European Tourism amid the Crimea Crisis
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A report produced by the European Travel Commission and Tourism Economics (an Oxford Economics Company)

Brussels, October 2014
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Data sources: This report includes data from the TourMIS database / www.tourmis.info, STR Global, IATA, and UNWTO.

Economic analyses and forecasts are provided by Tourism Economics and should be interpreted by users according to their needs.

Published and printed by the European Travel Commission
Rue du Marché aux Herbes, 61, 1000 Brussels, Belgium
Website: www.etc-corporate.org
Email: info@visiteurope.com

ISBN No: 978-92-990067-4-0

This report was compiled and edited by: Tourism Economics (an Oxford Economics Company) on behalf of the European Travel Commission. A note of thanks to all ETC members who contributed to this report.

Cover: EU and Russian flag on the background of old locked doors© Borislav Bajkic
FOREWORD

In recent years, Russia has become the third largest source market for Europe. European destinations received nearly 32 million arrivals from Russia in 2013, with forecasts pointing towards a 3.6% growth for 2014. However, the escalation of the crisis between Ukraine and Russia over Crimea is abruptly changing trends in travel from this market in the short term.

While the European tourism sector is not a direct target of international sanctions introduced in response to the crisis, it does suffer indirectly. The weakening Rouble, partly a by-product of deteriorating trade relationships, has progressively reduced outbound travel from Russia. The climate of economic uncertainty, fear of hostile attitudes towards Russians and deteriorated visa processing, amplified by media coverage, contribute to diverting travel from Russia to non-European destinations.

National Tourism Organisations can play a crucial role in containing the negative impact of this crisis by addressing the information needs of travellers and all industry stakeholders in an efficient, timely and responsible manner.

With this report, the European Travel Commission wishes to provide timely information to its members and support in co-ordinating actions and mitigating the impact of this crisis.

ETC Executive Unit
European Tourism amid the Crimea Crisis

**EXECUTIVE SUMMARY**

- Over the past decade, **Russia has become a key contributor to tourism growth in Europe**. In 2013, European destinations received nearly 32 million arrivals from Russia, becoming Europe’s 3rd largest market (6% of Europe and 4% of ETC destinations’ total inbound travel). Russia is also Europe’s 3rd fastest growing market (+13% in 2013).

- Over the past decade, Russian outbound travel to Europe has grown by an average of 11% per year, a pace faster than the market average (9%). As a result, Europe has strengthened its position, attaining a share of 60% of all outbound travel from Russia in 2013.

- The underlying fundamentals for outbound travel from Russia remain strong, although deteriorated economic conditions and uncertainty - partly a by-product of the conflict over Crimea – will necessarily affect travel from this market. According to the IMF, geopolitical tensions are slowing the economy, which is already weakened by structural bottlenecks. Russian GDP is expected to grow by only 0.2% in 2014 and 0.5% in 2015, thus having a negative impact on consumption.

- Travel demand from Russia dropped as the year progressed. After a good start in Q1, travel from Russia fell during Q2 by an estimated 6%. Air bookings point to a recovery of demand in Q3, although values remain below 2013 level. Q3 performance shall be interpreted as the effect of longer travel lead times for main holidays rather than as an early sign of recovery. If no changes occur, **Russian outbound to Europe will grow by a modest 3% (+500,000 visits)**. This is 1.2mn short of the volumes forecast for 2014 before the outbreak.

- A fall in leisure spending is also expected. Inflationary pressure is expected to erode incomes and spending power even further. This may impact modestly on travel, but will certainly affect leisure spending and choice of destinations. Overnights have moved broadly in line with arrivals in data to date, giving no evidence for changes in the length of stay.

- For better or for worse, the crisis will be felt most by destinations with a strong presence of Russian travellers in their guest mix. Finland, Lithuania, Switzerland and Czech Republic are threatened by this year negative performance of the market. At the other end of the spectrum, Cyprus, Turkey - who adopted a neutral position in the conflict- and Latvia -host to a large Russian diaspora- report growth in line with, or even exceeding, expectations.

- **The crisis will hit most in 2015**. For next year, inbound travel from Russia to Europe is expected at some 10% lower than what it would have been, had the crisis not occurred. Some faster growth can be expected for 2016, under the assumption that more normal trends resume. Spain, Czech Republic, Poland Finland, Germany and Turkey are the destinations expected to shoulder the largest burden over the period 2014-2016.
Destinations vulnerable to changes in the Russian market

Outbound travel from Russia in 2013:
- to the rest of the world
- to Europe

International Tourist Expenditure by market, USD, 2013:
1st PRC
2nd USA
3rd DE
4th RU
USD 125bn spent in Europe

International tourist arrivals to Europe by market, 2013:
1st DE
2nd UK
3rd RU

International tourist arrivals to Europe by market, 2013 (b p.y.):
1st PRC
2nd UK
3rd RU

1 Source: European Tourism amid the Crimean Crisis, ETC 2014. 2 Source: UNWTO World Tourism Barometer, August 2014. 3 European Tourism Portfolio Analysis, ETC 2014. Source: TourMIS, definitions vary by country.

Current situation

Russian outbound travel by destination:
Year-to-date growth and market share, 2013

Future scenarios

Current sanctions
14-16
-1.8mn

Extended sanctions
14-16
-5.5mn

Conflict
14-16
-9.2mn

* Source: TourMIS, Europe is defined as ETC members + FR, NL and UK. Definitions vary by country.
THE FUNDAMENTALS OF RUSSIAN OUTBOUND TRAVEL GROWTH

- In the early 1990s, the end of the Cold War (1991) and the collapse of the Soviet Union released a huge pent-up demand for travel to Western countries. After the initial euphoria, the impact of the transition from a planned to a market-based economy was felt by the middle-class, and travel to Europe slowed down for all but the ultra-rich.

- The modernisation of the Russian economy led to a dramatic reform of the tourism industry and market. A more open economy and surging oil prices have contributed to improving the economic wellbeing of Russia’s middle-class since the 2000s. Real GDP per capita rose from 7,700 USD in 1995 to 18,400 USD in 2014, and is projected to reach the 20,000 USD threshold by 2016 – a threshold which is estimated to make international travel affordable (although recent downward revisions of Russia’s GDP growth suggest that this target may be hit slightly later).

- The market-oriented development of the Russian tourism sector has stimulated outbound travel from the country, thanks to the expanded activity of foreign tour operators in the country, in conjunction with the rise of Russian tour operators and agencies, the development of tourist-oriented services (e.g. banking, insurance) and the development of ICT.

- The introduction of simplified visa regimes with a number of countries (coloured in blue or green on the map to the right), coupled with improved transportation and travel infrastructure connections has provided fertile ground for travel from Russia to boom.

- Changes in lifestyle, with more Russians seeing holiday as part of their standard of living, also stimulated outbound travel, especially to European destinations. Ambition to a healthy lifestyle, in particular, gave a boost to demand for ski holidays and spa tourism.

- These underlying fundamentals remain strong still today, but have been overwhelmed by current events. Deteriorated consumer confidence and purchasing power, as well as burdensome visa procedures (a by-product of the conflict), are likely to halt demand from this market, albeit only on a temporary basis.

- The crisis may lead to changes in travel behaviour. After 20 tour operators and agencies in Russia went bankrupt earlier this year, and with experts predicting a reorganisation of the sector and more dissolutions, independent travel has surged this year. The current situation is also accelerating the shift to online booking. Part of Russian travel demand may be diverted to non-EU or domestic destinations, but it is expected to return to Europe once the situation normalises.

- Purchasing power will be a crucial factor in influencing travel demand flows amid the crisis. The depreciation of the Rouble against the Euro made many destinations less affordable to Russian travellers. Finland, for instance, was affected the most due to its proximity to North-West Russia and the predominance of cross-border traffic. Until the devaluation of the Rouble, large numbers of Russians from the nearby region made same-day trips to Finland to purchase goods that were cheaper than in Russia, but this is no longer the situation. On the other end, European destinations that are not too costly to visit and are relatively close to Russia have enjoyed a general increase in the number of visitors. Turkey, Greece and Hungary are among them.
COMPETITIVE ENVIRONMENT

Outside of Europe, only a few destinations hold a significant share of arrivals from Russia. Among market leaders, Egypt (with a market share of 8%) has seen quite a modest growth rate in Russian inbound travel. China (7% share) reports a decrease in numbers of Russians; travel to Thailand (4% share) has also slowed, most likely due to troubles at the destination. South Korea (<1% share) reports a steady acceleration in arrivals, mainly due to the elimination of visas for Russian citizens and the fact that Seoul acts as a major hub for Russians from Siberia and the Far East of Russia. Japan (<1% share) reports arrivals falling sharply in Q2, followed by strong positive growth in Q3.

In the Americas, the USA (<1% share) report a year-to-date growth of 21% in visits from Russia, well below the 36% growth enjoyed in January 2014. Russian outbound to Canada (<1% share) has plummeted since the beginning of the year.

CONSUMER PERSPECTIVE

The Russian-Speaking Blogosphere

The visa application process under normal circumstances is an important issue for Russians who travel abroad, and is frequently discussed online. The Crimea crisis has amplified fear of visa rejection, which has in turn become a buzz topic on online forums and blogs. Social media rumours claim that some embassies, notably the American embassy, have stopped approving visas for Russian citizens and that others, such as the British embassy, have made their application processes more cumbersome, decreasing the number of application reception desks, losing documents on purpose, and so on. Uncertainty about changing visa policies has sent some Russian tourists scrambling to apply for visas immediately.

"Now with the events of a political nature I begin to doubt this trip. Possible sanctions in the form of denial of travel visas? Are there any thoughts and predictions on this?" Russian blogger, 4th March 2014.

"Tomorrow I will submit documents. Is there a possibility of NOT obtaining visas due to recent political events? I read somewhere that the Baltic states want to impose visa restrictions for Russians – what a nightmare!" Russian blogger, 6th March 2014.

"Good news! Italy and Greece officially confirmed that no sanctions will apply to tourists and they continue to follow the course of facilitation of visa regime with Russia." Russian blogger.

"I am going to apply for a visa to USA in advance. So scarred that I will not be able to travel there. It is just a collapse - Crimea, plane, sanctions..." Russian blogger.

As mentioned, the language barriers many Russians face abroad might add to feelings of alienation or anxiety around travel. Now, the fear of hostility and anti-Russian sentiment, not least during trips to European countries, is an especially significant concern. The word “worried” was used in 1.9‰ of social media travel posts in 2012, declined to 1.7‰ in 2013, but then sharply increased to 3.1‰ in 2014.

"A little worried about the fact that some EU countries are unfriendly to Russians. If someone just returned from Europe, please tell me about attitudes toward Russian tourists. Will travel by car in Europe. Will pass through Finland, Germany, Holland, Belgium, France. If I will be back alive – I will tell you." Post in Russian travel forum.

Some bloggers also believe that the situation provides those who already hold negative views of Russian tourists with an excuse to complain even more about them being arrogant, impolite or tasteless.

Others take a more nationalistic stance. Domestic destinations appear to gain popularity, as some change plans and choose these instead of ones abroad.

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1 Competitors’ shares of the Russian travel market refer to 2012 volumes of inbound travel as reported by destination, UNWTO data as of 12/09/2014.
Russian Travel to Europe: Impact of Crisis and Conflict in Ukraine
## 1 Background

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1 Background

1.1 Russian contribution to European tourism

Travel from Russia has grown massively over the past twenty years, in line with economic growth and wealth accumulation, and Europe has been a key beneficiary. Growth followed the dissolution of the USSR and the introduction of market reforms and a more open economy, while the higher oil prices over the past ten years raised export earnings. A much larger proportion of the Russian population is now able to afford international travel, with a large increase in the proportion of households earning over the US$20,000 threshold identified as a point at which international travel becomes affordable. Oxford Economics estimates that over a third of Russian households earn in excess of this threshold, more than double the number of households in receipt of this level of income ten years ago, in constant inflation-adjusted terms.

The above chart shows the evolution of total Russian travel and that to European destinations. In this context, and in the entirety of this report, Europe is defined as ETC members plus UK, France and Netherlands. Growth is notable since 2000, and it is particularly clear in the most recent five year period, during which time European destinations have gained share of the Russian outbound market. European destinations now receive over 45% of all reported travel from Russia, up from around 35% ten years ago.

* Europe is defined as ETC members plus France, Netherlands and UK

Source: Tourism Economics

There is some uncertainty in the data prior to 2000 and new surveys and data collection methods have been put in place since then.
Over the past decade Russia became a key contributor to European inbound arrivals growth. Between 2004 and 2013, outbound travel from Russia grew from 24.5 million to 54.5 million, or 9% on average over the decade. At the same time, arrivals to Europe as a whole grew from 12.3 million to 31.8 million, growing by 11% on average. Previous analysis by ETC and Tourism Economics\(^2\) showed that in 2013 Russia became the third biggest source market for Europe in terms of absolute arrivals behind the UK and Germany accounting for 6% of all arrivals in Europe. Russia was also the third fastest growing source market behind Turkey and China, growing by 13% in 2013 over the previous year (chart on the left).

As an emerging market, at least within the context of Europe, Russia was much less affected by the global recession of 2008/09 than some of the traditional tourism source markets in Europe. The chart on the right shows that during the period 2008-13, Russia accounted for 20% of the increase in travel to European destinations\(^3\) – more than thrice the amount of the next biggest contributor, Switzerland. The recession and the years following impinged hugely on the ability of many European households to travel abroad as incomes were pinched and jobs were cut. On the other hand, Russia’s economy continued to boom, with rising household incomes providing many households a newfound ability to afford a foreign holiday.

With the recession now behind us however, many of the traditional source markets of European travel are expected to re-assert themselves in coming years in line with economic trends. Nonetheless, Russia has established itself a key source market for many European destinations.

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\(^2\) ETC (2014), European Tourism Portfolio Analysis.

\(^3\) Russia’s contribution to European arrivals growth is calculated as the net change in European arrivals from Russia as a share of the net change in total arrivals to Europe.
Rising tensions through 2014 between Ukraine and Russia, and subsequently between the EU and Russia, have had notable impacts on travel flows. As tensions have risen and sanctions have been imposed, demand for travel between Russia and European destinations has softened and in many cases has fallen. This may have large implications for European destinations which have developed a reliance on Russian demand. Booking data show that after a good start to the year, the number of Russian outbound air passengers remarkably fell as the crisis unfolded (i.e. since March 2014), compared to the previous year. This suggests that the crisis has to at least some degree deterred Russians from committing to outbound air travel, perhaps fearful of how events might unravel. Falls in arrivals by air in April and May were particularly large following the annexation of Crimea in late March and rising tensions in Eastern Ukrainian regions. Arrivals by air recovered during Summer, mostly because of relatively long lead times for main holidays. Falls are likely to be observed in the last months of 2014, as current events are likely to negatively impact on bookings and future arrivals hence. Short-term travel for short-haul destinations have seen largest falls.

At the time of writing, some fighting remains ongoing, particularly in the vicinity of the strategically important Donetsk airport. This is despite the official ceasefire, which has otherwise held and there remains a risk of further escalation.
1.2 Economic trends

Some of the slowdown in international travel demand from Russia in 2014 is attributable to the economic slowdown and particularly the large rouble depreciation at the start of the year. Depreciation has continued through the year, broadly in line with expectations. The rouble is expected to be around 13% weaker against the euro for 2014 as a whole, which will erode purchasing power of potential Russian travellers. GDP is expected to be unchanged from 2013 levels for the year as a whole, with only moderate growth in household income and spending. These economic factors have been identified by Tourism Economics as important indicators of tourism demand and are key drivers of tourism forecasts.

Outbound travel demand by market can be forecast as a function of key economic indicators identified in modelling by Tourism Economics. Equations track historic performance on average and also correctly identify peak and trough years for outbound travel growth. These factors point to weaker outbound travel performance for 2014 as a whole, with a fall in outbound spending, denominated in US$ terms.

- The rouble depreciated heavily in early 2014 amid wider concerns regarding emerging market debt levels. The prospect of tapering of the Federal Reserve's quantitative easing program in the US resulted in a re-appraisal by international investors of risk and return from emerging markets. This lower value better reflects the medium-term growth prospects and the rouble was arguably over-valued in prior years. Hence, strong growth in Russian travel in the years to 2013 was likely boosted by the increased purchasing power from a strong currency. Reduced spending power from the depreciation alone is estimated to reduce outbound travel from Russia by over 4% according to historic estimated relationships.

- Economic activity within Russia has also slowed in early 2014, with only moderate expectations for growth into 2015, at least partly in response to the currency movement. Inflationary pressure from the depreciation will erode incomes and spending power, while monetary easing has been deferred at best. Combined with softer export demand from other emerging markets, there will be a notable slowdown in business activity and particularly in investment.

- Income and consumer spending will also be weaker than previously anticipated, as the slower activity results in some employment losses and lower aggregate earnings and subsequently spending. Even if international tourism spending retained a constant share of total household expenditure a fall in leisure spending would be expected in real terms.

- Leisure travel would also be adversely affected by some loss in consumer confidence as unemployment is set to rise and some substitution towards lower cost domestic travel or other spending would be expected.
The detrimental effect of these weaker economic trends were already factored into Tourism Economics’ forecasts made earlier in the year, prior to the current crisis which can be used as a counterfactual outlook representing a plausible view of activity in the absence of more recent events. The impact of the current crisis can be isolated by comparison with this counterfactual scenario. Sanctions announced and enforced to date will have some macroeconomic impact, and notably in 2015. A sizable inflation effect is expected from disruption to Russian food supplies due to the counter sanctions and the import bans on certain agricultural products from the EU. However, these macroeconomic changes are likely to be relatively small compared to the previous trends. The main impacts of sanctions will be from changes in sentiment.

**European inbound arrivals from Russia, 2010-16**

*Pre-crisis expectations*

The above chart illustrates this counterfactual outlook using pre-crisis data and forecasts showing that European arrivals from Russia were expected to slow significantly in 2014 as a whole and in subsequent years. Growth was estimated to be in the region of 4.5% through to 2016. This is a marked slowdown from the double-digit growth achieved in each of the four years prior. However, it should be noted that this outlook is still for continued growth and the 2016 volumes were expected to be almost twice that of 2010 at 38.2m arrivals (compared to 20.1m in 2010). The long-run trend of household income growth means that further households continue to be able to enjoy international travel for the first time, to partly outweigh some of the negative short-run cyclical impacts.
The escalation of tensions between Ukraine and Russia surrounding the sovereignty of Crimea throughout 2014 has resulted in an imposition of sanctions against the latter by the EU and other Western states with associated changes in sentiment and implications for bilateral travel demand. Counter-measures from Russia have been imposed while further measures may yet be implemented by both sides and significant uncertainty remains.

While the ceasefire within Ukraine continues to hold at the time of writing there remains the possibility that tensions could re-escalate. If this happens, harsher sanctions, further deterioration and hardening of sentiment against countries and, at the extreme level, a full-blown international conflict, are all prospects.

Economic sanctions and restrictive measures to date have been imposed upon Russia in an effort to de-escalate the crisis. They also serve as a tangible manifestation of the general ill-sentiment and condemnation of Russia’s violation of Ukrainian sovereignty and territorial integrity.

Sandwiched between Crimea’s successful secession referendum and Russian President Vladimir Putin’s bill absorbing it into the Russian Federation, 17 March 2014 marked the introduction of the first travel bans and asset freezes against Russian and Ukrainian officials. Further to the above, diplomatic measures were also utilised; Russia was excluded from June’s G8 Summit, having both its right to attend and right to host rescinded – what was due to be a G8 Summit in the Russian city of Sochi became a G7 Summit held instead in Brussels. Talks surrounding Russia’s integration into the OECD and the International Energy Agency were suspended. The EU-Russia Summit was also cancelled as were bilateral talks with Russia on visa matters.

An embargo on any goods originating from Crimea unless accompanied by a certificate of origin from the Ukrainian authorities has been imposed and trade and investment restrictions are in place which will chiefly affect infrastructure projects in transport, telecommunications, and energy with an embargo on exportation of related capital goods for the same sectors as well as related finance and insurance services.

EU citizens and companies can no longer trade new bonds, equity, or similar financial instruments with a maturity exceeding 90 days which would be issued by any major state-owned Russian banks. Services related to the issuing of any such financial instruments, such as brokering, are also prohibited. Furthermore, any import or export of arms and related material to and from Russia is prohibited as are exports of dual use goods and technology for military use. Restrictions have been placed on access to international capital markets for Russian state-owned companies and banks while exports from the EU to the Russian oil industry have also been constrained.

In response to sanctions imposed by the West, Russia counter-sanctioned with a full ban on the import of beef, pork, poultry, fish, cheese, milk, dairy products, vegetables, and fruit from Australia, Canada, the EU, the US, and Norway. This self-imposed supply-side shock sparked inflation fears, some worrying that Russia’s already fragile economy would struggle to meet demand.
Sanctions announced and imposed to date will have some impact on macroeconomic activity, but the main impact on travel trends, at least in the current announced sanctions, will be through changes in sentiment towards specific destinations.

Visa processing has long been a potential impediment to travel from Russia to European destinations. Lengthy visa processing times have been identified in previous analysis as a deterrent to travel\(^4\), as numerous examples show that visa facilitation measures are followed by large increases in visitor volumes. Given the importance of Russia as an origin market for many European destinations there was a significant upside aspect to the outlook in recent periods from the possibility of easier visa access. However, with the onset of hostilities this option is likely to have been postponed at best. There also remains the possibility that visa processing will be tightened in conjunction with sanctions, but clear data on visa issuance is not readily available for 2014 to date. One available example of visa issuance to Russian travellers is for the UK which shows that visitor visas in the year to March rose by 20%, but in the year to June they fell by 3%. However, within this it is not reported whether this was due to a reduction in applications or an increase in refusals.

In order to properly consider the impacts of the above and any further augmentations thereof, we will compare various possible scenarios as below:

- **Counterfactual of no sanctions** – this will incorporate the outlook for Russian related travel prior to any escalation of tension. This scenario includes the effects of the known economic slowdown and weaker rouble that began to impact travel in early 2014.

- **Baseline** – this will incorporate known travel trends for 2014 to date, including the marginal effects on economic conditions. An assumed path for future travel sentiment by country will be imposed into 2015 and 2016 according to likely continued sanctions and visa regulations.

- **Extended sanctions** – this will consider the impact on European travel of further sanctions as well as counter sanctions by Russia;

- **Conflict** – this will consider the impact of a full-blown conflict in the region and the knock-on impacts this would have on travel to and from Russia. The final section will also consider the indirect effects of this scenario on intra-European travel as well as from other origin markets.

\(^4\) [http://www.wttc.org/focus/research-for-action/policy-research/the-impact-of-visa-facilitation/]
2 Direct impacts to date

Using latest year-to-date (YTD) arrivals information provided by TourMIS for participating countries, as well as other data from national data sources and industry data, we can estimate how the outlook for travel from Russia has changed compared to Tourism Economics' beginning of year estimates.

2.1 Russia as a destination

Russia has enjoyed strong inbound arrivals growth over the past number of years. International tourist arrivals grew by 10.2% and 13.5% in 2012 and 2013. Since the turn of the year however, arrivals growth has slowed substantially, with year-to-date growth of 1.8% based on the first six months of the year. This is despite the weakening Russian rouble which would make international travel to Russia relatively more affordable. Therefore, it is reasonable to argue that the Russia-Ukraine crisis has largely cancelled out one of the only benefits associated with a depreciating currency by deterring potential international tourists from taking advantage of a now relatively more affordable holiday destination.

This argument is bolstered by tourism receipts data showing international tourism spending in Russia fell 8% on the same period last year according to data for the first six months of 2014. Moreover, in the first three months of the year, tourism receipts were in fact up on the same period in 2013 (albeit by only 0.8%), whereas in the three months following tourism receipts plummeted 15.2% on the same three months one year previous. There will be some impact here from the currency movement as reported data are in US$ and the fall in local currency terms will be less drastic. Nonetheless, this still suggests a fall in average spending per visitor in real terms. It is no coincidence that this fall in tourism receipts coincides with the climax of the crisis to date.

Additionally, YTD industry data point to falling international demand, while domestic demand remains robust and even potentially growing faster than economic trends would suggest. There may even be some substitution from international to domestic travel.

Air passenger data for 2014 to date\(^5\) show that domestic travel within Russia remained in double-digit growth rate territory, similar to that in the previous year. International air travel to and from Russia slowed significantly at the same time.

Meanwhile, hotel data provided by STR Global shows hotel occupancy rates fell by 12% in the year to August, with the fall beginning in April/May and a large estimated contribution from international demand rather than domestic demand. Domestic demand carries a large weight in total hotel demand within Russia, and the 2014 Q1 followed the expected trend closely in modelling, consistent with the growth in other industry data. It can therefore be assumed that domestic demand continued to grow,

\(^5\) Source: IATA
albeit at a slower rate, in Q2 and into Q3 consistent with the economic and air passenger trends. Hence, the inbound demand for hotel rooms is estimated to have fallen 30-40% in this period.

The larger falls in average spending per visit and in hotel demand relative to visitor arrivals indicates that the largest impact has been to higher spending visitors. Hotel demand is often heavily reliant on high spending business travellers. In the case of Russia, modelling of hotel performance shows a correlation over time between oil export values and prices and an implied large impact from related business travel for this key industry sector.

Visits to friends and relatives may be largely unaffected, as these types of visitors tend to be less deterred by geo-political events and will continue to visit, supporting the lower impact on total arrivals.

2.2 Russia-Ukraine tourism flows

It should of course be noted that Ukraine itself has historically been a large source market for Russia, as well as vice versa. Ukraine has typically provided over 20% of all overnight tourist arrivals in Russia, while in the other direction Russia has typically provided around 40% of Ukrainian arrivals. Disruption to these flows would make a large impact on total arrivals performance, although data to evaluate this fully are not readily available.

The impact on Ukraine is lesser known in arrivals terms, however, international tourism receipts for Q1 2014 were reportedly down 18% on 2013.

While the focus of the tension tends to be on the annexation of Crimea in mid-March, it is important to note that tensions have been high between Russia and Ukraine, particularly on the Crimean peninsula, since the early 1990s. The added difficulty in assessing the impact of the crisis on Ukrainian tourism flows lies in its geographical distinction following the annexation of the Crimea and separatist movements in Eastern regions. Anecdotal evidence and netnographic research carried out by ETC would suggest that in light of the sanctions, many Russians are instead choosing to travel within their own borders.
2.3 European destinations

Latest year to date data for Russian travel to ETC members plus Netherlands, France, and the UK (charted below), shows large variances across the board.

![Russian arrivals and overnights growth chart](chart.png)

Source: TourMIS

† TourMIS latest available data

But there are some large observed differences in the year to date performance of travel from Russia and how this has evolved through the year.

While it is hard to determine the sanctions as a direct causal factor in Russian travel demand, it is an indicator of the level of sentiment between Russia and a given country. There also appears to be some correlation between the degree to which sanctions are imposed by EU member states and travel from Russia. Sanctions are agreed collectively at the EU level but some measures *such as arms embargoes and travel bans, are implemented directly by member states*. There have been some clear differences in implementation of the sanctions to date, which appear to explain at least some of the differential travel effects by country.

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6 EU restrictive measures factsheet:
The chart directly above shows the percentage point difference between growth reported for the year to March (i.e. before the Annexation of Crimea), and the latest YTD information for arrivals from Russia. This is reported for countries reporting data through TourMIS with sufficient recent data beyond that which was posted in March. As shown, there have been some sizeable percentage point (PP) revisions in YTD arrivals and overnights growth across the vast majority of reporting European countries since tensions between Russia and Ukraine began to rise. The reporting countries comprise around 75% of all Russian travel to European destinations (defined as before as ETC members plus France, Netherlands and UK). Weaker trends are evident for most reporting European destinations, with slower growth in many countries and also falling arrivals. This can partly be explained by the imposition of travel bans for many Russian public sector employees and their family to 150 countries, including most European destinations.

While most of these changes have been downward, interestingly, there has also been some upward movement. Travel to Cyprus is a notable example as it has a relatively high reliance on Russian travel and traditionally receives a significant proportion of visitors to Europe from this market. However, it should be noted that this is from a relatively low base in 2013 and there is significant volatility following the banking crisis in Cyprus which hit Russian savings there. The chart above illustrates the percentage point difference in year-to-date arrivals and overnights from Russia before and after the crisis.

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7 The source for tourism statistics used in this section is the ETC information management system TourMIS (www.tourmis.info).
The larger EU destinations included in the previous chart show that travel from Russia deteriorated as the year progressed. Taking a weighted average across these markets (using 2013 Russian arrivals as weights) suggests that Q2 performance was around 6% weaker than in Q1. The more volatile markets at both ends of the spectrum are outliers as particularly small destinations for Russian travellers. This is confirmed by air bookings showing that air travel from Russia to almost all Western European cities was lower than in the previous year in the period April to August 2014.

[Graph showing Russian arrivals to Turkey and % growth on previous year]

Source: Ministry of Culture & Tourism

The previous analysis of falling travel from Russia to European destinations excludes Turkey which is a special case as a particularly large destination for Russian travel, which has also seen improvement in demand as the years have progressed, gaining share of Russian travel. EU candidate countries are invited to share in sanctions being imposed, however Turkey has refused to follow suit and in fact was among the first to step in to fill supply shortage. This may partly explain Turkey’s performance in this market. Russian inbound arrivals had been slowing until March 2014, in line with total demand, but began to grow steadily afterwards. June saw growth of 19% on the same month one year previous. Such growth is also confirmed in air passenger data for Russian travel to Turkish cities in the period April-August 2014. However, this growth is slower than expected in the prior forecasts, notably for earlier in the year and some impact may be felt in Turkey.

Outbound spend from Russia has continued to grow throughout the first half of the year, albeit with a major slowdown in Q2. The drop in average spending is partly explained by the loss of spending power from the weaker exchange rate but may also be due to a change in the mix of traveller. However, so far there is limited information available to draw any firm conclusions. Overnights have moved broadly in line with arrivals in data to date giving no evidence for changes in the length of stay, while booking data are also inconclusive.

The chart below shows how the expected changes in Russian outbound travel to European destinations in 2014 would be spread across countries. It is estimated that Europe as a whole may lose out on around 1.3 million inbound arrivals from Russia for
2014 in the latest baseline outlook compared to the counterfactual. However, not every constituent country is shouldering the burden of this loss equally. We can see that, in fact, some European countries, based on Tourism Economics’ beginning of year estimates will actually gain, with notable improvement in Turkey.

Greece and Cyprus also appear to be prospering, at least partly offsetting the fall in Russian inbound to Europe. Greece has declared that it would not impose any of the EU’s recommended sanctions upon Russia. The same is true for Cyprus, a well-known holiday destination for Russians. However, air passenger data suggest some falls on these routes in the months to August.

Poland is expected to experience the largest fall in arrivals from Russia having taken a hard line in imposing sanctions as a key provider of agricultural products. 32% of the net fall in Russian travel is to be shouldered by Poland.

Other large destinations will experience notable falls in visitor volumes despite similar percentage point growth deterioration. Germany and Italy are experiencing large slowdown in Russian demand, with a fall in travel to Germany, despite both countries having taken a lackadaisical view to imposing sanctions to date, along with some other Western European countries.

Spain is also undergoing a slowdown in Russian arrivals moving into the peak summer season with some moderate falls estimated for this period. This follows robust 5% growth in early months of 2014. Spain is the second largest ETC destination for Russian travellers (after Turkey) and may be suffering from being a top of mind destination within Western Europe as sentiment turns against the EU.

**Falls and gains 2014-16**

*Arrivals falls/gains as a % of net change in Russian outbound resulting from current sanctions*

![Graph showing falls and gains 2014-16](image-url)

Source: Tourism Economics, TourMIS
2.4 Competitor destinations

Countries considered in this section include developed competitors outside of Europe who have chosen to impose sanctions, as well as those emerging markets competitors who have decided to remain on more friendly terms politically. In most cases these markets rely on Russia for less than 1% of total arrivals. Thailand is a notable exception, where arrivals from Russia represent just under 7% of total arrivals, as is UAE where Russians account for just under 4% of total arrivals. While every effort has been made to include countries who receive a substantial share of Russian outbound travel the availability of up-to-date data has, to some degree, also swayed the selection countries featured in this section.

It is clear that Russian travel demand has slowed for most global destinations throughout 2014 as expected from recent developments in economic activity and notably exchange rate depreciation. The greatest slowdown throughout 2014 to date is to US and Canada, both of which have imposed sanctions. Travel to Thailand has slowed, but this is more related to events within its borders. The more modest slowdown for most of the other competitor markets implies some gain in their market and potentially some diverted travel that would otherwise have gone to Europe.

The United States has been at the front line with the EU in reacting to Russia’s involvement in the crisis. It was quick to impose sanctions on Russia, doing so before the annexation of Crimea which served as the catalyst for the EU adopting similar measures. Sanctions authorised by the US imposed restrictions on the travel of certain individuals and officials. Somewhat counterintuitively, however, latest YTD data to June shows that arrivals from Russia has seen double digit growth every month this year compared to 2013, with YTD growth at 20.5%. That said, a “growing but slowing” trend can be observed, with growth of 10% in June a far cry from the 36% growth enjoyed in January. Given flights to longer haul destinations will generally be booked further in advance, any impact on longer haul destination will be delayed and it may be another few months before this lag plays out to show the true impact of the crisis on Russian inbound to the US. A comparison of Q1 arrivals growth of 30% with Q2’s 13% suggests that a sizeable impact is in the pipeline.

It is of course, worth noting that these sizable percentage changes relate to a much smaller base of Russian arrivals compared to that of Europe. Currently, the ratio between the two is in the region of 1:100 in Europe’s favour.
Russian outbound to Canada has plummeted somewhat since the beginning of the year. In this instance, given that Russian arrivals to Canada began to fall in February 2014 compared to February 2013 – a month before the Crimea crisis reached its climax, it's hard to say for certain exactly how much of the fall we can attribute to any imposition of sanctions against Russia. Nonetheless, outbound travel from Russia to Canada deteriorated further after March, after having shown some signs of recovering from February’s poor performance. This sharp deterioration reached depths of -17% in July 2014 compared to July 2013.

Russian arrivals to Japan paint an interesting picture. Below we can see that arrivals are in strong positive growth territory in January to March 2014 compared to the same months one year previous. After the pinnacle of the crisis, observe Russian outbound
to Japan falling off a cliff in April and still floundering in May, compared to the same months one year previous, with growth of -7% and -2% respectively. After this point, however, we see a recovery of sorts with growth returning to strong positive growth territory in June and July with 21% and 9% respectively.

Anecdotal evidence suggests that ill-sentiment and contempt towards Western nations imposing sanctions has festered, with many Russians claiming to avoid such destinations as a matter of principle. Yet, this doesn’t appear to be the case for many destinations in Europe and elsewhere. Japan exemplifies this well: despite having also imposed sanctions as a gesture of solidarity with the United States and the EU, Russian inbound has been growing beyond an initial fall in April and May. Indeed, as is the case with any longer haul destination, it is possible that growth from April onwards is a result of Russians following through on holidays that were booked pre-crisis. However, the full impact of any such lags will not become apparent until the release of data for the remainder of the year.

Travel to Thailand has also been clearly affected. Although posting strong YTD growth of 5% based on eight months’ worth of data, this was largely driven by strong Q1 growth in the region of 20%. Arrivals from Russia fell sharply in April after having enjoyed this strong growth at the beginning of the year, the Russia-Ukraine crisis seemingly causing a bigger fall in arrivals growth than the political coup which took place in Thailand in May.
South Korea has not yet implemented any degree of economic or diplomatic sanctions against Russia. The chart below demonstrating the merit of such a stance, at least as far as tourism is concerned. Steady acceleration in arrivals is evident in the months to March, at which point it levels out to a degree until it picks up again from May onwards, with arrivals growing by 22%, 33%, and 38% to July, gaining some share of the Russian market from Europe.
The United Arab Emirates has seen somewhat of a mixed bag this year. Arrivals to Dubai have been falling since the beginning of the year, most dramatically in February by 19%, with the months after offering little in the way of a reprieve. Travel to Abu Dhabi remains in positive growth territory however, albeit YTD growth rates have fallen as the crisis has developed. The three bars below showing YTD growth as it was in March, July, and the other showing the inferred level of arrivals growth since March. This offers a better indicator of post-crisis arrivals growth by factoring out the strong growth which was observed prior, and demonstrates that Abu Dhabi has seen some negative impact as a result of the crisis.

Source: Dubai Tourism, Abu Dhabi Tourism & Culture Authority
3 Alternative scenarios for European destinations

Scenarios quantify alternative paths for travel from Russia to European destinations under different assumptions reflecting some of the current uncertainty in the outlook. The chart below illustrates this in terms of share of total European arrivals. Russia would still be likely to comprise a substantial share of arrivals even under the conflict scenario with a proportion of travel to visit friends and relatives or to short haul destinations. Some European destinations take a large share of Russian outbound travel and are heavily favoured and it is unlikely that travel demand would disappear altogether even with conflict.

Divergence of scenarios, ETC arrivals

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>Percentage change</th>
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<td><strong>Counterfactual</strong></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Total Russian outbound to Europe (000s visits)</td>
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<td></td>
<td></td>
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<tr>
<td>Counterfactual</td>
<td>18,136</td>
<td>19,906</td>
<td>21,236</td>
<td>22,460</td>
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</tr>
<tr>
<td>Current sanctions</td>
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<td>18,698</td>
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<td>16%</td>
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<tr>
<td>Increased sanctions</td>
<td>18,136</td>
<td>17,140</td>
<td>15,787</td>
<td>16,969</td>
<td>16%</td>
</tr>
<tr>
<td>Conflict</td>
<td>18,136</td>
<td>16,153</td>
<td>13,298</td>
<td>13,291</td>
<td>16%</td>
</tr>
</tbody>
</table>

*Europe is defined as ETC members plus France, Netherlands and UK

Source: Tourism Economics
3.1 Baseline & counterfactual outlook

The chart below shows the percentage change in the number of Russian arrivals to Europe from 2014 to 2016 in a situation which assumes no further sanctions in the short to medium term. Because the first quarter of 2014 was relatively unaffected by the crisis, there is some reprieve in terms of the losses suffered. However, we expect the biggest fall in 2015: down by 10% compared to the counterfactual outlook as Russian sentiment towards Europe will still remain low even as some of the sanctions expire. Some impact will be carried into 2016 before the market recovers from the crisis as it exists in its current capacity. Note however, that while we expect a fall in the number of absolute arrivals to Europe from Russia, we would still expect some growth from this market across the period for Europe as a whole albeit weaker than in the counterfactual at first. For 2016 some faster growth would be expected as the impact lower sentiment passes under the assumption of a resumption to more normal trends with some convergence with pre-crisis expectations in the longer term. Oxford Economics places around 60% probability on this outcome.

![Bar chart showing % change in Russian arrivals to Europe](chart)

Source: Tourism Economics

The baseline assumption is that travel from Russia to most European destinations remains weaker than would otherwise be expected into Q3 and for the remainder of the year. Specifically, the drag on growth by country is expected to continue with some moderate improvement on Q2 estimates in line with the above profile.

Effects will vary considerable by country according to the year-to-date performance. For countries which do not report any year-to-date data, such as France, an adjustment is added to the counterfactual forecast consistent with the regional average. Spain is expected to shoulder a large burden, as over 15% of the fall in Russian travel to European destinations will be felt there. This is consistent with the sizable year to date fall in travel to this large, top-of-mind destination.
Other countries which will experience large falls will unsurprisingly be the Eastern destinations which also attract large volumes of Russian travellers. Poland will have a notable impact following the strict imposition of sanctions.

The negative impact on Turkey relative to counterfactual is notable, although this still involves some large growth over 2013 levels albeit moderately weaker than in the counterfactual. Due to the very large size of Turkey as a destination for Russian travel any small change in percentage growth rates will be associated with a large number of people and a large share of any changes at the total European level.

Greece and Cyprus are assumed to continue to experience growth in line with the counterfactual case, albeit form a higher level given the very positive trend in data for 2014 to date.

In the charts on the following pages the expected scale of the change in Russian arrivals by European destination is displayed. The scatter plot also shows the expected difference as well market size. Those destinations in the bottom right quadrant stand to lose the most as large destinations for Russian travel expected to experience much lower arrivals than would otherwise be expected. These destinations are all favoured by Russian travellers and are larger than average destinations in terms of visits. Falls for these destinations, including Spain, Poland, Czech Republic, and Finland will be more significant than the large changes in arrivals for Sweden and Norway due to current reliance on the Russian market.

Note that upon initial inspection, a country’s position on the scatter graph might wrongly suggest that that country is now seeing a fall in the numbers of arrivals from Russia due to sanctions. However, because this chart shows the percentage change in arrivals compared to our counterfactual outlook, this is not necessarily true. In the case of Turkey for example, pre-crisis growth in arrivals from Russia was expected to be 17.3% in 2014, but owing to more recent data this has since been revised down to (a still very strong) 13.7%.

The same is also true for the bar chart which shows just the percentage change in Russian arrivals, comparing the 2014 counterfactual level to new estimates for the number of Russian arrivals in 2014 based on the impact of the current sanctions.

Under this scenario the level of Russian arrivals to ETC constituent countries is expected to be 1.8 million lower in 2016 from our counterfactual estimate of 22.5 million to 20.6 million.
Percentage change in Russian arrivals from counterfactual in 2014

Sizing of market is also considered based on no. of visits in 2014

Percentage change in Russian arrivals from counterfactual in 2014

Based on the impacts of current sanctions

Source: Tourism Economics
3.1 Extended sanctions

The probability of some sort of escalation in the conflict, including increased sanctions and a worse outcome than in the baseline, is valued by Oxford Economics’ at around 30%, encompassing either this scenario outcome or the worse conflict scenario.

Based on the observed impact of the current round of sanctions on Russia, this scenario considers what would happen if all European countries uniformly adopted more restrictive measures. This would give a further resulting fall in arrivals from Russia from all countries and notably it is assumed that Turkey also imposes sanctions giving one of the largest differences from the baseline.

In this scenario we see the majority of the effect in 2015 as the new sanctions would take likely effect in late 2014 and effects would linger into the following year. The estimated change in market share calculated to 2014 is assumed to persist further into 2015 before some partial recovery in 2016. 2016 will only bear the residue of the impacts as we expect sanctions and associated ill-sentiment to eventually be forgotten about in the longer term.

The increased sanctions would likely deter Russian travel by a greater amount than in the baseline outlook with a fall in arrivals expected for both 2014 and 2015 as a whole. Arrivals would be almost 15% lower than counterfactual in 2014 and around 25% lower than counterfactual in both 2015 and 2016 as any growth is expected to be consistent with baseline expansion, retaining the gap in terms of visits. In the longer term, travel is still expected to converge to pre-crisis arrivals levels to some extent as relationships normalise. This process will take much longer than in the baseline outlook.

Source: Tourism Economics
Under this scenario the level of Russian arrivals to ETC constituent countries is expected to be 5.5 million lower in 2016 from our counterfactual estimate of 22.5 million, to 17 million.
3.2 Conflict

The conflict scenario amplifies the impacts arising from increased sanctions and also considers the impact of even worse economic trends according to scenarios using Oxford Economics’ global macroeconomic model. The bulk of the impact on European arrivals from Russia is felt in 2015. The conflict scenario however, envisions a longer lasting impact into 2016, with only a small let-up in the percentage change on counterfactual estimates.

Oxford Economics places a 15% probability on a full conflict between Russia and Ukraine. The ceasefire between the various groups within Ukraine has held to date but this appears to be somewhat fragile and tensions remain high, hence the relatively high risk attached to this outcome. Parliamentary elections called for 29th October are a focal point for tensions to rise again.

Under this scenario, further sanctions would likely be imposed as in previous scenarios restricting Russian companies’ and banks’ access to capital markets, with further controls placed on monetary transfers. A key assumption is that all Russian borrowers would face restrictions on foreign capital market access, and Russia would be cut from the international payments system. Oil and gas exports from Russia would be disrupted by the restrictions on payments from Western markets, while Russia may also choose to reduce exports as a counter-measure.

Economic damage would be greatest within Russia, with further massive falls in the value of the rouble, soaring inflation and subsequently interest rates and borrowing costs for business. GDP would be expected to fall in the remainder of 2014, with over
6.5% decline in 2015. Falling income and spending power abroad, would adversely affect outbound travel demand.

For 2014 and 2015 the negative sentiment impacts imposed in previous scenarios are added to the lower demand from the economic indicators. Some large declines are felt in many European destinations.

Under this scenario the level of visits to European destinations from Russia would be up to 40% lower than in the counterfactual outlook as effects are stronger and persist for longer with only minimal recovery expected in 2016. Arrivals are anticipated to be 9.2 million lower in 2016 than our counterfactual estimate of 22.5 million, to 13.3 million.

**Divergence of scenarios, ETC arrivals**

Source: Tourism Economics
ETC Member Organisations

In this report, Europe is defined as the ETC member countries plus the major Western European destinations of UK, France and Netherlands.

<table>
<thead>
<tr>
<th>Country</th>
<th>Organization</th>
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<td>Flanders: Tourism Flanders</td>
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<td>Wallonia: Tourist Office for Wallonia-Brussels</td>
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