

The Honorable Franklin L. Lavin  
Under Secretary for International Trade  
U.S. Department of Commerce  
Testimony before  
Senate Commerce Committee's Subcommittee on  
Trade, Tourism, and Economic Development  
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Chairman Smith, Chairman Stevens and Members of the Subcommittee, thank you for the opportunity to update you on the status of the United States travel and tourism industry. Thank you also for your leadership in this important sector of our economy.

The travel and tourism industry in the United States is strong. Simply stated, the United States has the most innovative and the most diverse travel and tourism industry in the world. We offer experiences as varied as New York City to the Alaskan wilderness, Disney World to Yellowstone National Park, and Waikiki beach to our Nation's Capital. The United States is a travel destination second to none. The travel and tourism industry in the United States is the most capable in the world, with a dedication to quality service, marketing and entertainment. The prospect that international visitors in the United States might set a new spending record this year is testament to these facts.

The travel and tourism industry in the United States also faces its share of challenges from the impact of 9/11, to international pandemics such as SARS, to the continuing economic uncertainty of the airline industry.

### **Tourism and the U.S. Economy**

Let me give a brief overview of the industry before discussing existing challenges.

The travel and tourism industry is a major contributor to our nation's gross domestic product (GDP). Travel and tourism represents 2.6 percent of GDP and generated more than \$1 trillion of sales in 2005 alone.<sup>1</sup>

In 2005, the United States exported nearly \$103 billion in travel and tourism-related goods and services to more than forty-nine million international visitors. For perspective, total exports to trading partners such as Germany and United Kingdom were \$54 billion and \$83 billion respectively.<sup>2</sup>

It is no surprise that the travel and tourism industry is one of America's largest employers. Indeed, one out of every sixteen Americans is employed by travel and tourism-related businesses, ninety-four percent of which are classified as small businesses.<sup>3</sup>

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<sup>1</sup> U.S. Department of Commerce, Travel and Tourism Satellite Accounts

<sup>2</sup> U.S. Department of Commerce, Bureau of Economic Analysis

<sup>3</sup> U.S. Department of Commerce, Travel and Tourism Satellite Accounts

## **Recent Trends and Challenges**

While the United States tourism industry is strong and growing, in recent years it has had to grapple with core challenges.

Due to the tragic events of September 11, 2001 and the subsequent impact of the SARS outbreak, the United States' travel and tourism receipts and international visitor arrivals sharply declined. As the accompanying chart shows, receipts declined roughly 22 percent from the peak in 2000 to a trough in 2003. However, the industry has proven its resiliency recovering since 2003 to nearly record levels. Through 2005, we are .5 percent (one half of one percent) off our record receipts (exports) in 2000 and our arrivals are down just 4 percent from the all-time high in 2000.

Let me now touch on how we are responding to the post-9/11 environment.

## **Safety and Security**

When it comes to transportation policy, nothing is more important than the safety and security of Americans and those who visit our nation. I would like to compliment the work of the Departments of Homeland Security and State on this effort. We see no inherent conflict between our goal of tourism facilitation and the goal of security. Indeed, in our view, an effective system can move people in a rapid, friendly manner while concurrently focusing on security. Allow me to briefly review a few examples in this regard.

First, as an example of security initiatives that are efficient and tourist-friendly, the Departments of State and Homeland Security recently announced a "model airport" project to be implemented at both the Houston International Airport and the Washington Dulles International Airport. The goal of this initiative is to ensure a more welcoming environment for foreign visitors through improved entry procedures and passenger assistance measures.

Second, we are anticipating the implementation of the Western Hemisphere Travel Initiative (WHTI), which will require all travelers, including U.S. citizens, traveling to and from Canada, Mexico, the Caribbean, and Bermuda to have a passport or other accepted document that establishes the bearer's identity and citizenship to enter or re-enter the United States. Technological advances will allow us to strengthen border security and streamline the process to provide efficient entry into the United States.

Third, we are also working with the Departments of Homeland Security and State to assess various policies regarding the movement of people across our borders should a pandemic influenza occur. Through the Security and Prosperity Partnership, the United States is reaching out to its neighbors to collaborate on a coordinated policy regarding this issue. We are also collaborating with the Department of Health and Human Services in the development of guidelines for industry response should an outbreak occur.

## **Visas**

One of the challenges to increasing tourism is the reluctance of foreign travelers to accept the greater investment in time and effort necessary to obtain a visa after 9/11, due to the heightened security requirements and changes in the visa process. For example, the process now requires an in-person interview.

It is in the U.S. interest that visa applicants have ready access to our services. We support our colleagues at the Departments of Homeland Security and State in their efforts to administer a system that safely guards our borders while providing responsive, friendly service to potential visitors who we welcome.

Over the last few years, the Department of State has taken a number of steps to improve the transparency, efficiency and predictability of the visa process. These efforts have included adding new consular positions, investing in automating outdated systems, and finding new ways to streamline the visa process, while maintaining all necessary security measures.

Over 68 percent of our overseas travelers come to the United States from Visa Waiver Program (VWP) countries and 60 percent of all receipts (exports) come from VWP countries.<sup>4</sup> VWP enables nationals of 27 countries to travel to the United States for tourism or business for stays of 90 days or less without obtaining a visa. This is an important program to the U.S. travel and tourism industry and the discontinuation of VWP would severely affect the industry.

For citizens of non-VWP countries, a visa is necessary for entry to the United States. We must ensure that our visa policy excludes those who would do our country harm, but be vigilant that legitimate travelers are permitted entry. The Departments of State and Homeland Security are working every day to strike the right balance between “Secure Borders and Open Doors.”

## **Tourism Export Expansion**

It is important for us to also consider various policies and promotion issues affecting tourism.

### Facilitation of Chinese Group Leisure Travel to the United States

There is significant potential for growth of Chinese tourism in the United States. The impediments to this expansion lie in requirements imposed on leisure travelers by the Chinese government. Specifically, Chinese policies do not permit travel and tourism advertisements for destinations, such as the United States, that do not have an “approved destination status” agreement with China. This is currently part of our trade negotiations, and we are hopeful that we will achieve progress.

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<sup>4</sup> U.S. Department of Commerce, Office of Travel and Tourism Industries

## Air Linkages

The liberalization of air services between countries generates significant additional opportunities for the airlines, consumers, travel and tourism, and other industries. To date, the U.S. Government has initiated and completed over 70 Open Skies bilateral agreements with foreign countries. In addition, more liberalized (but not yet ‘Open Skies’) agreements are in place with China and Japan. In November 2005, the United States and the European Union reached an ad-referendum agreement on an Open Skies agreement that would affect all of its member countries.

## Travel and Tourism Promotion

In the United States, the private sector, States, localities and destinations provide the bulk of travel and tourism promotion. Having said this, in 2004, Congress directed the Department of Commerce to conduct a \$6 million campaign to market the United States as a travel destination. A private-sector Travel and Tourism Advisory Board was established, and they recommended allocating the funds to a pilot program in the UK, which is our nation’s largest tourism export market which had suffered a decline after 2001.

The objectives for the Department of Commerce’s U.S. Tourism Promotion Program were to 1) increase awareness of the United States as a travel destination; 2) increase positive perception of the United States as a travel destination; 3) increase interest and future intent to visit the United States; and 4) increase economic benefits from visitation.

A campaign was developed using the tagline “You’ve Seen the Films, Now Visit the Set™”. Using films featuring U.S. destinations as a vehicle to showcase America as a desirable and exciting long-haul destination for UK travelers. The cooperation of all of the movie studios and actors resulted in securing these film clips and images at no cost to the government.

An independent research schedule was developed to ensure the highest standards of accountability for the campaign. The reports concluded that the campaign met all of our goals. The advertising increased awareness by reaching approximately 12.8 million people in the UK. The advertising increased by 10 percentage points the number of people who mentioned the United States as a “dream destination” (above those who did not see the campaign.) The campaign increased the number of those who said they intend to travel to the United States by approximately 2 million people. A high percentage of those intended travelers actually converted into sales, with 362,000 visitors who saw the campaign booking a trip to the United States.

This program was continued for a second year in the UK, and a second pilot program is being launched in Japan this month, again with funding directed by Congress. An additional \$4 million has been appropriated, and we will continue to work with the Advisory Board to devise the best use of these funds.

We hope that the private sector will consider these results as they develop their own marketing strategies.

### Specialty Tourism

A developing phenomenon in the U.S. tourism industry is in the emergence of specialty tourists who visit our nation to take advantage of specific services, such as our health care and higher education systems. While not necessarily a pure tourism purchase decision, some elements of the travel and tourism industry play an important role in the consumer decision-making process.

#### Medical

The United States continues to be the top destination for advanced medical treatment and features many of the world's leading hospitals and clinics. By 2001, foreign visitors to the United States spent approximately \$1.9 billion on medical treatment. Following a sharp drop-off related to 9/11 and SARS, among other factors, these services exports totaled \$1.46 billion in 2002, \$1.571 billion in 2003 and \$1.661 billion in 2004.

Foreign competition for these patients and others who might in the past have preferred to visit the United States for treatment has been growing in recent years.

#### Education

Travel to the United States for university, college, and community college degree programs and specialized training courses by foreign visitors represents another specialized form of travel. Education, or "educational tourism," represents more than \$14 billion in U.S. services exports and is recovering from the setbacks of 9/11.

In both medicine and education, we believe strongly that the United States offers the finest systems and institutions in the world and encourage people to come here for their educations and for advanced medical treatment. These two areas provide some of the best ways to build the reputation of the United States.

### **Gulf Coast Region**

We are aware that Hurricanes Katrina and Rita have devastated the tourism industry in the Gulf Region. The challenges that affect many businesses there are no less profound for the travel and tourism industry. The Commerce Department has made a grant of \$500,000 to the Southeast Tourism Society to market the region to travelers. Our Travel and Tourism Advisory Board held its first meeting after re-chartering in New Orleans in March. At the Secretary's request they have submitted a strategy for recovery of tourism in the region. The Secretary has shared this document with the 16 members of the Tourism Policy Council and they will discuss these recommendations at their next meeting in July.

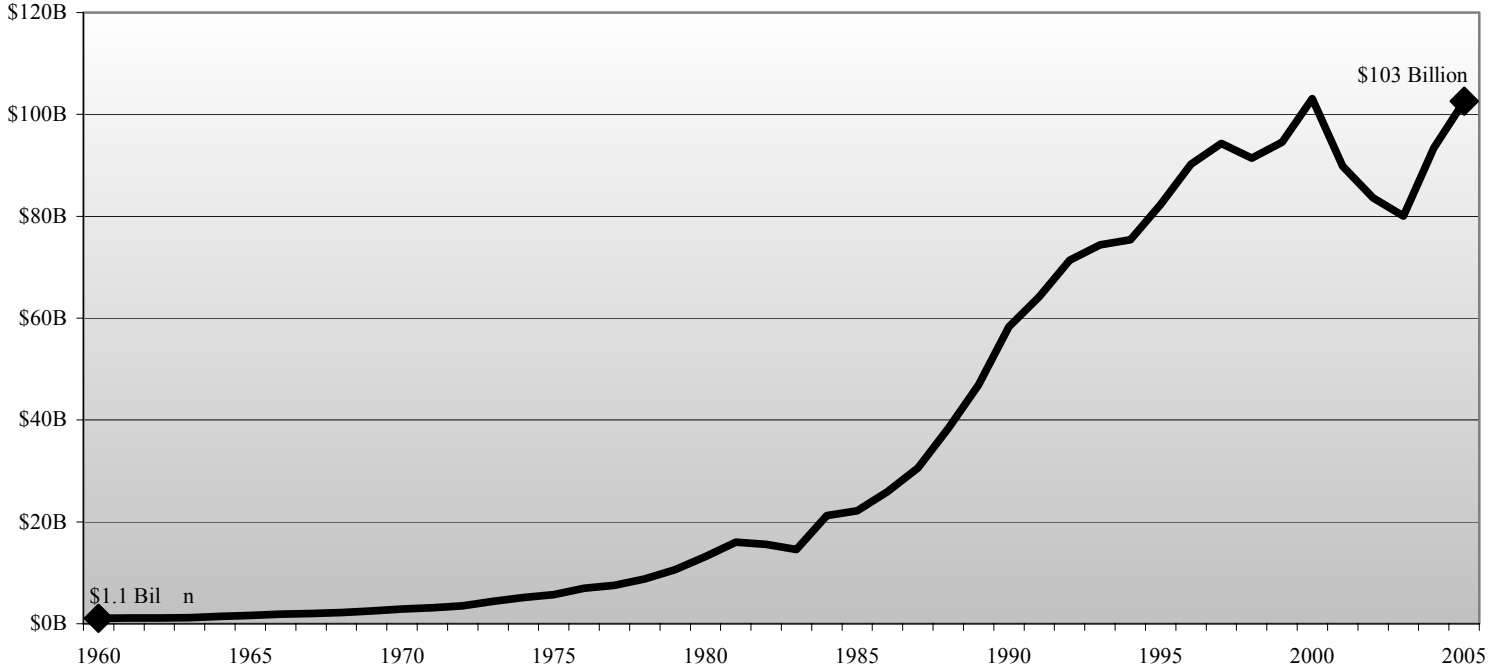
Travel to the affected parts of the Gulf Coast Region is increasing. Airport operations at the New Orleans International Airport dropped precipitously following Hurricane Katrina in late August 2005. Airline arrivals and departures declined 93 percent in September 2005 compared to September 2004. Airline passenger traffic has since grown to over 500,000 passengers a month from a low of 43,000 in September 2005.

## **Conclusion**

The travel and tourism industry in the United States is rebounding from the shocks of 9/11, and SARS, and is dealing effectively with the continuing economic challenge of the airlines. Since the last quarter in 2003, both arrivals and receipts have been on the rise. We anticipate, all other things being equal, that the sector will surpass the 2001 benchmark in 2006. The U.S. industry is growing at twice the world rate in global arrivals.

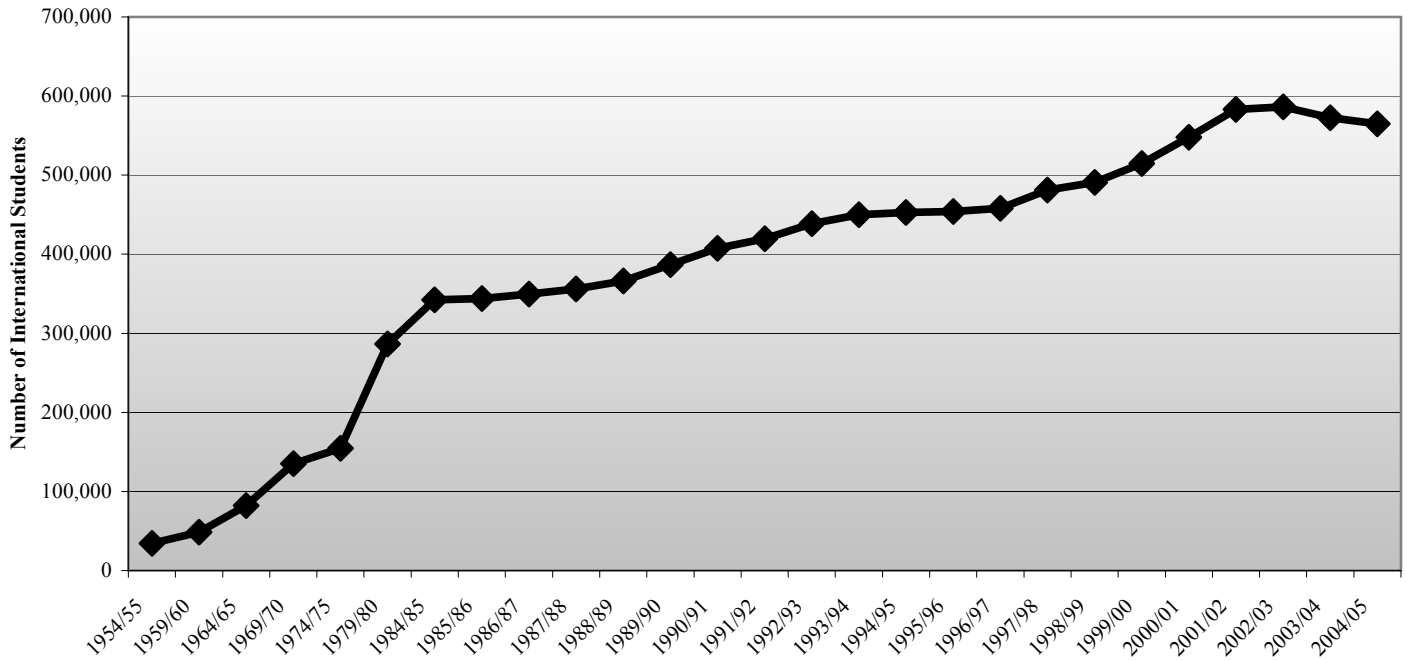
We believe that the appropriate role for government is to create a positive business climate by removing barriers within our own government and working with other governments to remove market impediments and build bridges to new markets. We are working with the private sector to develop a national tourism strategy that will further identify impediments to growth, and public-private solutions. We have taken and continue to take action to support the recovery of the travel and tourism sector in the Gulf Region. We are in discussions with our trading partners to facilitate market access. Our goal is to develop a comprehensive travel and tourism policy framework to foster the development of the finest travel and tourism industry in the world.

## U.S. Travel and Tourism Receipts (Exports) 1960-2005



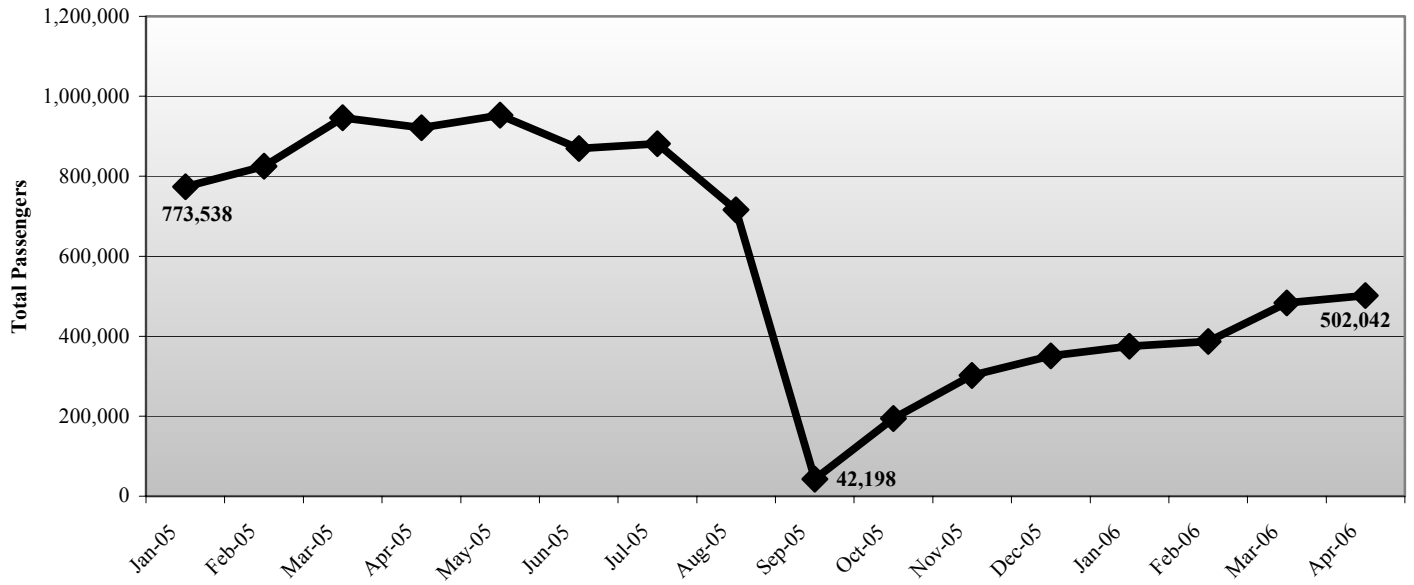
Source: U.S. Department of Commerce, Bureau of Economic Analysis

## International Student Enrollment in the United States



Source: Institute of International Education

## Impact of Hurricane Katrina on Louis Armstrong New Orleans International Airport



Source: New Orleans International Airport