



European Economic and Social Committee

ECO/262
**Innovation in island
tourism**

Brussels, 15 July 2010

OPINION

of the

European Economic and Social Committee

on

Innovation in tourism: Defining a strategy towards sustainable development in islands
(own-initiative opinion)

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Rapporteur: **Ms Gauci**
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On 16 July 2009 the European Economic and Social Committee, acting under Rule 29(2) of its Rules of Procedure, decided to draw up an own-initiative opinion on

Innovation in tourism: Defining a strategy towards sustainable development in islands.

The Section for Section for Economic and Monetary Union and Economic and Social Cohesion, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 23 June 2010.

At its 464^{er}d plenary session, held on 14 and 15 July (meeting of 15 July), the European Economic and Social Committee adopted the following opinion by 153 votes to 1 with 13 abstentions.

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1. **Conclusions**

- 1.1 The EESC suggests that On-going life-long learning programmes should be developed specifically for island staff working in the tourism sector – specific funding from the ESF and cohesion funds should be earmarked for this. An appropriate framework of labour relations to promote quality working conditions and measures to support entrepreneurs (networks, marketing, promotion, ...) should help foster tourism on islands.
- 1.2 Similarly, and bearing in mind the growing importance of Internet booking for travel & tourism, small and medium-sized companies in the (island) tourism sector should be offered either EU-supported training, or simplified access to appropriate service providers to develop a successful web-presence, without which they risk losing 'modern' customers.
- 1.3 The EESC proposes that an inter-regional school, supportive of a concept similar to an "Erasmus for students and workers in the Tourism sector" be set up in a strategically placed island.
- 1.4 Although business, and especially small business, benefits when there is less and better legislation, a specific administrative authority within the European Commission services, e.g. a Directorate General for Tourism should be considered – tourism accounts for some 11/12% of EU GDP, but attains as much as 25% of GDP in islands like Malta. The EESC sees such a tourism authority on the Commission as the watchdog of (island) tourism interests within the EU institutions and policies. The EESC has proposed that a European Tourism Agency should be set up in previous opinions on Tourism – the Committee reiterates this proposal.

- 1.5 Islands have an inherent handicap compared to the mainland: distance, accessibility, insularity. The EESC believes that a favourable fiscal regime should be sought, taking into account the special efforts that have been made on investments, maintaining and creating jobs, adapting the periods that businesses are open, all with a view to mitigating the effects of seasonality.
- 1.6 The EU definition of islands is inappropriate in a number of cases, and often stand in the way of solutions. Earlier EESC opinions¹ have recommended to modify this definition. This recommendation is hereby repeated.
- 1.7 The European Union is developing a new concept in regional policy, namely macro-regional cooperation (e.g. the Baltic Sea Strategy – the Danube Strategy). The EESC is persuaded that this concept is an interesting one and one that can certainly be applied to groups of islands. Thus a macro-regional strategy for the islands of the West-Mediterranean could improve some of the problems of accessibility experienced by them.
- 1.8 The EESC takes a favourable view of, and gives its full support to the CALYPSO programme on social tourism. The EESC believes that after the preparatory actions which started in 2009, a full programme should be pursued. The EESC recommends to integrate the CALYPSO programme in a future macro-regional strategy encompassing the West Mediterranean region.

2. **Introduction**

- 2.1 Tourism makes an important and increasing contribution to economic growth and can account for, in extreme cases, up to 70% of GDP of an island. It represents one of the best opportunities to create income and employment. While the market share of Europe in world tourism is slowly declining, growth of tourist arrivals in the EU is forecast to grow. Growth of tourism, however, cannot be taken for granted as: the 2008-09 financial crisis demonstrated very acutely.
- 2.2 New forms of tourism are emerging in the place of traditional sea and sun mass-tourism. These include more innovative and, specialised forms of "greener", customised and experience-oriented tourism. Moreover, the expansion of demand for tourism, as well as demographic changes such as (a growing number of "senior" travellers) accelerate the segmentation of tourism-products and the creation of new types of tourism-products which incorporate a high level of novel services.
- 2.3 Innovation is a major concern for economic policy, both at the EU level, with the Lisbon and EU2020 strategies), and at the regional level, with increasing public investment in research, education, training and support of the "most innovative sectors" (e.g. transport, energy, green

¹ "A better integration in the internal market as key factor for cohesion and growth for islands", OJ C 27 of the 3.02.2009, p.123.

industries). This is also true for services, especially those requiring a level of knowledge or qualifications, which is considered typical for most tourism activities (e.g. accommodation, catering, real estate).

- 2.4 Today's tourist is looking for best quality at the lowest price. Successful island tourism therefore requires not only a well-educated staff to start with, but a commitment of employers and their employees towards life-long learning so as to maintain high standards of service in the fast-changing world of the discerning and demanding traveller. One of the pre-requisites for quality tourism is ensuring that people are well-trained and well-qualified.
- 2.5 A main area of change and innovation in tourism concerns the use of information and communication technologies (ICT). The pervasive presence of ICT and the Internet in the tourism-industry enables consumers to interact directly with service-providers. For the sector as a whole, this can lead to a reduction of (transaction) costs, which subsequently leads to a process of cutting out intermediaries such as travel agents or even tour operators. Major innovations in the area of mass travel such as the emergence of low-cost airlines have largely influenced the growth and further evolution of the tourism industry.
- 2.6 Several issues for islands persist. In general, islands lag behind the mainland. Furthermore, many of these new technologies and processes are not controlled, produced or even maintained by the businesses which are directly concerned by them.
- 2.7 Island authorities are reviewing the implications of these new industry practices for their own tourism policy initiatives and actions. Their primary concern is to ensure that policies and actions support and encourage innovation, which in turn contribute to further development of their tourism-industry.

3. **The imperative need for innovation**

- 3.1 In view of the changing dynamics in society, and the demise of mass tourism as organised by the tour operators of the 20th century, island tourism must innovate and adapt to a new paradigm to be successful. Innovation resides within the people actually working in the tourist sector. Paradoxically innovation also disrupts established habits and people will resist change if they do not see an immediate benefit in it.
- 3.2 During the latter half of the 20th century, supply in the mass tourism market dictated demand. However, as a growing number of destinations became available and saturated the market. Today volatile demand has gained the upper hand in a typically consumer-dominated market. As a consequence, suppliers suffer. This presents a new challenge which can be solved through innovative and creative thinking by developing a rich panoply of niche forms of tourism, such as therapeutic tourism, green/eco tourism, farm tourism, nature tourism, etc.

3.3 In addition, life styles have changed significantly in recent years. The tourism-industry is faced with an ageing, healthier and wealthier population taking more and shorter breaks. For a large group of tourists, the emphasis has moved from "lowest available price" to "best quality/for the best price". Consumer loyalty is declining and tourists are looking more and more for sustainability and authenticity and away from mass tourism. Island tourism must imperatively address the issue of innovation if it is to survive in these circumstances.

4. **Island tourism and product innovation**

4.1 In large tourism-industry companies, innovation is routine and a standard component of corporate decision-making. To ensure that they will not be caught off guard by unexpected innovations, companies today include innovation as part of their everyday planning. For them, innovation is simply just an additional production factor.

4.2 However, for the destination-oriented small-business tourism industry, the possibility to fully benefit from innovation is restricted. The main limitation is a lack of staff and funding. Above all, SMEs in tourism are all concerned with the day-to-day needs of regular customers and are not in a position to set aside funding for R&D.

4.3 The tourism industry is largely dominated by SMEs and that is particularly true for islands. To survive in an increasingly competitive and global environment, tourism-enterprises, particularly small ones, will need to achieve economies of scale and critical mass in order to reduce transaction costs, increase productivity and gain market power. Restructuring and cooperation mechanisms will help enterprises to adapt to changes and increase their competitiveness.

4.4 A challenge for the tourist industry is to offer new products and services. *Experience-based tourism, sustainable tourism and natural/cultural/heritage tourism* are some of the strategies that are at the origin of many innovative tourism-products in many European destinations today. Islands should promote these products more as they relate to the core of their "insular identity".

4.5 Experience-based tourism emerges from the interaction between tourists and destinations. Tourists' overall experience is composed of numerous small encounters with a variety of people working in the tourism-industry.

4.6 Increased consumer awareness of environmental issues stimulates tourism-businesses to innovate and improve their environmental performance, both in the interaction of tourists with the environment, and in their own environmental performance. Indeed, the major products in which innovation can be found are in niche areas such as eco-tourism and adventure-tourism.

4.7 Cultural tourism is also a significant and growing sector, attracting relatively affluent and educated visitors. Several islands have undertaken a repositioning of their cultural services

and are developing innovations which are aimed at increasing value through culture. They diversify their tourism and increase the length of stays through, e.g. better packaging and promotion of available cultural experiences and events.

- 4.8 If tourism is not harmoniously integrated into island society, and offers only benefits to a few inhabitants, but disorder to many others, it will not be a sustainable and harmonious part of societal activity. To ensure population "buy-in" to support an island tourism society, bottom-up planning and involvement is needed. Tourism can provide an opportunity to bring an island's population together by getting everyone involved and by helping everyone to understand that tourism has wide-reaching effects on improving the natural and urban environment, land-use and spatial planning, social services and preservation of cultural heritage (architecture, crafts, traditional food specialities, etc.).
- 4.9 Different types of tourism may prove to be mutually incompatible with each other, especially in a small island environment. For instance, developing a niche market such as summer student language courses can prove to be incompatible with developing a summer market for seniors when the rowdy behaviour of the young after classes clashes with the elderly who are looking for quiet. Again, bottom-up support for the type(s) of tourism an island opts for is needed so that this choice may prove successful.
- 4.10 Finally tourism concerns not just the people directly working in the hotels, restaurants or airlines. It involves many other sectors feeding into the tourist sectors, from the local plumber to the local farmer.

5. **Improving Island tourism through process innovation**

- 5.1 The tourism-industry has always been very proactive with regard to adopting new technologies such as global distribution systems. Recent advances in telecommunications, networking, databases, data processing and electronic marketing provide many new opportunities for tourism-business. These are significantly impacting traditional tourism business models. The use of broadband Internet access with information and communications technology (ICT) adds value to tourism services and products and supports the development of industry networks and clusters. The problem for this is the absence of broadband technology and the lack of specialised knowledge and skills to fully benefit from ICT. Specific training should be foreseen for island populations to fill such gaps.
- 5.2 Consumers are becoming increasingly familiar with the use of ICT to make their tourism-arrangements. At EU level today, 2/3 of future tourists organise their trip via Internet, and more than 50% buy their trip online. They seek flexible and easily accessible products and like to communicate directly with tourism producers. To take advantage of this ICT revolution, entrepreneurs need to re-engineer the entire marketing process of the industry. Internet technology offers enterprises and consumers alike a great potential for direct on-line business.

- 5.3 Many European islands with a long-standing tradition in tourism are suffering from growth and production weaknesses. Tourism there is under tremendous competitive pressures. In the liberalised global market for tourism, islands are competing with new destinations that can benefit from resources that are intact or very little exploited and that have very favourable economic conditions including low wages, various forms of state aid and soft currencies.
- 5.4 As in all service-industries, the quality of the service-offer in island tourism depends heavily on the quality of its workers and people. Good labour conditions are linked to good service levels.
- 5.5 European island tourism, being predominantly made up of SMEs and characterised by high labour intensity has a productivity problem due to its fragmented nature. This diminished productivity makes it difficult for island in tourism to be competitive. This fact is reflected in the price charged.
- 5.6 The problem of seasonality has real consequences for job stability and makes working in the tourism sector less attractive. This is why we need to promote special contracts that guarantee stable employment for seasonal workers, with a view to giving them employment and social rights equal to those of permanent workers. The EESC has raised this matter in the past².
- 5.6.1 Fostering and renewing island tourism will require changing and modernising labour relations, especially in areas such as training, occupational advancement and careers, occupational functions, working days, and working hours and conditions, within the framework of social dialogue and collective bargaining between the social partners.
- 5.7 Access to islands, especially in today's fast-moving world, is mainly through air-travel. Travel by sea is not always a viable alternative. It requires both a solid infrastructure on land linked to a reliable network of maritime connections at sea. Maritime connections are by their very nature weather-dependent.

6. **Developing policy instruments for tourism marketing innovation in islands**

- 6.1 A real challenge for the authorities in charge of island-tourism is to determine the most effective way to develop and implement policy instruments which support tourism innovation without interfering with market dynamics. Good practice would be for governments to let the markets do as much as possible and only intervene when market failures occur.
- 6.2 Islands must carefully balance the potentially conflicting interests of businesses looking for growth, consumer-tourists looking for leisure opportunities and environmentalists seeking to protect nature. With regard to urban planning, a key question is: who to allow to decide on

² See EESC Opinion on "Socially sustainable tourism for everyone", OJ C 32 of the 5.02.2004, p. 1.

building projects. Potential conflicts exist between local councils, who may be fuelled by local business interests and regional or central authorities who look at the big picture and wish to temper unbridled growth in environmentally sensitive areas.

- 6.3 Governments should let innovating firms achieve economies of scale and seek innovation through cooperative alliances and other forms of networking. The most successful and promising vehicle for innovation in the tourism-industry can be achieved through cooperation, alliances and/or networks in areas such as technology, marketing, distribution, and sharing of human resources. So far, it appears that cooperation in tourism is insufficient, notably in SMEs. In this respect, governments should support an innovative tourism-policy which promotes coherence and synergy.
- 6.4 Addressing the issues of tourism is unthinkable without including the spatial dimension. It is above all the commoditisation and marketing of attractions. These are the raw materials of tourism. They create the market destinations. Visitors choose the destination that seems to offer the greatest utility and the goods for which they are willing to pay. Their willingness to pay increases with the uniqueness of the destination. In most cases these are public goods or common resources such as protected landscapes, or land reserved for agricultural use which islanders need to protect and manage, so that they will not be just consumed or destroyed.
- 6.5 Local attractions and innovative services give destinations their distinct flavour. They also limit the product innovation possibilities, as these innovations cannot be produced without the incorporation of destination goods. For instance, a seaside resort cannot be transformed into a mountain retreat. A tourism country with a variety of attractions can, however, reposition itself on the market.
- 6.6 Mass tourism based on sun, sea and McDonalds is, in the long term, not necessarily the best form of tourism on islands. Examples in Scotland for instance demonstrate that small-scale, specialised forms of island tourism can be very successful. No one size fits all, and this is particularly important to bear in mind when preparing a tourism strategy for islands. What is ideal for a small Mediterranean island may prove to be inappropriate for a very small island off the coasts of the United Kingdom, Ireland, or Sweden.
- 6.7 The fate of destinations depends on many independent variables. These include the location and potential of source markets as well as the accessibility as expressed in transport and time-related costs. These variables can only be influenced by the public sector through mechanisms such as Public Service Obligations or Territorial Continuity systems. Moreover they determine the nature of product innovations to a great extent. The challenge for the local entrepreneur is therefore to create additional customer value with new products.
- 6.8 A current theme in the EU is environmental sustainability; it covers issues such as identifying useful mechanisms for inducing travel related emission reductions and how environmental sustainability has more generally become a key driver of tourism competitiveness.

- 6.9 What for example is keeping islanders from improving beaches? Or from flaunting their cultural heritage? Why there are just a few indicated tourist resorts when the whole of an island can, for example be a tourist attraction? Why so much concentration in time and so short "tourist seasons" when in other places tourism is an all year round activity? Advertising is just for a couple of spots when it can be for all villages and towns. The residents in each town and village have to learn to be proud of their home town and village and only then can they protect and sell their product and heritage.
- 6.10 With an increasing number of tourists visiting islands, the authorities will need to invest further to protect the sanitary quality of island destinations, ensuring good quality drinking (and bathing) water, diligent waste treatment, sustainable energy, and safe food supply.
- 6.11 Building consciousness of competitiveness is very important, as Islanders need to ensure that competitiveness is high on their agenda. This cannot be done by government alone. Workers, entrepreneurs, management and administrative institutions have to all be on board.
- 6.12 In practice there are three influencing and decisive factors:
- first is government involvement when it comes to health security, environmental sustainability;
 - secondly the business private sector element which can include ground transport, air transport and ICT infrastructure; and
 - thirdly the human cultural elements of each country's resource endowments.
- 6.12.1 Government has great influence on the first category. If an island is ranking low on environmental sustainability it is simply not good enough. It shows how right environmental and culture pressure groups are to keep insisting for more awareness of island cultural heritage and the urgent need to invest more to protect it.
- 6.12.2 When it comes to tourism-infrastructure, there is a lot to be done too. A low score here can give the stimulus to act and take the opportunity to invest more. A period of recession is a good time to review the infrastructure and to devote more resources to upgrade. Islands must upgrade now and seek new market niches through new private and public investments. The government has to ensure that the private sector has greater access to finance and that banks are more accommodating to the small and medium enterprises. They must make full use of all the funds available under the EU stimulus package. More important is that government entities do not impose inappropriate rules on the private sector to squeeze entrepreneurs out of whatever capital they have available for investment.
- 6.12.3 There is the dark side of island tourism: the underground economy with its additional revenue for islanders yet its negative impact on employment and working conditions. Secondary houses tend to increase the price for island residents but also representing also a source of

revenue. Further there is also the saturation of infrastructure for water, waste, energy with as much as 20 times the number of local population to deal with during peak months.

6.13 A consequence of seasonal fluctuation in requirements of labour is the emergence and presence of a black economy. Misuse, even abuse of student labour, or use of illegal labour harms both the legal workers and the illegal workers as it reduces the levels of salary paid. Illegal labour can make up a significant proportion of people working in the tourism sector. In some countries it exceeds half the workforce.

6.13.1 Cheap and mobile labour from new Member States, e.g. from Poland, Bulgaria and Romania, is an increasingly visible feature in Western tourism, including island tourism. Under EU rules of free circulation of labour, this is an unstoppable trend and the question that entrepreneurs and workers face is how they can respond to it. There is a need to ensure that businesses can be competitive, while at the same time ensuring equality and ascertaining that working conditions are respected and workers are not exploited.

6.14 That is why island tourism needs a measured approach. Tourism is vital for islanders and island SMEs. Now is the time to act. Islanders must benchmark themselves against the competition. The short term immediate problems have to be tackled first. For tourism to remain sustainable and an important engine of economic growth there has to be an effective medium to long term action.

7. **Facilitating networks for organisational innovation of tourism enterprises and destinations**

7.1 Several branches of the tourism industry, e.g. airlines, hotel chains, tour operators or car rental agencies, are highly concentrated and are often global players. On the other hand, SMEs still constitute the bulk of the tourism-industry in islands. To survive in the face of such global competitors, island tourism-firms should try to engage in competition that is constructive rather than destructive. Whereas the former would grow the available market, broaden the product platform and finally gain successful product differentiation and innovation for world-class products, the latter would result in firms competing for the same market, thus leading to product convergence and price wars. It is therefore important that tourism-entrepreneurs know how to work more together for there to be constructive competition.

7.2 Island-tourism entrepreneurs, particularly small ones, are more sensitive to competition from their partners than to the benefits of working together. In the world of tourism, a distinction can be made between geographical networks/clusters and activity-based networks/clusters such as "green" tourism, wine-country tourism, etc.. Networks/clusters can play a major role in building up the capacity of operators to innovate e.g. through lower experimentation costs, increased visibility and better responsiveness to shifting demand. As in other service industries, innovation in the tourism-industry relies essentially on networks and cooperation.

- 7.3 Cooperation between politicians, employer and trade union organisations, as well as the integration of bodies, foundations and associations which play a part in the tourism sector, is also one of the key factors for the constant growth of the island tourism industry. While the business sector plays the main role in establishing networks, local governments are responsible for the development of infrastructure that enables better cooperation and supports market networks.

Brussels, 15 July 2010.

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of the
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