market out there.

Under these circumstances, we have two choices:

We can complain bitterly; point fingers; seek scapegoats; play the blame game; revert to short-termism; try to find quick fixes; let out the 'detail devil' to wreak havoc with our industry.

Or we can face the reality, stay optimistic and keep our focus on the bigger picture; not drown in doom and gloom; see this as a chance to build and develop our sector and make some positive changes; prepare for the long haul, and do so sustainably.

We can, and should, have forthright debates on pricing, our value-for-money proposition, brand alignment, coordination across government and industry, the mix of leisure, business and events tourists, and the different balances to be struck in our international portfolio. We also need to ask ourselves, from time-to-time, how we can improve the data that inform our decision making, though I must hasten to add that we work with only the best available statistics, which are aligned with international classifications, and that we have been applying consistently for many years. It is good that we continue to track global trends diligently and engage in a very constructive discourse. However, ultimately, we must stay the course and keep our eye on the ball.

We cannot allow, or afford, large numbers of rooms standing empty, which brings me to domestic tourism.

While we face some pressures in some global markets, let us apply our minds to creative and innovative ways to get South Africans to travel; expose them to our amazing offerings, and build a generation of tourists that will carry us into the next decade. This investment in a value-conscious domestic tourism market should not be about short-term cash flows, but about creating an upstream reservoir for future growth. It should be about building the next generation of tourists that will help ensure long-term financial sustainability for our sector.

From government's side, we are committed to building a culture of domestic tourism as a mainstay of sustainability. With domestic tourism contributing over 70% of our country's tourism volume, the domestic market has to be one of our key focus areas. But we cannot do it alone. Government and industry will have to work in tandem to market our offering creatively and price it competitively if we are to achieve our National Tourism Sector Strategy's target of 54 million annual domestic trips by 2020.

So, working in tandem, what should the respective roles of government and industry be? From the outset, I have promised a 'light touch' – not to over-regulate; not to abuse legislation pertaining to supply-side registration, and so on. This is a creative industry that needs more competition and less regulation. And we are living up to our promise.

From government's side, we have a very clear understanding of our responsibilities in terms of *promotion*, and I believe SA Tourism is doing a sterling job. They spend their money well. Through their excellent board, many of you, many of the best people in our industry, contribute their expertise for the common good. SA Tourism follows a rigorous process in identifying and prioritising our target markets, without fear or favour, and without any political intervention. I want to commend the management of SA Tourism, those of you in industry who serve on the current board, and those who will join the board once it is reconstituted next year, for their selfless contributions.

But, let me return to the balance of industry-government responsibilities. Besides government playing a facilitative role, driving international branding and marketing, investing in public infrastructure, addressing airlift issues, to name but a few, we need industry to ensure that the *price* and *product* remain competitive – and compatible with our agreed positioning. In this respect, I must also commend industry: Our tourism success story of the past decade is your success story.

It is in this context that I would like to warn against those periodic outcries for stronger government intervention that I have noted. Beware of what you wish for: Once you invite government to intervene in a sector, the balance will not be easily restored. There is no instant on/off switch.

Our understanding of this balance has found expression in the National Tourism Sector Strategy and the proposed new Tourism Act. The Director-General will brief you on this legislation in a moment, and it goes without saying that we set a high value on your inputs as we finalise the legislation. Likewise, as we have done in the past when we joined hands to achieve the adoption of the soon-expiring airlift strategy that triggered the phased liberalisation of our air space, we will have to take hands again as we work in collaboration with our colleagues in other government departments to review this strategy and give expression to the 'use it or lose it' principle.

Let me conclude. I know it is tough out there, but let us not panic in this age of uncertainty and volatility. Let us keep our eye on the long-term strategy, and deal with the immediate obstacles and challenges in a level-headed way. We have all made major investments in this industry and sector – public and private. Now is no time for dithering. If there is a global economic storm, we have no choice but to put our heads down and, together, aim for the eye. That does not mean we just ride out the storm. It does not mean business as usual. No, not only must we keep our vessel seaworthy, but we also need to ensure that, once calm seas return, our vessel is stronger than ever before. So, while some of our traditional markets bleed due to global forces beyond our control, let us agree to address our weaknesses, explore opportunities, and do at least three things right:

Firstly, let us work together, in innovative ways, to capture every inch of our market share in the evolving market place. Let us seek new sources of value, and serve our visitors better than ever before. Let us stay on the offensive.

Secondly, let us continue to invest in markets that will deliver value in decades to come, maintaining a careful balance in our portfolio, aimed at consolidating core markets and developing future ones. And let us build domestic tourism, not only as a mainstay of sustainability, but also as a legacy for our own people.

And thirdly, let us continue to understand that our shareholders at the top of the pyramid are not our only stakeholders. Let us continue to invest in our greatest asset, our people. While continuing to build a generation of tourism ambassadors committed to service excellence, let us also in these trying economic times fight for each and every job, each and every small entrepreneur, and each and every service provider in our supply chain. When we pass through the eye of the storm and emerge on the other side stronger than before, we need everyone, and I mean everyone, at our side.

Thank you

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