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REPORT OF THE SECRETARY-GENERAL

Note by the Secretary-General

In this document, the Secretary-General reports to the Council on the situation of the international tourism industry and on the life of the Organization.

REPORT OF THE SECRETARY-GENERAL

This report is presented pursuant to Article 23 of the Statutes and Articles 4, 11 and 12 of the Rules of Procedure of the Executive Council.

First of all, the Secretary-General wishes to thank Brazil for hosting this session in this historical and cultural jewel of humanity that is Salvador de Bahia. It is symbolic that our Executive Council is meeting in the context of this great World Tourism Forum for Peace and Sustainable Development, the initiative for which is due to H.E. President Lula da Silva.

This report, as is customary, deals mainly with two subjects: the situation of the world tourism industry and the life of the Organization

I. The situation of the world tourism industry

In the communication that I presented to you at the last session held in Hyderabad, India, I underlined that: *"The European economy's expected recovery in 2004, with a lag of a few months behind that of the United States and Japan, and the fact that there is a large pent-up demand for travel, which is bound to express itself as soon as circumstances allow, are the two reasons why we can look ahead with confidence to the year that has just begun."* And I added: *"If we are able to avoid further setbacks, if we do not allow fears--sometimes irrational fears--to sweep everything away, if the necessary security measures that governments have the duty to take, especially in air transport, remain reasonable and balanced so as not to annihilate all desire to travel, then yes, we can be confident in our industry's capacity to bounce back and grow."*

The six months that have just passed since our last session have largely confirmed this outlook. The world tourism industry is once again on the track of strong growth, and we will surely be able to announce in less than two months, on the occasion of FITUR in Madrid, that the number of international arrivals has increased at least 5 per cent during 2004. Perhaps this figure will even be surpassed.

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2004 has been a year of strong contrasts. While the economic forecasts by the World Bank and the International Monetary Fund show strong growth overall (5 per cent increase in world GDP in 2004 and 4.3 per cent in 2005), such growth has been unevenly distributed.

The European Union, the euro zone in particular, has not yet overcome the difficulties it experienced in 2002 and 2003, and the recovery of the region's biggest economy, Germany, remains uncertain. The euro zone is forecast to grow by 2.2 per cent in both 2004 and 2005. As European tourism is heavily intraregional, it is not surprising that Europe's traditional major destinations continue to suffer from the weakness of the German generating market, and to a certain degree, the lacklustre performance of the British market.

For the third consecutive year, Italy and France posted mediocre results for the summer season. For the first time, Spain has experienced a certain weakness in the number of tourists from Northern Europe, raising questions about the continuing relevance of its traditional "*sol y playa*" model. These three major countries of the Western Mediterranean have certainly benefited—their cultural destinations especially—from the recovery of the US and Japanese markets. On the other hand, they are also facing stiffer competition from emerging destinations in Eastern Europe.

In another manifestation of the globalization of the phenomenon of tourism, a certain redistribution was observed during the 2004 summer season, benefiting destinations such as Croatia, Bulgaria, Romania, Turkey, Egypt, Tunisia, and Morocco. The Olympic Games in Athens, instead of boosting tourism to Greece, seems to have had the opposite effect during the summer.

Continuing its strong performance of the past two years, the Middle East, whose economic growth, boosted by rising oil revenues, is expected to be around 5.1 per cent in 2004 and 4.8 per cent in 2005, is still experiencing a veritable tourism boom, which the unfortunate political and military developments in the region had made difficult to anticipate. As in 2002 and 2003, the main explanation behind this performance is the fact that residents of the Gulf countries have tended to travel within their own region, thus benefiting destinations such as the mountain area between Syria and Lebanon, Dubai, Sharm-el-Sheikh, and Egypt's Red Sea coast—at least up until the tragic attacks of early October—or even Malaysia, where Arab-Muslim visitors also find a familiar environment. The WTO, whose membership now includes all the countries of the region, has supported this movement and vigorously assists the States of the region in their notable planning and development efforts.

The major South Asian countries are also doing well, with strong growth in arrivals being posted by destinations such as India, Iran, Bangladesh and Sri Lanka. The main reasons behind this are the economic growth of the Indian sub-continent, the liberalization policies—particularly in air transport—undertaken by India, and the improvement of relations between India and Pakistan.

There has been a spectacular increase in flows to the major countries and territories of Asia and the Pacific, such as China, Hong Kong, Japan, Cambodia, Malaysia, Singapore, Viet Nam and Australia. Many of them have posted three-digit increases in arrivals during the first half of 2004 compared to the same period in 2003, which had been affected by the SARS outbreak. In all destinations, the results for 2004 are expected to clearly surpass the results for 2002, the year before the outbreak.

In this context, China, whose GDP should grow by 9 per cent in 2004, and 7.5 per cent in 2005, is now playing the role of "regional locomotive", with its performance having a spillover effect on the rest of the region. Confirming WTO forecasts, 20 million Chinese travelled outside their country in 2003, surpassing the number of tourists originating from Japan for the first time, despite the Japanese economy's noticeable recovery. This trend is expected to consolidate itself in 2004 and benefit long-haul destinations as well, in particular, the European Union, as the countries of the Schengen zone have now been granted "authorized destination status" by the Chinese authorities, making it more convenient for Chinese nationals to visit them.

The only remaining concern for East Asia and the Pacific, which passed the Americas in 2002 and is now the number two tourism region in the world, behind Europe, is the existence of health risks, in particular, the threat of possible human-to-human transmission of the avian flu virus.

Economic growth is also strong in North America. The United States is expected to experience GDP growth of 4.3 per cent in 2004, and 3.5 per cent in 2005.

The effects of September 11 on the behaviour of US tourists have not yet disappeared completely. In 2004, overseas travel by US citizens rebounded, but has not yet reached pre-September 11 levels. Canada, Mexico, the Caribbean, certain Asian destinations, and Europe are seeing a significant rise in the number of arrivals by North American tourists. The United States is also back on the track of growth as a destination for travellers from other continents, although it is true that the security measures that have been implemented are discouraging tourists, in particular business travellers, from visiting the United States or transiting through the country.

While the recovery of the US generating market and the strong euro relative to the dollar are beneficial to the region, the Caribbean sub-region is expected to experience a difficult 2004-2005 winter season due to the effects of the devastating hurricanes that have marked the year in progress. The fragility of North American airlines, some of which have filed for bankruptcy protection, continues to be a negative factor for this region.

Driven by the growth of commodity exports, the Latin American economy experienced a remarkable expansion in 2004, which confirmed the improvement seen in the previous year, following the economic setbacks that affected countries such as Argentina, Brazil and Venezuela in 2002. Tourism activity in Central America is doing particularly well, and has benefited from favourable exchange-rate variations and the notable efforts carried out by countries like Brazil, aside from the general growth of the economy. With arrivals in Latin America accounted for predominantly by intraregional flows, 2004 should be a banner year for destinations in the region.

Finally, the strong performance of the Russian economy, with forecast growth of 7.3 per cent in 2004 and 6.6 per cent in 2005, should benefit all the destinations of the Commonwealth of Independent States, especially in terms of business tourism.

Given the highly favourable environment, the only threat--albeit an important one--that could weigh down the development of international tourism in late 2004 and early 2005 is the exceptionally high price of oil, which in October surpassed 50 dollars a barrel. The consequences of high oil prices are twofold. They directly increase the cost of transport, air transport in particular, and indirectly, they act as a drag on the overall growth of the world economy, thus reducing consumer spending on travel, whether for business or leisure.

With regard to travel advisories--another exogenous obstacle to travel whose importance is growing--the Council, during the present session, is to discuss a draft recommendation aimed at minimizing their relative impacts, and deliberate on what actions to take regarding it.

II. The life of the Organization

The last session of the Executive Council was an occasion to take stock of the follow-up to the WTO's transformation into a specialized agency of the United Nations. This follow-up is proceeding smoothly. In this context, the Secretary-General took part for the second time in the meeting of the Chief Executives Board with United Nations Secretary-General Kofi Annan, held in New York in late October.

The Chief of Personnel attended the fifty-ninth meeting of the International Civil Service Commission, and in this regard, it should be noted that the General Service Salary Survey for Madrid, on which the salaries of General Service staff are based, has been completed in conjunction with the International Civil Service Commission, resulting in a significant adjustment of the salary scale.

The Executive Council Working Group in charge of putting forward proposals for the amendment of Articles 6 and 7 of the Statutes held its third meeting in Paris on 4 November 2004. A report is submitted to the Council regarding the progress of its deliberations.

Various meetings of WTO organs have taken place or are scheduled to be held: a supplementary meeting of the Commission for the Americas in October in Costa Rica, a meeting of the Strategic Group in late October in Monaco, and the second meeting of the Quality Support and Trade Committee in November in Madrid.

The World Committee on Tourism Ethics, whose activity is now reaching cruising speed, held its second meeting in early October at Headquarters. Among other things, it adopted its rules of procedure and guidelines relative to the dispute-settlement procedure. A report is submitted to the Executive Council at this session regarding the Committee's work on the implementation of the Global Code of Ethics for Tourism. Italy has confirmed its wish to host the headquarters of this prestigious committee in Rome.

Various important meetings organized at the WTO's initiative include the "Tourism Policy Forum" held jointly in October with the George Washington University, Chairman of our Education Council, and a coordination meeting held in November among the tourism-related agencies and programmes of the United Nations, with a view to improving the coordination of activities within the UN system. The 5th International Forum for Parliaments and Local Authorities is scheduled for late November in Kiev, Ukraine.

Aside from his participation in the above-mentioned meetings and major encounters, the Secretary-General also visited the Universal Forum of Cultures in Barcelona in July; he travelled to Australia in August, and participated in the meeting of Tourism and Environment Ministers of the Americas in Iquitos, Peru, in September, and later in the month, he took part in the National Italian Tourism Conference in Genoa, Italy, and in the meeting of the ACP-EU Joint Parliamentary Assembly (European Parliament) in Brussels, Belgium. He attended the World Tourism Day celebrations in Korea, Malaysia, and Iran on the theme: "*Sport and Tourism: Two Living Forces for Mutual Understanding, Culture, and Social Development.*"

The Secretary-General's visit to Australia accelerated the country's return to the WTO, which is already in effect, while his visit to Korea was the occasion of the signing of the agreement for the establishment of the ST-EP Foundation in Seoul.

The Secretary-General also travelled to Romania in October, on the occasion of a seminar on rural tourism; to Costa Rica for the Summit of Iberoamerican Tourism Ministers; to Chile, to participate in the third Asia-Pacific Economic Cooperation (APEC) ministerial meeting on tourism; to Hungary for the European Tourism Forum, and finally, to Cyprus for a workshop on destination management.

He was scheduled to travel in November to the Netherlands to finalize the contribution of the Dutch Government to the ST-EP programme, and then to Ethiopia for a regional workshop on the implementation of the tourism satellite account for the countries of East Africa, and then finally to Turkey for the congress of our Affiliate Member, the International Hotel and Restaurant Association.

The financial situation of the Organization as at the third quarter of 2004 can be described as satisfactory overall, thanks to sound expenditure projections and the fact that there may be a budget surplus at the end of the year despite an uptick in expenditure.

At 30 September 2004, assessed contributions received from Members amounted to €7,457,588 which represents 77.5% of total contributions due for 2004 which amount to €9,619,489 and 95.3% of estimated contributions in the expenditure plan, namely €7,828,000. This compares favourably with 2003 when 76.2% had been received by this date (93.7% of the expenditure plan).

Also at 30 September, arrears contributions received were equal to €688,582 amounting to 98.4% of the estimated total for 2004 which was fixed at €700,000. While this is lower than the amount received in 2003 at the same date (€1,041,545) it is 25 % higher than the corresponding amount for 2002 which was €550,727.

The end of the year forecast suggests that, if present trends continue, actual budgetary expenditure in 2004 could exceed the expenditure plan by 8%, leading to a cost over-run of € 798,000. In other words, estimated budgetary expenditure at € 9,607,000 would exceed planned expenditure of €8,912,000. This is mainly due to the costs of supporting WTO's intensive programme of activities carried out in 2004, and to the increase of General Service salaries, effective 1 April 2004, in application of the results of the survey conducted in Madrid by the International Civil Service Commission and approved by that body in New York during July 2004.

However, application of income from arrear contributions (€700,000) would reduce the shortfall to €98,000 which could then be balanced out from extra-budgetary resources totalling €300,000, leading to a surplus at the end of the year.

Finally, in accordance with Council decision CE/DEC/20(LXXIII) adopted at Hyderabad, India, on 9 July 2004, the Secretary-General has allocated US\$500,000 of the surplus from the execution of past technical cooperation activities to new projects having a sustainability and poverty alleviation dimension within the framework of the establishment of the ST-EP Foundation.

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Intensive efforts have been carried out to prepare for the Organization's future needs and commitments, and the implementation of the five-point initiative that I submitted to you at the last session, and which you have accepted in principle, has begun.

A revision of our "Vision 2020" has been undertaken to take into account the developments in world tourism during the past several years and their statistical impact. Based on this revision, a "provisional outlook for 2010" will be prepared and a new "White Paper", analogous to that of 1997, is being drawn up based on the conclusions of the above-mentioned meeting of the Strategic Group in Monaco. All the results of these efforts will be submitted to you before the General Assembly in Dakar.

At the same time, the preparation of the future general programme of work for 2006 and 2007 has begun. The recommendations of the Programme Committee, which held its twenty-seventh meeting in mid-November at Headquarters, will be submitted to you, and one of the major items of this Council session will be the orientation debate on these programme proposals.

As you have agreed to in principle, the programme of work for 2006-2007 will constitute the first half of a medium-term planning exercise covering the period from 2006 to 2009, which, as has been decided, will be called "WTO Agenda 2010". In accordance with the wishes of the Programme Committee and the Council, performance indicators, which will make it possible to implement an evaluation procedure for programme activities for the first time, will be proposed.