

Impact On Tourism Of Escalating Tensions Between The UK And Argentina

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In the run-up to the 30th anniversary of the Falklands War, tensions between Argentina and the UK are building, with the UN appealing for diplomacy to avoid further deterioration in bilateral relations.

Two British cruise ships, P&O and Princess Cruises, were refused disembarkation at Ushuaia in Argentina in February 2012 after a visit to the Falklands.

Euromonitor International assesses the potential impact to Argentina's travel and tourism industry, along with the broader business implications.

Importance of tourism to the Argentinian economy

Travel and tourism is an important contributor to Argentina's economy, with tourism expenditure holding a share of 5% of GDP in 2011. More importantly, it is a significant employment generator, with tourism accounting for 10% of the country's workforce. Argentina has been slower than other Latin American destinations to push the importance of tourism. However, in 2010, it took an important step by establishing a dedicated Ministry of Tourism. INPROTUR and the Argentine Tourism Chamber announced a six-pillar strategy to promote Argentina's international offer, focusing on authentic, active, natural, gourmet, MICE and high end. The aim is to promote its unique attributes to mid-to-high-spending international visitors, with positive results to date with growth in arrivals of 9% in 2011, and a corresponding increase of 28% in incoming tourist receipts.

Argentina expects to attract 6 million visitors in 2012, with regional neighbours Brazil, Chile and Uruguay accounting for 60% of inbound trips. The US is Argentina's largest international source market, with 300,000 visitors.

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Back from the brink

Argentina has picked itself up since its high-profile financial default and the recession of 1999-2002, which led to a bailout by the IMF. The country still has challenges to overcome, with high rates of inflation. In February 2012, The Economist even announced that it was no longer going to use Argentina's government source on inflation due to the lack of transparency and credibility of the government's official data. In January 2012, the government announced the introduction of restrictions on imports of certain goods and tighter controls on the banking system. Since October 2011, the government has been introducing a series of controls aimed at containing capital flight from Argentina.

UK "small but high-spending source market"

UK visitors account for 1% of total inbound arrivals to Argentina, with 50,000 visitors in 2011, yet represent 3% of incoming tourist receipts, with leisure accounting for the majority of visits. There may not be many UK visitors but they are a lucrative source of incoming receipts, spending US\$140 million, with an average spend of US\$3,000 per trip. UK arrivals are expected to register a CAGR of 5% compared to a CAGR of 9% for incoming tourist receipts over 2011-2016. Currently, Argentina has seven flights per week to the UK, operated by British Airways.

Like many other tourism boards, Argentina has identified emerging markets such as China and Russia as new sources of demand, with 15,000 Chinese tourists reported to have visited Argentina in H12010. No visas are required for travel between Argentina and Russia, which helps facilitate tourism. It is important to diversify source markets and tap into new dynamic markets such as China, but equally develop existing corridors such as between the UK and Argentina, as emerging source markets should not to be viewed as a substitute for demand from developed markets.

Boycotts and bans

It is too early to predict whether the escalation in tensions between the UK and Argentina will have a long-term impact on future tourism inbound flows from the UK. The refusal to allow two British cruise ships to dock after visiting the Falklands was at the end of the summer season 2011/2012, therefore if the stand-off eases after the 2 April anniversary, there may be limited damage to forward cruise bookings from the UK.

However, if relations continue to sour and there is a knock-on effect at a regional level, with Mercosur partners then backing Argentina's recent UK import boycott then growth would be heavily impacted in the long term.

The boycott in March 2012 called by the Argentina's Minister of Industry has targeted 20 British companies including Finning Argentina and Syngenta. The problem, however, with bans on UK companies is that global ownership is not clear-cut. For example, P&O is ultimately owned by Carnival, which threatens not just British interests but international ones.

Carnival is also currently facing a couple of black swan events following the Costa Concordia disaster in Italy in which 32 people lost their lives and the latest incident with Costa Allegra near the Seychelles. The company is likely to suffer income losses of up to US\$100 million in 2012 as a result of the tragedy. The company only launched its first South American cruise in 2009, so if it continues to face difficulties in the region it would most likely redraw its Latin American itinerary to avoid trouble spots.

Ushuaia bears the brunt

Of the 100,000 cruise passengers that visited Ushuaia in 2009, the UK accounted for 7,000 and ranked fourth after the US, Germany and Canada. The UK accounts for twice as many visitors to Ushuaia as Argentina, and UK tourists are likely to be higher spenders.

Ushuaia, known as El Fin del Mundo “the end of the world” is one of two major gateways to the Antarctic, the other being New Zealand. Due to the bad weather, tourism is highly seasonal and the local Chamber for Tourism has taken steps to reposition it as a year-round destination by promoting ski tourism and also a Tierra del Fuego cultural festival, named after the national park.

Unfortunately, the region that applied the Gaucho Rivero ban on the UK flag-flying cruise ships is ultimately the biggest loser thanks to lost revenue from cruise passengers. Not only will international cruise operators lose out, but also local tour operators that organise land-side excursions will suffer losses, as well as shops and restaurants. In the longer term, travel accommodation providers in Ushuaia will miss out on potential repeat visits.

The centenary in 2012 of Captain Scott's death after his failed attempt to reach the South Pole would be an ideal opportunity to showcase the region's unique heritage, targeting baby boomers from Europe and the US who are the keenest cruisers and are seeking authentic experiences and adventure.

Worst case scenario averted?

Argentinian President, Christina Fernandez, announced that the country will not boycott the London Olympics and Paralympic Games in 2012. Argentina has earmarked the importance of sports tourism in Latin American, and aims to fully exploit the opportunities to arise from its neighbour Brazil hosting the World Cup in 2014 and the Olympics in 2016. The President's statement helps to dissipate the threat of a tit-for-tat boycott of future sporting events by the UK and any potential Commonwealth members that may decide to support the UK.

Long-term damage

Global travel companies such as airlines and hotel chains will be keenly watching how the Argentina-UK dispute unfolds. InterContinental Hotels Group (IHG) opened a new outlet for its luxury brand, InterContinental, in Buenos Aires in 2011. If tensions continue to mount, international hotel chains such as IHG may put postpone further openings, which goes against the country's aim to improve its high-end tourism infrastructure.

Qatar Airlines announced the launch of a Doha-Sao Paulo flight via Buenos Aires, which boosts connectivity between two emerging regions and is important for future business links. Emirates and Etihad are likely follow suit, but only if the business environment is conducive to international trade, which is critical for ensuring a regular flow of high-spending business travellers to justify a route's long-term viability.

However, where one country lowers barriers, another country tends to open theirs. If Argentina ramps up its confrontation with the UK, it is likely that Brazil will pick up some of the spare demand, as UK visitors shift from Buenos Aires to Rio de Janeiro. New Zealand may also step in to exploit it being the only alternative access point to the Antarctic in Scott's centenary year.

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