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STATE OF THE TOURISM INDUSTRY ONE YEAR AFTER SEPTEMBER 11TH

HEARING

BEFORE THE

SUBCOMMITTEE ON CONSUMER AFFAIRS, FOREIGN COMMERCE AND TOURISM

OF THE

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION
UNITED STATES SENATE

ONE HUNDRED SEVENTH CONGRESS

SECOND SESSION

SEPTEMBER 25, 2002

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ONE HUNDRED SEVENTH CONGRESS

SECOND SESSION

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WEDNESDAY, SEPTEMBER 25, 2002

U.S. SENATE,
SUBCOMMITTEE ON CONSUMER AFFAIRS, FOREIGN
COMMERCE AND TOURISM,
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,
Washington, DC.

The Subcommittee met, pursuant to notice, at 2:31 p.m. in room SR–253, Russell Senate Office Building, Hon. Byron L. Dorgan, Chairman of the Subcommittee, presiding.

OPENING STATEMENT OF HON. BYRON L. DORGAN, U.S. SENATOR FROM NORTH DAKOTA

Senator DORGAN. Good afternoon. We are holding another hearing slightly less than a year after the hearing we held last year in the aftermath of September 11th. In the wake of that tragedy, Congress acted quickly and responsibly to help the airline industry, since it had been shut down on September 11th and remained down for some days. We helped the airline industry both in terms of financial assistance and new security measures so that the flying public would be confident that it is safe to fly.

It is clear that the aviation industry is not the only sector of the economy that was deeply affected by September 11th. This became evident in last years hearing in which we heard from executives and representatives of other portions of the travel and tourism industry. Much of that industry was deeply affected by September 11 and it continues to be affected in a significant way today.

The travel and tourism industry is a significant part of our economy. It is the third largest retail industry, generating more than $582 billion in revenue each year and directly and indirectly employing more than 18 million people. No industry took a bigger hit after September 11th last year than travel and tourism. Yet, this industry received nothing to help stabilize it or help it recover after September 11.

The taxpayers in this country, correctly in my judgment, extended $5 billion in grants and $10 billion in guaranteed loans to the airline industry to help it recover. I supported that assistance. I did not feel we had much choice. But no such help was offered to other parts of the travel and tourism industry which were devastated as a result of the terrorist attacks.

Some in Congress, myself included, along with my colleague from Missouri and my colleague from Nevada, offered and proposed legislation to help the industry and workers recover. That legislation was not enacted.

The purpose of this hearing, nearly a year later, is to examine how the industry is doing. This is an important question to ask. The tourism industry really has gone it alone for the last year. The freedom to travel is a basic freedom. It is a freedom that depends on having a network of successful hotels, travel agents, car rental companies, restaurants, airlines, and attractions to give us places to go, things to do and to take care of us as we travel and when we get to where we are going.

Today we seek to understand the extent of the damage that was done to the tourism industry as a result of the terrorist attacks as well as the economy's response to those attacks. We want to understand what has happened to the people employed in the industry so we can evaluate what, if anything, needs to be done in public policy to respond to it. How is the industry doing?

We know that international arrivals in the United States were down by 12 percent in the first quarter of this year, but what about American travelers? We know if the hotel employees and restaurant employees international union could be here today—they are not able to be here—they would tell us that 15 percent of their members are still out of work. We know that the airlines are still suffering from fewer business passengers and hemorrhaging in red ink. So, are people traveling less? Is the hassle factor of going through airport security, encouraging people to travel by car? If that is the case, do these new travel patterns have implications for the rest of the industry?

In the part of the country that I come from, we are well familiar with disasters. We know what it is like when, through no fault of your own, the world falls out from under you as a result of a natural disaster. But there was nothing natural about the cowardly and deadly acts of September 11th last year, and they were certainly unpredictable, unexpected, and clearly beyond the control of anyone who was affected by them.

Just as our country has generously responded to natural disasters, now we must determine the best way to help our economy heal. The first step towards that end is understanding what has happened, what is the current status of this industry?

We have invited a number of witnesses to join us today. We appreciate the fact that they have traveled here, and we are anxious to have a discussion and complete a record for our colleagues here in the Senate on the state of the tourism industry in this country today.

We are joined by Senator Carnahan, and we will be joined by others on the Subcommittee later. Senator Carnahan, do you have a statement?

STATEMENT OF HON. JEAN CARNAHAN, U.S. SENATOR FROM MISSOURI

Senator CARNAHAN. Yes. Thank you, Mr. Chairman, for conducting this hearing today. I certainly appreciate your leadership on this Committee in this matter.

Tourism is one of the most important industries in Missouri, a $7.8 billion a year industry. The industry employs nearly 191,000 people. Spending by travelers generates about $625 million a year in State taxes and $272 million in local taxes. The importance of the tourism industry in my State has a lot to do with the diversity that Missouri has to offer. From the Gateway Arch in St. Louis to the traditions of jazz and blues and barbecue in Kansas City, Missouri is rich in history and culture.

In fact, one of the most dynamic tourism destinations in the Nation is located in my State. In February 2002, Byways magazine named Branson, Missouri the top motor coach destination during the entire decade. The National Tour Association and Group Leaders of America ranked Branson as the number 10 most popular overall tourist destination in the country, and Family Fun magazine named Branson the top family-friendly tourist town in the midwest. Branson is considered the live music show capital of the world. It is home to 49 music theaters with a total theater seating capacity of 61,714 seats. That is more seats than are available on Broadway in New York.

Mr. Chairman, I am extremely pleased that we have a resident of Branson here to testify before this Committee today. Ann McDowell is the co-owner and general manager of Ride the Ducks in Branson which was recently named the Small Business of the Year in the Branson/Lakes Area. She is also the chairwoman of the Marketing Advisory Council of the Branson Chamber of Commerce. I am grateful for her willingness to take time out of her busy schedule share her insights with the Committee today, particularly the impact that September 11th has had on tourism.

Thank you again, Mr. Chairman, for holding this hearing and for exploring this timely topic.

Senator DORGAN. Senator Carnahan, thank you very much. I would have been disappointed, after that description of Branson, had we not had someone on the panel from Branson.

[Laughter.]

Senator DORGAN. I was in the State of Missouri with Senator Carnahan last Friday, and I guess I was not so much aware of the barbecue sauce in Kansas City, but I escaped without having——

Senator CARNAHAN. Well, I regret we did not share that with you.

Senator DORGAN. Perhaps we can remedy that at some point.

Let me thank you for your comments and say that we have an interesting panel of witnesses. We have Mr. John Durst, Executive Director of the South Carolina Department of Parks, Recreation and Tourism; Ms. Ann McDowell, Chairwoman, Marketing Advisory Council of the Branson/Lakes Area Chamber of Commerce; Mr. Hal Rosenbluth, President and CEO of Rosenbluth International; Mr. Jonathan Tisch, Chairman of the Travel Business Roundtable; Mr. Fred Lounsberry, National Chair of the Tourism Industry Association of America; and Ms. Noel Hentschel, Chairwoman and CEO, AmericanTours International.

Let us begin with Mr. Durst. Mr. Durst is Executive Director of the South Carolina Department of Parks, Recreation and Tourism. He will talk to us about the South Carolina tourism industry and initiatives from the Southern Governors Association. Mr. Durst, we thank you very much for being with us. Why don't you proceed, and then when you are finished, I am going to call on the ranking member, Senator Fitzgerald, for a statement.

STATEMENT OF JOHN K. DURST, JR., EXECUTIVE DIRECTOR, SOUTH CAROLINA DEPARTMENT OF PARKS, RECREATION AND TOURISM

Mr. DURST. Thank you, Mr. Chairman, and good afternoon to you and also the other distinguished Members of the Subcommittee.

My name is John Durst. I have the honor of appearing before you today representing South Carolina Governor Jim Hodges, our State's tourism industry, and the South Carolina Department of Parks, Recreation and Tourism. I serve as the Director of PRT. It is my great honor to testify on the topic of South Carolina's tourism industry in the aftermath of September 11.

The past 12 months have been a time of testing and challenge for South Carolina's tourism industry, just as it has been for our sister States. South Carolina, a State known for its southern hospitality, its smiling faces, and its beautiful places, has proven to be resilient, and today I would like to share with you how our tourism industry, the Governor, the legislature, and the people in our great State have worked in partnership to achieve a remarkable recovery.

Travel and tourism has become South Carolina's number one industry. It employs nearly 13 percent of our work force, generates over three-quarters of a billion dollars in State and local taxes, and represents 8.8 percent of our gross State product. In fact, in most southern States, tourism ranks among the top three industries.

As we all know, even before the tragic events of September 11th, the effects of a slowing national and global economy were having a negative impact on every State's revenue stream. Tourism, however, had remained stronger than many other sectors of the economy. Unfortunately, the terrorist attacks sent our tourism industry, along with that of our sister States, into a tailspin and with it the economy of most southern States.

We in South Carolina recognized the economic importance of travel and tourism to our State. So in the aftermath of September 11th, we aggressively moved forward to proactively address these unprecedented challenges. Within a month of September 11, Governor Hodges convened a summit on tourism and travel to gain input from tourism industry leaders from across our State. That summit led to our developing a 10-point plan for recovery and our forming a special tourism resilience committee to implement the summit's recommendations.

Later that same month, in response to a request from Governor Hodges and with bipartisan support from our legislature, our State Budget and Control Board provided a $2 million emergency loan to our agency for the immediate development of an aggressive tourism marketing and promotion program. My agency then leveraged these funds with dollars from our private sector partners to further extend the reach and frequency of our marketing at a critical moment. I want to commend those partners for their invaluable support which was nothing short of economic patriotism.

The results of these strategic actions and the partnerships forged between State government and our private sector partners were both immediate and dramatic. In the past 12 months, almost every measurable segment of South Carolina's tourism industry has, comparatively speaking, shown strong recovery. We have realized a return on the marketing dollars invested in that emergency program of about 20 to 1 and our general assembly forgave the $2 million loan.

I would be remiss if I did not note that our State has always been a major drive destination for leisure travelers. We are not as dependent as many of our sister States on air transportation to maintain our industry's economic health and well-being, nor are we as dependent upon the business traveler or conventions and meetings, though they are an increasingly significant segment of our tourism economy.

We are, however, extremely cognizant of the fact that the travel industry's overall health is dependent upon the continued strength of our sister States' tourism industries. We are all interrelated and we are all interdependent.

Having said that, it should be noted that continued State revenue State revenue shortfalls are having major negative impacts on our ability to market and therefore sustain our tourism industry's momentum, limiting our ability to generate much-needed revenue for our State. At the very time we need to generate revenue the most, our efforts are being impaired due to State agency budget reductions arising from continued revenue shortfalls.

It is with this in mind that we respectfully believe that a strong tourism partnership, based on the successful partnerships we have developed between our State and our private sector partners, must be forged between the Federal Government and the States in order to move this vital industry forward significantly.

I would like to suggest, Mr. Chairman, two arenas in which this partnership can have a major and measurable impact that involve both the domestic and international travel sectors.

First, State tourism development of international markets is dependent upon reliable data to guide our strategic planning. The current in-flight surveys of international travelers has been so underfunded that it provides insufficient sample size for any reliable analysis. The success of this program relies on sufficient, recurring funding for the surveys and voluntary cooperation by the airlines in helping to administer the surveys which are distributed during flights. We respectfully submit that it is imperative that sufficient funding be provided to the Office of Tourism Industries in the U.S. Department of Commerce on a consistent basis to better assist individual States and regions in international marketing.

Second and final, we would further respectfully submit that it is in both our interests, State and Federal, to forge a cooperative partnership that helps leverage existing State government expenditures for travel and tourism advertising and assist with marketing efforts to regain and retain traveler confidence. To this end, we would urge you to support legislation similar to that introduced late last year to grant Federal funds to States based on tourism advertising dollars expended.

Gentlemen, lady, a strong national travel industry is vital for the economic health of our States and our Nation. Forging and funding a partnership between the Federal Government, the States, and our thousands of industry partners can help ensure its strength and thereby benefit all Americans.

Mr. Chairman, thank you again for the opportunity to discuss this important issue with you and the other Members of the Committee.

[The prepared statement of Mr. Durst follows:]

PREPARED STATEMENT OF JOHN K. DURST, JR., EXECUTIVE DIRECTOR, SOUTH CAROLINA DEPARTMENT OF PARKS, RECREATION AND TOURISM

Good Afternoon Mr. Chairman and Members of the Committee.

My name is John Durst. I have the honor of appearing before you today representing South Carolina, Governor Jim Hodges, our state's tourism industry and the South Carolina Department of Parks, Recreation and Tourism. I serve as the Director. It is my great honor to testify on the topic of South Carolina's tourism industry in the aftermath of September 11.

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Travel and Tourism has become South Carolina's number one industry. It employs nearly 13 percent of our workforce and generates over three quarters of a billion dollars in state and local taxes. In fact, the tourism economy in South Carolina represents 8.8 percent of our Gross State Product. In most southern states, for instance, tourism ranks among the top three industries.

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We in South Carolina recognized the economic importance of Travel and Tourism to our State. So, in the aftermath of September 11 we aggressively moved forward to proactively address the unprecedented challenges. Within a month of September 11, Governor Hodges convened a Summit on Tourism and Travel to gain input from tourism industry leaders from across our state. This summit led to our developing a 10-point plan for recovery and our forming a special Tourism Resilience Committee to implement the summit's recommendations. Later that same month (October of 2001), in response to a request from Governor Hodges, and with bi-partisan support from our legislature, our state Budget and Control Board provided a $2 million emergency loan to our agency for the immediate development of an aggressive tourism marketing and promotion program. My agency then leveraged these funds with dollars from our private sector partners to further extend the reach and frequency of our marketing at a critical moment. I want to commend those partners for their invaluable support, which was nothing short of economic patriotism.

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It is with this in mind that we respectfully believe that a strong tourism partnership—based on the successful partnerships we have developed between our state and our private sector partners—must be forged between the Federal Government and the states, in order to move this vital industry significantly forward significantly.

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Gentlemen (and Ladies), a strong, national travel industry is vital for the economic health of our states and our nation. Forging and funding a partnership between the Federal Government, the states, and our thousands of industry partners can help ensure its strength and thereby benefit all Americans.

Mr. Chairman, thank you again for this opportunity to address you and the other distinguished Members of this Committee.

Senator DORGAN. Mr. Durst, thank you very much.

Let me call on the ranking Member of the Subcommittee, Senator Fitzgerald from Illinois.

STATEMENT OF HON. PETER G. FITZGERALD, U.S. SENATOR FROM ILLINOIS

Senator FITZGERALD. Thank you, Senator Dorgan, and I am glad that you are holding this hearing because I think it is important that we hear from more than just the airlines in the travel and hospitality industry. I am concerned that too much of the focus on Capitol Hill has been on how can we get our checkbooks and write more checks to the airlines. Last year we provided them with $15 billion in relief. If you add that to the roughly $15 billion we also spent last year on security and airport improvements, it really piles up to about $30 billion that were given to the airlines. But I think that the tourism and hospitality industry consists of a lot more than airlines. I am glad to see travel agencies represented here, as well as hotels, tour bus companies, and a broad cross section of the tourism and travel industry.

I would like to hear your ideas on what you think we can do to keep tourism going in America. As you may have heard, the airlines are back asking for more money, and they have an awful lot of clout on Capitol Hill. Last year they got a lot of money, and everybody else was left twisting in the wind. I will be interested to hear your perspective on the possible specter of Congress doing the same thing all over again, with you guys being left out. I hope you will be more aggressive this year in not letting Congress forget about the rest of the hospitality and tourism industry.

So, thank you all for being here, and we will look forward to asking you questions.

Senator DORGAN. Senator Fitzgerald, thank you very much.

Next we will hear from Ms. Ann McDowell, Chairwoman, Marketing Advisory Council of the Branson/Lakes Area Chamber of Commerce. Ms. McDowell will tell us about the Branson, Missouri tourism market one year after September 11 and the health of the Missouri tourism issue in general. So, Ms. McDowell, thank you for being with us.

STATEMENT OF ANN MCDOWELL, CHAIRWOMAN, MARKETING ADVISORY COUNCIL OF THE BRANSON/LAKES AREA CHAMBER OF COMMERCE

Ms. MCDOWELL. Thank you, Mr. Chairman. It is my honor to be here to represent Branson, Missouri.

The tragedies of September 11th created an immediate impact in Branson, Missouri, similar to other tourism destinations throughout the United States. While we are no longer reeling from the impact, there is a lingering uncertainty about our economic future. As you might suspect in a city of less than 5,000 residents, a city that hosts 7 million visitors annually, the people of our community are significantly dependent on tourism for our economic well-being.

Senator DORGAN. Ms. McDowell, would you tell us where Branson is?

Ms. MCDOWELL. I will. It is the southwest corner of the State of Missouri. We are about a 3-hour drive from St. Louis or from Kansas City.

To understand the impact of this incident on Branson, it would be important to know a little bit about how Branson became a tourism mecca. Located in the Ozark Mountains in an area too rugged for farming and too remote for other industrial development, Branson developed a tourism industry in the early 1900's. Lakes, mountain scenery, and the simple lifestyle of the Ozarks described in a popular novel of the time entitled The Shepherd of the Hills drew early visitors. Float trips, fishing, and water activities sustained the tourism industry until the 1960's when several major tourism developments were formed. A theme park called Silver Dollar City helped to make Branson a regional tourism destination.

In the mid-1980's, celebrity entertainers who had been occasional featured guests in music shows in Branson began to move into the community and perform full time. By the early 1990's, Branson was a household name across America, famous for live music shows and family entertainment, largely because of some exposure we received in 1991 on the 60 Minutes program.

It is difficult for any tourism destination to provide a definitive answer as to why people come, and certainly no single event or incident can be blamed or credited with a destination's year-end results. It is always a combination of factors that result in success or disappointment in ours, or probably any industry. However, for the first time in over 20 years, Branson experienced a decline in visitation during 2001. Year-end numbers indicated a decrease of approximately 3 percent.

While Branson has certainly felt an impact since September 11th, it has suffered less than other national tourism destinations.

We believe this is because of where we are located and what we are.

Branson, Missouri is located, as I mentioned, in the southwest corner of our midwestern State within a day's drive of about half the Nation's population. About 7 million each year visit Branson and over 90 percent of them drive to Branson in their automobiles.

Understanding where Branson is located relative to our Nation's population and the heavy propensity for drive-in traffic explains some of our resilience to this tourism crisis, but equally important is the significance of what Branson is really all about.

Branson's core values of celebrating the American spirit and patriotism, its long-time appreciation for military veterans, and its faith-based, family-friendly environment have given it broad appeal for many years. The community's commitment to these values was established 50 years ago and supported continuously throughout our development. Visitors know these values are not just a marketing ploy by Branson but rather an intrinsic part of the culture and lifestyle of our area.

American Demographics published a major study in its September 2002 magazine that examined consumer behaviors, including travel habits, relative to September 11. In October of 2001, 12 percent of Americans with young children said they planned to take a family vacation in response to the attacks on September 11th. By June of 2002, almost twice as many, 20 percent, said they had, indeed, taken a vacation with their loved ones. There is also a change in the way people are spending their dollars. Overall, only 12 percent of those surveyed said they are spending more for vacations than they did prior to September 11th.

The increased number of leisure family travelers has helped to buoy Branson. Because our area is perceived as a value destination as well, a flat or decreased spending pattern by vacationers, coupled with a softening national economy, may well make Branson an even more appealing travel destination.

During the first quarter of 2002, tourism taxes collected in our area indicate Branson travel was up more than 10 percent over the first quarter of 2001. Now, although those results are promising, it is important to understand that the first quarter of Branson's business is really our off-season and represents a very small portion of our total economic picture. A more realistic look is probably our 2002 year-to-date room demand through July that shows a 2.9 percent increase over the prior year. We feel extremely fortunate to show any discernible increase during these lean and turbulent times for tourism.

Branson rebounded quickly but not without considerable and ongoing effort. Everyone in Branson is working harder and reaching further for new ideas to maintain our economic stability.

In summary, in the aftermath of September 11th, Branson has been more fortunate than most tourism destinations. While we have not suffered great losses, we also have not enjoyed our traditional or expected growth. Our best explanation is that our resiliency is the result of where we are and what we represent. Branson's location in the heart of America is accessible for many by car who may be reluctant to fly. For the growing numbers of people in search of a great vacation value and a destination closer to home, Branson is an appealing alternative. Branson represents the wholesome family values, patriotism, and faith-based foundation that comfort Americans in times of crisis. We provide a safe haven of traditional family values in a world that is suddenly more uncertain than ever before.

Coincidentally, our advertising message for 2002 was a remake of a marketing effort for our community that was originally developed in 1994. So, by no means was this a new branding or positioning effort on our part, but it was a message clearly more meaningful than ever before. It's title was Rediscover America, and it said: "This year visit a place in the heart of America. A place where you can sit outside and look at the stars, or come inside and do the same thing. A place where getting 'high' means a roller coaster ride or a walk on an Ozark mountain top. A place of spectacular sights, and smiles on faces you love. Where family values and the American spirit endure. It's called Branson, Missouri. And it's for everyone who wants to rediscover America." For those reasons, Branson has a positive message to report today.

Thank you.

[The prepared statement of Ms. McDowell follows:]

PREPARED STATEMENT OF ANN MCDOWELL, CHAIRWOMAN, MARKETING ADVISORY COUNCIL OF THE BRANSON/LAKES AREA CHAMBER OF COMMERCE

SUMMARY

Branson, Missouri

Located in the Southwest corner of Missouri, Branson's population is less than 5,000 yet it attracts nearly seven million leisure visitors annually. Travelers of all ages come to experience the natural beauty of the Ozark hills and lakes as well as an immense and diverse selection of music shows, theme parks and other wholesome, family-friendly attractions.

Branson/Lakes Area Chamber of Commerce and Convention & Visitors Bureau

Over 900 business members strong, the Branson/Lakes Area Chamber of Commerce fulfills its mission to enhance the economic health of the Branson/Lakes Area. Our vision is to lead the Branson/Lakes Area in becoming one of the most recognized in America for quality of life, business and vacations. The activities of this organization are implemented by four separate councils addressing membership/funding, marketing, small business and tourism development.

Marketing Advisory Council

The Marketing Advisory Council of the Branson/Lakes Area Chamber of Commerce is responsible for all marketing efforts designed to attract visitors to the area. The dollars expended for these efforts, $4–5 million annually, are generated from memberships, donations, fund raising efforts and a citywide tourism tax on area lodging, theaters and attractions.

Ann McDowell, Witness

McDowell is an elected member of the Board of Directors for the Branson/Lakes Area Chamber of Commerce and currently serves as the Chairman of the Marketing Advisory Council. She has 18 years of experience in travel and tourism marketing. For the past eight years Ann has worked with her husband Bob in their own Branson-based business, Ride The Ducks International, LLC. The company remanufactures amphibious vehicles and carries in excess of 300,000 passengers annually on land and water sightseeing tours in Branson, MO and in Baltimore, MD (as Discovery Channel Ducks.) Their vehicles are also in use in Boston, MA and Seattle, WA with plans to expand to additional markets in the near future.

The Impact Of September 11 Attacks On Branson, Missouri

While no single event can be blamed with a tourism destination's results, Branson visitation showed a year-end decline of 2.9 percent in 2001, for the first time in 20 years. Our area has been more fortunate than most in terms of a 2002 rebound.

Our year-to-date room demand is up 3.9 percent through July 2002 and many other economic signs are positive for our community that is significantly dependent on tourism. Our belief is that our Midwestern, small town location, as well as the predominance of visitors who drive to our destination, as opposed to flying, have been positive attributes under these particular circumstances. In addition, our history of overt patriotism, genuine hospitality, and family values seem to be in perfect alignment with the current mood of our nation and disposition of the traveling public.

TESTIMONY

The tragedies of September 11, 2001 created an immediate impact in our vital tourism community of Branson, Missouri, in the same way it did other tourism destinations and other small towns throughout the United States. While we are no longer reeling from the impact, we feel a lingering uncertainty about our economic future. As you might suspect in a community of less than 5,000 residents, that hosts 7 million visitors annually, the people of Branson are significantly dependent on tourism for our economic well-being.

Branson History

To understand the impact of this incident on Branson, you should know a little about how Branson became a tourism phenomenon. Located in the Ozark Mountains in an area too rugged for farming and too remote for other industrial development, Branson began to develop a tourism industry in the early 1900s. Lakes, mountain scenery and the simple lifestyle of the Ozarks as described in a popular novel, "The Shepherd of the Hills," drew early visitors. Float trips, fishing and water activities sustained the tourism industry until the late 1950s and early 1960s, when several major developments including the theme park Silver Dollar City, made Branson a regional tourism destination. In the mid–1980s, celebrity entertainers who had been occasional guests in family owned music theaters began to move into the community. By the early 1990s, Branson was a household name across America, famous as a live music show and entertainment destination. Andy Williams, the Osmond Family, Mickey Gilley, Moe Bandy, Jim Stafford, Bobby Vinton, Mel Tillis, Yakov Smirnoff, Sons of the Pioneers and many others currently call Branson their performing "home."

2001 Year End Results

No tourism destination can provide a definitive answer to why people come. And certainly no single event or incident can be blamed or credited with a tourism destination's year-end results. It is always a combination of factors that result in success or disappointment in the tourism industry. However for the first time in over twenty years, Branson experienced a decline in visitation during 2001. Year-end numbers indicated a decrease of approximately 2.9 percent.

Impact On Branson Less Severe

While Branson has certainly felt an impact since September 11, it has suffered less than other national tourism destinations. We believe this is because of *where* it is, and *what* it is.

Branson Missouri is located in the Southwest corner of our state, within a day's drive of about half the nation's population. About seven million people visit Branson each year, and 96 percent of them drive to Branson in their automobiles.

Across the nation, urban destinations were impacted more severely than drive-to destinations. Losses immediately following the attacks were greatest among the northwest and south regions, to businesses catering primarily to international visitors and airlines, tour operators and travel agencies, according to the Travel Industry Association of America (TIA). Losses were least among rural areas, the western region, and businesses serving primarily the domestic market. As vacationers shifted from air travel to auto travel following the attacks, stable gas prices, a shift to closer-to-home travel and growing interest in family travel helped to support the drive-to destinations, like Branson.

Understanding *where* Branson is located relative to our nation's population, and the heavy propensity for drive-in traffic explains some of our resilience to this tourism crisis. But and equally important element is the significance of *what* Branson is.

Branson's core values of celebrating the American spirit and patriotism, its long-time reputation of appreciation for military veterans, and its faith-based environment have given it a broad appeal. The TIA shows a shift in core consumer values to focus on the following related qualities: family, community, integrity, balance, authenticity and security.

The community's commitment to those values was established a half-century or more ago and supported continuously through its development. Visitors know these values are not just a marketing ploy but rather an intrinsic part of the culture and lifestyle of Branson.

American Demographics published a major study in its September 2002 magazine that examined consumer behaviors, including travel habits, in light of the 9–11 attacks. In October 2001, 12 percent of Americans with young children (up to age 11) said they planned to take a family vacation in response to the attacks on September 11. By June 2002, almost twice as many (20 percent) said they had taken such a vacation with their loved ones. There is also a change in the way people are spending their dollars. Overall 12 percent of those surveyed said they are spending more for vacations than they did prior to September 11. The increased number of travelers has helped to buoy Branson. Because our area is perceived as a value destination, decreased spending on vacations coupled with a softening national economy may well make Branson an even more appealing travel destination.

2002 Results So Far

During the first quarter of 2002, tourism taxes collected indicate Branson travel was up more than 10 percent over the first quarter of 2001. Although these results are promising, it is important to understand that the first quarter is Branson's "off-season" representing a very small portion of the total economic market, where small changes can generate significant percentage growth numbers. A more realistic look is probably our 2002 year-to-date room demand through July that shows a 2.9 percent increase over the prior year. Still we feel very fortunate to show even minor increases in these lean and turbulent times for tourism.

Branson rebounded quickly after the immediate effects of September 11, but not without considerable and ongoing effort. Everyone in Branson is working harder than ever and reaching further than ever before, for new ideas to maintain economic stability.

Summary

In summary, in the aftermath of September 11, Branson has been more fortunate than most tourism destinations because of where we are and what we represent. While we have not suffered great losses, we also haven't seen our traditional and expected growth. To stay level with last year's numbers, we are working much harder.

- Where we are. Branson's location in the heart of America is accessible for many by car, who may be reluctant to drive. For the growing numbers of people in search of a great vacation value and a destination closer to home, Branson is an appealing alternative.
- What we are. Branson represents the wholesome family values, patriotism and faith-based respect that comfort Americans in times of crisis. It's a comfortable, safe haven of traditional family values in a world that is suddenly more uncertain than ever before.

Coincidentally our advertising message for 2002, was a remake of a marketing effort for our community originally created in 1994, so it was by no means a new branding or positioning of our destination, but it was a message clearly more meaningful than ever before. It said . . .

> "This year visit a place in the *heart* of America. A place where you can sit outside and look at the stars, or come inside and do the same thing. A place where getting "high" means a roller coaster ride or a walk on an Ozark mountain top. A place of spectacular sights, and smiles on faces you love. Where family values and the American spirit endure. It's call Branson, Missouri. And it's for everyone who wants to rediscover America."

Senator DORGAN. Ms. McDowell, thank you very much.

Next we will hear from Hal Rosenbluth, President and CEO of Rosenbluth International. Hal's company is truly an international company, but we are also very pleased and proud that his company has a significant presence in our State. So, Hal Rosenbluth, why do you not proceed. Thank you for being here.

STATEMENT OF HAL F. ROSENBLUTH, CHAIRMAN AND CEO, ROSENBLUTH INTERNATIONAL

Mr. ROSENBLUTH. Thank you, Mr. Chairman, Members of Committee on Commerce, Science, and Transportation. I am pleased to have the opportunity to speak with you today about the current state of the travel industry one year after the attacks of September 11th, 2001. I offer this testimony not only to provide statistics demonstrating the economic challenges faced by the industry during this past year, but also to leave you with my plan for industry recovery. Please note that the statistics and information provided in this testimony are not reflective of Rosenbluth International, but rather an overview of travel companies as a whole.

The past 12 months have been among the most dramatic in the history of the travel industry. In my testimony before you last year, I discussed the tremendous loss of travel agency revenues in the days immediately following the attacks of September 11th. One year later travel agencies are still struggling to recuperate, which is demonstrated by the following statistics released just this past September 12th by the Airline Reporting Corporation.

In the past year alone, 11.3 percent of all agency locations have closed. This translates to a closing of 3,274 travel offices.

Also in this past year, 12.9 percent, almost 13 percent, of all agency firms have closed. This percentage translates into the closing of over 2,260 travel agency businesses, all of them family businesses.

Total airline sales have decreased by 17 percent during this past year, for a loss of $9 billion in sales.

In this past month of August, 104 agencies defaulted on their payments to airlines for tickets issued on their behalf, which is nearly twice that of last August.

A survey of 200 corporate travel managers conducted from August 29th to September 5th by the National Business Travel Association determined that corporate travel is still below normal one year after September 11th, 2001.

Seventy percent of these travel mangers responded that their travel in their companies is down from this time last year by as much as 20 percent.

Seventy-two percent of the travel managers said that their travel was below 2000 levels, which is the last time travel was considered normal. I am not sure there is any normal anymore and they need to change the definition of normal in the dictionary. In fact, 31 percent of respondents said that travel was down by 20 percent of more since the year 2000.

Sixty-two percent of these same travel managers think the recovery will take at least another 12 months. I certainly agree.

In addition, 45 percent of the travel managers referred to the need for airline price reform in order for business travel to return to normal levels.

From these statistics, it is clear that something concrete and immediate needs to occur in order for the travel and tourism industries to recover. It is no secret that most major airlines are in a state of financial crisis. In addition, the turbulent atmosphere of the U.S. economy and the prospect of war with Iraq can only hinder the improvement of our industry. Despite a slight increase in positive sentiment toward travel at the beginning of 2001, the Travel Industry Association of America's latest Traveler Sentiment Index shows a decline in the third quarter of 2002. The drop is mainly due to consumer concerns about not having enough money to travel due to the current sate of the economy.

That same association also stated that with the economy recovering slower than expected, business travel is faring even worse than leisure travel and that dropped nearly 9 percent for January through June of 2002 as compared to the same time frame a year earlier.

It is imperative that we act quickly and effectively to enable a return to a prosperous travel industry. In conjunction with my testimony, I have submitted A Fare Plan for Airline Recovery, which maps out both short- and long-term plans for the rejuvenation of the airline industry, which is critical to both strong travel agency recovery and commerce as a whole in the United States.

We estimate that our Fare Plan will result in an additional $5 billion of annual revenue for the airlines, more passengers flying at fair prices, and companies better able to leverage their dollars while having a credible airline system necessary to conduct business. None of that requires any Government action whatsoever.

The second part of the plan for airline and travel industry recovery introduces a reconstructed and new distribution model.

It is a complex and rather arcane subject, so I have submitted in writing this plan in its entirety. I will, however, be happy to answer questions you might have relative to the white paper later in the session.

A healthy airline industry, through the realignment of faring and distribution, in addition to cost-cutting measures now taking place, should result in the return to a strong travel industry and the resultant positive effects on commerce.

Thank you very much.

[The prepared statement of Mr. Rosenbluth follows:]

PREPARED STATEMENT OF HAL F. ROSENBLUTH, CHAIRMAN AND CEO, ROSENBLUTH INTERNATIONAL

Mr. Chairman and Members of the Committee on Commerce, Science and Transportation, my name is Hal F. Rosenbluth, Chairman and CEO of Rosenbluth International. I am pleased to have the opportunity to speak with you today about the current state of the travel industry, one year after the terrorist attacks of September 11, 2001. I offer this testimony not only to provide statistics demonstrating the economic challenges faced by the industry during this last year, but also to leave you with my plan for industry recovery. Please note that the statistics and information provided in this testimony are not reflective of Rosenbluth International, but rather an overview of travel companies as a whole.

The past 12 months have been among the most dramatic in the history of the travel industry. In my testimony last year, I discussed the tremendous loss of travel agency revenue in the days immediately following the terrorist attacks of September 11, 2001.

One year later, travel agencies are still struggling to recuperate, which is demonstrated by the following statistics released on September 12, 2002 by the Airline Reporting Corporation (ARC):

- In the past year alone, 11.3 percent of all agency locations have closed. This translates to the closing of 3,274 travel offices.
- Also in the past year, 12.9 percent of all agency firms have closed. This percentage translates to the closing of 2,260 travel agency businesses.

- Total airline sales have decreased by 17 percent during the past year, a nearly $9 billion loss in sales.
- In August 2002, 104 agencies defaulted on their payments to airlines for tickets issued on their behalf, which is nearly twice that of last August.

A survey of 200 corporate Travel Managers, conducted from August 29 to September 5, 2002 by the National Business Travel Association (NBTA), determined that corporate travel is still below normal one year after September 11, 2001:

- 70 percent of Travel Managers responded that travel in their companies is down from this time last year by as much as 20 percent.
- 72 percent of Travel Managers said their travel was below 2000 levels, which is the last time travel was considered normal. In fact, 31 percent of respondents said their travel was down by 20 percent or more from 2000.

In addition, most Travel Managers see business travel recovery coming slower than previously expected:

- 62 percent of Travel Managers think that recovery will take more than 12 months.
- In addition, 45 percent of Travel Managers referred to the need for airline price reform in order for business travel to return to normal levels.

From these statistics, it is clear that something concrete and immediate needs to occur in order for the travel and tourism industries to recover. It is no secret that most major American airlines are in a state of financial crisis. In addition, the turbulent atmosphere of the U.S. economy and the prospect of war with Iraq can only hinder the improvement of our industry. Despite a slight increase in positive sentiment toward travel at the beginning of 2001, the Travel Industry Association of America's (TIA) latest Traveler Sentiment Index (TSI) shows a decline in the third quarter of 2002. The drop is mainly due to consumer concerns about not having enough money to travel due to the current state of the economy. The overall index fell 5.5 percent to 98.1 in third quarter 2002, which is within 1 percent of the index during third quarter 2001.

TIA also stated that with the economy recovering slower than expected, business travel is faring even worse than leisure travel, dropping nearly 9 percent for January through June 2002, as compared to the same timeframe last year.

It is imperative that we act quickly and effectively to enable the return to a prosperous travel industry. In conjunction with my testimony, I have submitted "A Fare Plan for Airline Recovery," which maps out both short and long-term plans for the rejuvenation of the airline industry, which is critical to both strong travel agency recovery and commerce, as a whole, in the United States.

We estimate that our Fare Plan will result in an additional five billion dollars of annual revenue for the airlines, more passengers flying at fairer prices, and companies better able to leverage their dollars while having a credible airline system necessary to conduct business. The second part of the plan for airline and travel industry recovery introduces a reconstructed and renewed distribution model.

It's a complex and rather arcane subject so I have submitted in writing this plan in its entirety. I will, however, be happy to answer questions you might have relative to the white paper later in the session.

A healthy airline industry, through the realignment of faring and distribution, in addition to cost cutting measures now taking place, should result in the return to a strong travel industry and the resultant effects on commerce.

About Hal F. Rosenbluth:

Harvard Business Review, inc. Magazine, CIO Magazine, The Financial Times and Fortune have recognized Hal F. Rosenbluth, Chairman and CEO of Rosenbluth International, as an unconventional leader, a visionary and a trend-setter. Dozens of periodicals, including USA Today, The New York Times, Wall Street Journal and Working Woman, have recognized Mr. Rosenbluth's business philosophies and practices. Hal Rosenbluth's dedication and vision have grown Rosenbluth International to a global company employing 5,200 associates worldwide.

The Business Enterprise Trust honored Mr. Rosenbluth for his company's courage, integrity and social vision in business with its Business Enterprise Trust Award. The National Conference of Christians and Jews bestowed him with its 60th Anniversary Humanitarian Award for outstanding contributions to the advancement of respect and understanding among all people.

In response to widespread requests for information on Rosenbluth International's growth, corporate culture, and human development programs, Mr. Rosenbluth coauthored a book titled, The Customer Comes Second and Other Secrets of Exceptional Service (William Morrow, Inc. 1992). The book was an immediate best seller, and has since been translated and distributed in the Asia Pacific region, Europe and the Americas. In June of 1998, Mr. Rosenbluth released another book titled Good Company (Caring as Fiercely as You Compete) published by Addison-Wesley. This book focuses on how companies are able to change dramatically while holding fast to core values.

Mr. Rosenbluth joined the travel management firm in 1974 and worked in all areas of the company before being named president in 1985, CEO in 1987 and, most recently, chairman. Rosenbluth International has grown steadily and rapidly under Mr. Rosenbluth's direction, with annual sales increasing from 20 million USD in 1974 to more than 6 billion USD today. Rosenbluth International now has the second largest presence in travel management in the world with corporate owned offices in 24 countries. Despite tremendous growth of the 108-year old organization, its commitment to providing the highest level of quality service has remained unchanged for more than a century. The company also has received numerous honors for its dedication to its associates including being named as one of the ten best companies to work for in America in the book titled The 100 Best Companies to Work for In America, by Milton Moskowitz and Robert Levering, and ranked 29th in FORTUNE magazine's inaugural listing of the 100 Best Companies to Work for in America, which debuted in January 1998. The company is also well known for its technological innovations, and was selected as part of CIO magazine's CIO–100 list of companies positioned for success in the 21st century.

As a public speaker, Mr. Rosenbluth is widely respected and in high demand. Highlights of his previous speaking engagements on management and technology include CIO Magazine, CFO Magazine and Business Week forums; conferences by Saturn and The American Bankers Association; and American Chambers of Commerce in Tokyo and Taipei functions.

Mr. Rosenbluth sits on the advisory boards of Snider Capital L.P., a private equity firm investing in the sports, recreation and leisure industries; and PlanetFeedback, an online company that helps consumers send their feedback to companies via the Internet.

Mr. Rosenbluth is an avid cattle rancher with a ranch located in Linton, North Dakota. He also is a member of the Beaver Valley Horse Club.

EXHIBIT A: A FARE PLAN FOR AIRLINE RECOVERY

A great deal has been written about the very much maligned airline industry, most of it negative, and a good deal of it deserved. It is a fascinating subject in which most everyone has an opinion regarding it, but very few have offered up any ideas on how to better it. Although most love to hate them, to many Americans the US airlines represent a symbol of strength and a testament to commerce. While children gaze up into the skies and are fascinated by a plane's ability to stay in the air, many an adult wonders as to why so many are currently grounded in the desert.

Airplanes are an ingenious invention. As we peer through airport windows, we marvel at the strength a fuselage imparts on us. Yet when we think about the airline industry we ponder how the cumulative effect of so much strength has amounted to so much corporate weakness. As an intermediary, or for that matter, an infomediary, we have the advantage of a 360 degree perspective. We see far more than any particular stakeholder or constituency involved in the airline conundrum. We communicate at the highest of levels with airlines executives, service many of the world's most prestigious corporations, and communicate with customers over 100,000 times a day. It is from that position that we posit one company's formula for creating a vibrant, healthy airline industry that is good for the public, airlines, corporations and the country, alike.

Recently, many carriers have gone to great lengths to remove cost. Some are making headway, and some remain stuck in a quagmire. One way or another, the airlines must get their costs in line or they will simply perish. What is apparent, however, is that the airlines with great leadership also seem to those with the best labor relations and ultimately, the greatest opportunity for sustained success. The good news is that we finally have in place the best airline leadership seen in years. Virtually every CEO of an airline, whether major or low cost, recognizes the importance of its people and their collective customers. This is a great place to start.

Most of what is written these days deals with the cost side of the airline equation. I'm going to take a different track and focus on the OTHER two critical, yet misunderstood issues, REVENUE and DISTRIBUTION.

At first glance, what is outlined below may seem counterintuitive. However, corporations with sophisticated, realistic travel programs and legitimate airline discounts programs support the need for reform, and our approach to it. After all, where would corporations be without airlines and vice-a-versa? Companies and individuals want a fair price. They don't want to feel disenfranchised by the seemingly intractable or worse yet, illusionary pricing that exists today. Fare construction is esoteric and needs explanation in order for us to move to the airfare reform. It's too late to continue to work the fringes. There are too many livelihoods at stake and the public needs a profitable airline system.

The sad news is that nary a day goes by when tens of millions of dollars flow down the drain because the airline fare and distribution structure is broken. It used to be that what the airlines would admit to us privately, they now do so publicly. Recently there have been some pricing initiatives by airlines that address the so-called "edges." Fees for paper tickets, extra bags, and even non-refundable tickets are now becoming non-refundable.

When these recent fare announcements were made, we informed the 60 or so client corporations who subscribe to our DACODA Client Yield Management System that these new fees and restrictions will cost them $36M a year in the form of higher fares. If you play this out to the whole market, we calculate that the carriers plan to take back is approximately $800M worth of "edges" on an annual basis. While panned by most consumer advocates, this activity is necessary and will positively affect their combined revenue deficit, but like a long dry summer, one heavy storm does not a garden grow. Real structural fare reform is necessary, one that works for corporations, consumers, and the airlines alike. Reform that will increase ridership, improve average yields, reward corporations for loyalty and support, and close the gap between leisure and business fares.

I'd like to suggest that the airlines take a close look at the real cause of the slippage. Examine indiscriminate corporate discounting and the resultant effect of raising walk up fares to offset them, thus creating the disparity between high business fares (which less than 10 percent of the public actually buy, a number far below what it was when this fare level was far lower and far more realistic) and leisure fares.

The issue at hand is significant but not complicated. To increase revenue, the airlines have been raising fares in an inelastic environment. To maintain market share, they have offered significant corporate discount programs. Sounds simple, right? In fact, the airlines have been raising published business fares in what had become the world's longest running game of Cat and Mouse. Just when a corporation thought that they had structured a deal to really lower their business travel expenses, the carriers would raise the BASE of those fares, effectively eliminating the discount. This practice gnaws at the very people these discounts are aimed to reward.

One unintended result of this ubiquitous discounting scheme has been that base fares have gotten so high that it has negatively impacted the travel spend (and corresponding revenue earned) from the small to mid size customers who don't get the large corporate discounts. The other resultant effect with this practice is that corporations with properly constructed programs, and who comply with the terms of the agreements, have been artificially subsidizing those who haven't. Companies not achieving the required market share and/or volume hurdles continue to receive front ended discounts as airlines feel pressured to look the other way, rather than enforce the penalties for non compliance. Where else can someone get the same volume discount whether they buy in bulk, or not? This has infuriated corporations that have lived up to their side of the bargain, and frankly, I don't blame them.

If we don't fix this now, a possible result of continuing to ignore this discontinuity is that during this era of financial pressure, the airlines might irrationally respond by eradicating corporate discounts all together, in an attempt to raise yields. This would not be good for corporate America, the airlines, or commerce as we know it today.

In a word, the corporate pricing structure of the airlines is broken. Airlines won't publicly state that they are in a mess they can't get out of, yet privately, they are quick to agree that lemming pricing has ruled the day for the past two years. Yet, in fear of losing market share, carriers have continued to match discount deals on some programs that are mathematically impossible for corporations to deliver—an irrational business behavior.

There is a better way, a way that works for everyone. For simplicity, let's call it "*The Fair Fare Plan*". Here's how it works:

For the Carriers:

Step 1: Reduce walk-up fares from which all corporate discount programs are benchmarked by 30 percent

This will bring back the small business travelers that are price sensitive and cannot afford the current walk-up fares and are not privy to corporate discount programs reserved for larger corporations. If carriers believe in fare elasticity, this should increase demand.

Step 2: Reduce all corporate discount programs by 30 percent

This step will cancel out the impact of the walk-up fare reduction for airlines, while keeping corporations whole.

Step 3: Evaluate every corporate incentive program

If the deal cannot be justified in reasonable ROI terms, send a notice of cancellation. Rationalize the deals, but do not penalize those who earn and perform. In fact, since corporations that are currently performing are artificially subsidizing those that do not, they should be rewarded for doing so by receiving deeper discounts for enhanced performance. Those corporations should not have to shoulder the load for those that don't perform. After all, that is one of the major reasons that airlines constantly find themselves having to raise walk-up fares in order to try and recoup lost revenue.

Step 4: Be forthcoming with corporations

If upcoming schedule changes will make it mathematically impossible for them to perform on negotiated performance hurdles, deal with it upfront.

Step 5: Re-evaluate Web Airfares

Web fares drive corporate travel buyers, travel agents and travelers crazy. Is it better to save $30 in distribution costs and lose $300 in revenue? Take a hard look at the web-only discounts and ask the following question: Are business travelers able to buy airfares for less than they would via the company-preferred program? If the answer is yes, then remove that inventory from the web because either by design, or default, this only de-leverages corporations' ability to perform on the discount programs that have been negotiated. In the end this is a lose-win situation. Airlines win when companies come close to hurdles but don't hit them. Companies lose since fifty dollars saved "here or there" over the web only serves to cannibalize their discount programs and risk hundreds of thousands of dollars in discounted savings.

Don't get me wrong, web fares have their place, they are a good thing. The problem lies in the reality that many airlines maintain multiple pricing departments; one for published fares available through multiple channels, one for web fares on airline owned sites, one for web fares on non-owned sites, one for web fares on partially owned sites, one for corporate discount fares, and so on. The other problem is that in some airlines these departments don't roll up into a common organization, and thus making fare rationalization almost impossible.

For Corporations:

Step 1: Negotiate in good faith

Have responsible data, don't commit to what you can't deliver, and make certain you have the technological capabilities to move share and deliver volume.

Step 2: Monitor your performance.

Watch your deal so you can make periodic adjustments in order to guarantee achievements of commitments made. Ensure that you have the point of sale technology in place to quickly adjust share and deliver volume. Utilize a sophisticated travel management company that can apply the software necessary to communicate to you shifts in airline available seat miles, schedule changes, etc.—all that can affect your ability to perform.

Step 3: Don't accept short-term handouts

However great the temptation, never forget the tale of the goose that laid the golden egg.

For Travel Management Companies:

Step 1: Create value for your customers

Share your knowledge and expertise on negotiating fair and reasonable airline deals with or on behalf of your corporate clientele.

Step 2: Bury the hatchet between yourselves and airlines

Don't think that pushing carriers to raise their discounts out of revenge for lowering commission, or other perceived bad deeds of the past, will ultimately be of benefit.

Corporations and agencies need to work with airlines to help foster an environment that is win-win-win. Short term thinking equals short-term gain and in a short time there will be a shorter list of carriers available to fly. That is a long-term bad thing for buyers.

Our proposed solution promotes a greater degree of shared risk and is composed of variability in share and discount. Utilizing available technology, a discount rate would be agreed upon between an airline and a corporation in return for a projected share of a company's business for ninety days. At the end of that period, the deal would be measured to test assumptions and review ROI for both the buyer and supplier. The discount and share is then adjusted for the next ninety days and continues as long as both parties continue to see value. The days of evergreen discounting without sufficient post due diligence are coming to an end.

Technology exists today that is available to corporations, travel management companies and airlines that will pinpoint the exact discount level that will reward corporations for moving share and hitting volume hurdles, while creating incremental revenue for carriers, therefore making the discounts meaningful and long-lasting.

If we change course now, we can build a healthier industry with vibrant competition that will result in reasonable incentives offered to reasonable buyers in return for reasonable support. Or, we can stay the course and continue with Junk Bond Airline Valuations, a future of fewer carriers with less reason to discount and more reason to introduce oligopolistic pricing, unhappy buyers and unhappy travel agents.

Bottom line. We estimate that our Fare Fare Plan will result in an additional five billion dollars of annual revenue for the airlines, more passengers flying at fairer prices, and companies better able to get their monies worth while having a credible airline system necessary for them to conduct business.

Another problem in need of fixing is distribution. Whether a business' distribution is wholly owned, outsourced, or a combination of both, there exists a GOLDEN RULE: Don't under price your distribution network; you will obliterate its value. Every industry in the world understands the rationale of nurturing its channels of distribution except for one: the airline industry.

While rushing to reduce their distribution costs to win the approval of the financial community, airlines have let one pertinent detail slip through the cracks. By virtually eliminating compensation paid to travel agencies, their out-sourced distribution system for reservations and ticket distribution, they may have unintentionally created a situation requiring them to return to the 1950s and re-in-source their reservations and distribution of tickets. This would come at a cost far greater than they could have ever imagined.

For years now, airlines have been focusing their efforts around reducing their own expenses. The challenge is that instead of reducing the total cost of distribution, they focused on reducing expenses by the reduction of standard commissions to travel agencies. In essence, airline expenses would go down but the costs associated with distributing tickets would not.

By reducing commissions, and thus creating the need for agencies to charge fees directly to travelers, the airlines have created a predatory pricing environment. Airlines sell tickets directly to travelers with no incremental transaction fee. They absorb their cost of fulfillment by spreading their cost over their entire volume base. Concurrently, they pushed the travel agency community to charge fees for fulfillment, creating a significant price advantage for themselves.

If the primary driver for the airlines is to remove the agency distribution costs from their profit and loss statements, there is a very simple solution: institute a fulfillment fee for every ticket distributed directly by an airline. This would level the playing field by charging fulfillment costs within direct AND indirect channels of distribution and, as a result, equalize the cost of airline tickets across all channels. An airline would then be able to lower its direct distribution costs, increase its revenue stream, and equalize its channel pricing structure. After all, since the airlines pay no commissions to travel agencies and travel management companies, their most expensive form of distribution has become DIRECT. The expense of having call centers and the technology and communication expense attributed to it is far greater than the free and ubiquitous agency distribution system. In all candor, why would any airline want to field calls directly if it only adds cost to do so?

By charging a transaction fee, airlines would uncouple and create a transparency for their cost of distribution. They would create a revenue stream that would offset their internal cost of distribution, and at the same time further legitimize transaction fees for the agency community. The same rationale also holds true for hotels and car rental agencies. Travel providers need to reevaluate their distribution strategies and business models. Let common sense prevail.

Taking things a step further, and really pushing the edge of the envelope we offer the following scenario for consideration:

1. You fly, we'll buy—A return to a classic distribution model

Carriers should consider getting out of the pricing business altogether. The combined efforts have confused and frustrated everyone involved for years. Sell seats to brokers, businesses, distributors and market makers who make money on the resale margin. Carriers could create price floors and ceilings based upon relationships, the size and length of commitments and market preferences. Carriers should be content with selling at their cost plus a respectable margin. This basic commercial instinct has eluded the industry since deregulation. There can be no more making it up in volume.

The most efficient and productive carriers will win in the long run. Most industries have learned to prosper with this model. Just compare the market value of companies like Best Buy, Wal-Mart, Home Depot, Target, JP Morgan Chase, Citigroup, Bank of America, CVS, Rite-Aid, and Amazon.com to the *whole* commercial airline sector. These fine companies thrive on selling other's people's products. They often take inventory positions and resell goods and services to the public or to business. Not an alien concept.

Eliminate direct corporate discounts as carriers have proven their inability to price responsibly. Allow corporations to purchase seat blocks via brokers, distributors. A return to a classic distribution model will result in significant reduction in sales/marketing expense in lower or elimination of GDS and merchant fees, as the distributor/reseller will now take responsibility for these costs. Additional expenses could be removed as carrier direct sales and deal management resources could be eliminated.

2. Allow Structured and Planned Consolidation

Four strong carriers are more likely to compete against each other, as substitutability amongst networks will become more likely. The resulting competition will stimulate price and capacity controls. Non-stop origination and destination markets should see at least two network competitors. Other O&D markets should see more viable connection options.

By allowing 4 larger "network" carriers to emerge, economies of scale and superior purchasing leverage will be created. This should result in lower costs for aircraft acquisition, fuel purchasing, maintenance, training, and headquarters functions. Additional savings will be found in better utilization of airport gates and use of terminal facilities.

We foresee the following potential "marriages":

American Airlines—Having already gobbled up TWA to emerge as the largest carrier in the world should prosper in the future as one of four network carriers. With 20 percent overall market-share, a strong balanced network presence and excellent management, American is poised to not only survive, but to prosper. AA will focus on NYC, CHI, DFW, MIA, SJU, STL and SJC.

United Airlines—After filing for bankruptcy protection, should be allowed to acquire the assets of US Airways and create a larger entity with approximately 23 percent market-share. We believe that the new, larger United Airlines can successfully compete as a network provider. UA would focus their activities in DEN, CHI, PHL, WAS, SFO, CLT and LAX.

Delta Air Lines—Should be allowed to acquire America West and combine to control a 19 percent share of the market. The new Delta Air Lines can fill out gaps in its Southwestern Region with a Phoenix Hub and truly claim a national presence. America West is simply too small and too fragile to offer any real competition in its current form. DL will consolidate its' assets in ATL, NYC, CVG, PHX, SLC and BOS. The only caveat here is that Texas Pacific's ownership in America West, plus their option for up to 38 percent of US Airways might place America West in the United, US Airways group.

Northwest Airlines—Formed from the joining of Continental Airlines and Alaska Airlines with Northwest will create a new entity claiming 21 percent market-share. The larger and more balanced Northwest Airlines will prosper from and enhance the many employee friendly policies of Continental and Alaska. This new powerful force will also count on a large international network to support its' success. NW will have a sizable presence in NYC, IAH, MSP, DTW, SEA and MEM.

In order to address the inevitable doomsayers, the imposition of price ceilings on hub-to-hub monopoly services should be instituted to discourage price gouging in the following manner.

Example: MSP to DTW—Nonstop

Now: NW Monopoly

Future: NW limited to charging average yield on Hub to Hub as for average of other similar stage length services. MSP to DTW average fares must not exceed average prices charged for routes with similar stage lengths.

I know this all sounds very controversial, but we have been conditioned by politicians and other so-called consumer advocates to resist the ideas of consolidation without allowing any serious debate on the potential merits. Carriers have themselves pointed weapons at their own feet and pulled the trigger when asked to comment on potential mergers between their competitors. Look how Continental fought to keep British Airways and American Airlines apart, but sees no reason why they should not be allowed to join forces with Delta and Northwest. What's good for the goose must be good for the gander. We currently have eight weak carriers, some in or headed to Chapter 11, asking for loan guarantees, all losing money and patiently waiting for the economy to brighten their collective horizons. Why not opt for four stronger providers, all with a chance to make a go of it? How many network carriers does the U.S. need? Looking at similar sized markets may lead us to an answer. Japan has two, Europe has three, and China is moving to consolidate to four. Why does the U.S. need more than four?

3. Foreign ownership/service rules should be lifted

Allow international carriers to invest in U.S. carriers and/or allow foreign carriers to operate within the USA. There are some very profitable foreign carriers with money to invest. Qantas, Singapore, Lufthansa and Air France might all be enticed to make deals. Is it better to get hand outs from tax payers or investments from other carriers? We are all familiar with other foreign investments in U.S. businesses. The global marketplace assumes these kinds of transactions. U.S. companies own major stakes in of dozens of foreign corporations. Lest we forget that GM owns Aston-Martin, Opel and Saab, Ford owns Jaguar, Volvo and Land Rover amongst others and that DaimlerChrysler owns large stakes in both Mitsubishi and Maserati. We should no longer need or wish to sustain historical barriers that prevent these transactions from occurring. The airline industry is not sacred or immune from the global economy. In fact, the global economy relies on a vibrant airline industry.

4. Greater differentiation between Business/Leisure Products

Customer Service complaints from the profitable business segment have as much to do with low and common standard of service to all customers as it has to do with higher prices. In general, and regardless of the price paid, passengers enjoy the same seat size and pitch, meal and beverage service; check in experience, boarding experience, frequent flyer miles earned, gate waiting experience, and security lines. Unless you are an Elite, Preferred, and Stratosphere Warrior and even then that isn't always enough, you can count on the same customer experience as granny on her annual visit to the grandkids. You'll pay up to ten times what granny paid in the comfort that your extra contribution ensures that you can see you own kids on Friday night. Would this model be accepted in any other industry? Imagine paying $1000 more per night for an identical hotel room just because USA Today was left hanging on the door handle and you had access to email and a mini-bar. I would love to hear the conversation that suggested that in order to pay $100 a night you would have to stay until Sunday!!!!

It's true: the airline industry is broken, but it's not that hard to fix. Just as baseball was at the brink, so remains the plight of the airlines and the passengers that fly them. Many of the ideas we have tried to share will undoubtedly face enormous hurdles and obstacles, but as an industry participant, corporate advocate, supplier partner and traveler, we think they deserve their day in court. Who knows, maybe we have the formula to fix the industry . . . what we know for sure is that right now all we see is a recipe for disaster.

Senator DORGAN. Mr. Rosenbluth, thank you very much.

Next we will hear from Jonathan Tisch, Chairman of the Travel Business Roundtable. Jonathan, welcome.

STATEMENT OF JONATHAN TISCH, CHAIRMAN, TRAVEL BUSINESS ROUNDTABLE

Mr. TISCH. Thank you, Mr. Chairman. I am Jonathan Tisch, Chairman of the Travel Business Roundtable and Chairman and CEO of Loews Hotels. Before I begin, I would like to thank Chairman Dorgan and Ranking Member Fitzgerald for holding this important hearing and inviting the Travel Business Roundtable to testify. I ask that my written statement be included in the record.

Senator DORGAN. Without objection.

Mr. TISCH. Over the past year, the travel and tourism industry has faced significant challenges on several fronts. When people stopped flying after September 11th—or in many cases stopped traveling altogether—they also stopped staying in hotels, eating in restaurants, visiting museums or theme parks, renting cars or shopping. As a result, hundreds of thousands of industry workers were laid off or workers had reduced hours and companies faced steep revenue shortfalls, and State and local governments saw a rapid decline in tax revenues that were badly needed in this recessionary economy.

Though lower prices and increased security measures have helped Americans travel again, the ongoing economic uncertainty in the U.S. and the perceived hassle factor associated with flying remain strong barriers to the industry's recovery. The slight recovery we are seeing in some industry sectors and areas of the country is uneven. A number of examples of the disparity of the industry's recovery are included in my written statement, but I would like to cite just a few.

The Travel Business Roundtable conducted a poll in August on travel patterns one year after September 11th. A summary is attached to my written statement. It did find that while people perceive airline travel to be relatively safe, the aforementioned hassle factor, a lack of confidence in the sufficiency of airport security, and inconsistencies in the screening process amongst airports confirm a recent trend to drive instead of to fly. More than 1 in 10 travelers have canceled their flights or fly less frequently because of the hassles, and nearly 1 in 5 frequent business travelers are traveling less often.

The Federal Reserve's September Beige Book showed that while leisure travel is up in 6 of the 12 districts, business travel is off across the country. Even in districts that are seeing increased visitor traffic, room rates are down and travelers are spending less on food and entertainment.

As Chairman of NYC & Company, New York City's convention and visitors bureau and official tourism and marketing arm, I can report to you that while we are able to maintain roughly the same number of domestic visitors in 2001 as we had in 2000, spending was off by nearly $1 billion.

It is important to note that the unevenness in the recovery is not just affecting employees and owners of travel and tourism businesses. Cities, counties, and States have also been affected by the decline in the tourism and sales tax revenues that visitors bring to these jurisdictions.

Where can we go from here? A collaborative effort will be the key to recovery. Included in my testimony are a number of recommendations about how we can work together to achieve a true recovery for travel and tourism. We offer these suggestions with the recognition that the Federal Government is facing fiscal restraints. With that in mind, we are not asking for things that are unrealistic or unachievable. However, we hope that you will agree that a small investment now will yield multiple returns for our Nation's economy in the coming years.

A major part of our effort must include attracting more international visitors. We are losing market share and with it job and tax revenues to our foreign competitors who are spending vast sums of money to promote their countries. Though travel and tourism generated a balance of trade surplus of nearly $26 billion in 1996, by 2001 that surplus had plummeted to only $7.7 billion. Moreover, the U.S. continues to rank as the third most sought after international destination behind France and Spain.

In 2000, international visitors spent approximately $106 billion in this country. It is well known that international travelers spend far more than domestic travelers. For example, in 2000, though foreign visitors made up only 18 percent of New York City's total visitors, they were responsible for 42 percent of all visitor spending.

Beyond the financial benefits, the need to better define America abroad has become all too clear since the events of last fall. The marketing of the United States overseas would be an ideal mechanism to help combat misconceptions about us around the world.

What do we recommend? TBR is discussing with the Commerce Department the possibility of undertaking partnered research that would examine successful international marketing efforts by our largest foreign competitors. We hope that this study will create a road map for the development of an economically and politically credible international destination marketing campaign.

We hope that you will consider the following incremental measures as small investments that will yield multiple returns in the coming years.

We ask that you:

Urge the President to establish an advisory council on travel and tourism;

Create a destination marketing pilot program that would help a select group of cities and States undertake international marketing initiatives;

Increase funding for the Commerce Department's Market Development Cooperator grant program to make it more accessible to our industry or fund a similar tourism-specific program;

Enact Congressman Foley and Farr's American Travel Promotion Act and work to pass terrorism insurance before you adjourn;

Increase and restore the tax incentives that spur business travel by increasing the business meals and entertainment tax deduction and restoring the spousal travel deduction;

Continue funding for the Commerce Department's Travel and Tourism Satellite Accounts;

Ensure that the industry has a consultative role in the creation of the new Department of Homeland Security;

Work with mayors and Governors around this country to develop achievable travel and tourism strategies.

My final request requires no congressional action but would make all the difference to our industry. Above all things, I urge you and your colleagues to help end the indifference that Washington has long held toward us. The 1950's industrial economy has given way to the 21st century service economy. Travel and tourism now defines that service economy around the world. We create jobs. We create careers. We fulfill important social policy goals, and we contribute more than $99 billion in tax revenues and create an enormous travel trade surplus. We are in all 50 States. We are in all 435 congressional districts. In short, we are your core constituencies. Please respect our contribution by nurturing our business and employees with policies that will enable us to accomplish even more.

Again, I thank you for inviting TBR to testify. We look forward to continuing our work with you as we enact realistic policy solutions to spur increased travel to and within the United States. I am happy to answer any questions that you may have. Thank you.

[The prepared statement of Mr. Tisch follows:]

PREPARED STATEMENT OF JONATHAN TISCH, CHAIRMAN, TRAVEL BUSINESS ROUNDTABLE

Introduction

I am Jonathan Tisch, Chairman of the Travel Business Roundtable (TBR) and Chairman and Chief Executive Officer of Loews Hotels. TBR is a CEO-based organization that represents the broad diversity of the U.S. travel and tourism industry, with more than 70 member corporations, associations and labor groups. Loews Hotels, headquartered in New York City, operates 18 distinctive properties in the U.S. and Canada, including the Regency Hotel in New York and the Loews L'Enfant Plaza and Jefferson hotels here in Washington. The company employs more than 8,000 people across the United States. I am testifying today on behalf of both organizations about the state of the U.S. travel and tourism industry in the post-September 11 climate.

Before I begin, I would like to thank Chairman Dorgan and Ranking Member Fitzgerald for holding this important hearing and inviting TBR to testify. Senator Dorgan, our industry is particularly appreciative of your many years of leadership on issues that affect the travel and tourism industry and the traveling public, as well as your keen understanding of the importance of our industry to the vitality of the U.S. economy.

Current State of the Industry

Over the past year, the travel and tourism industry has faced significant challenges on several fronts. It became apparent very quickly during the days and weeks following September 11 that the problems facing our industry were not simply airline-related. When people stopped flying—or in many cases traveling by any mode of transportation—they also stopped staying in hotels, eating in restaurants, visiting museums or theme parks, renting cars or shopping. As a result, hundreds of thousands of travel and tourism industry workers were laid off or had their hours reduced, travel and tourism companies faced steep revenue shortfalls and state and local governments saw a rapid decline in tax revenue upon which they were particularly reliant in the recessionary economy.

Though lower prices and increased security measures have helped get Americans traveling again, the ongoing economic uncertainty in the U.S. and the perceived "hassle factor" associated with flying remain barriers to the industry's recovery, and the slight recovery we are seeing in some industry sectors and areas of the country is uneven. As a result, individuals and businesses continue to cut back on discretionary spending, including travel. Vacations are being shortened or canceled altogether, and businesses continue to reduce non-essential travel. In addition, international arrivals continue to lag behind pre-September 11 levels.

The numbers speak for themselves:

- TBR recently conducted a poll on travel patterns one year after September 11 (summary attached). While 89 percent of all travelers think airport security is better now than it was before last fall, three in 10 (30 percent) believe that the current level of security measures imposed so far are "insufficient" and more can be done—an increase of five percentage points from last October. In addition, more than one in 10 travelers (11 percent) have canceled their flights or fly less frequently because of the hassles of airport security. While commercial airline travel is perceived to be very safe, the "hassle factor" associated with heightened airport security, a lack of confidence in the sufficiency of the airport security measures and inconsistencies in the screening process from one airport to another confirm a recent trend by travelers to make trips by car instead of airplane. For example, 44 percent of business travelers said they now travel by car more frequently for out-out-town trips.
- The September 11, 2002 edition of the Federal Reserve's Beige Book showed that while leisure travel is up in six of the 12 districts, business travel is off

across the country. Even in districts that were seeing increased visitor traffic, room rates are down and travelers are spending less on food and entertainment.

- The Business Travel Coalition's 2001 Business Travel Survey reported that businesses cut their travel by 28 percent after September 11. In August, the BTC stated that business travel will continue to be cut an additional 11 percent this year.
- The U.S. Department of Commerce's Office of Tourism Industries reported in August that international arrivals to the U.S. were down by 12 percent in the first quarter of 2002.
- According to the Hotel Employees and Restaurant Employees International Union, in the days and weeks following the terrorist attacks, 30 percent of HEREIU workers lost their jobs due to the decline in tourism. One year later, 15 percent of the Union's members are still out of work, and many of those who are employed are working reduced hours.
- The National Restaurant Association reports that while sales at restaurants and bars have been strong in 2002, employment in these establishments remains down by 180,000 jobs since the recent peak in July 2001. Moreover, job growth at restaurants and bars fell well below the overall economy in recent months. In the 12 months ending August 2002, restaurant and bar employment declined at a 1.8 percent rate, or double the 0.9 percent decline in the country's total non-farm employment rate.
- New York City's convention and visitors bureau, NYC & Company, of which I am Chairman, reports that while the City has seen an upswing in domestic leisure visitors in the past year, its recovery is partial, as business travel, visitor spending and lengths of stay are down. Preliminary numbers indicate that international visitorship is down as well.
- According to the Convention Industry Council, more than 100 exhibitions were canceled last year, and trade show attendance dropped more than 20 percent in the fourth quarter of 2001. Attendance at tradeshows this year is down 8 to 10 percent, and the renewal rate on most exhibitions is off by 50 percent or more. Moreover, international attendance at tradeshows has fallen by 50 percent since last September.
- Economists and travel planners have said that they do not expect the hotel industry to return to the profit levels experienced in 1999 and 2000 until mid–2004 at the earliest.

It is extremely important to note that this unevenness in recovery is not just affecting the employees and owners of travel and tourism businesses. Cities, counties and states that were already beginning to see budget shortfalls due to last year's economic downturn have also been deeply affected by the decline in the tourism and sales tax revenues that visitors bring to their jurisdictions. Forty-one states are currently experiencing major budget shortfalls, and Governors often cite a dramatic decline in travel and tourism tax receipts as a major cause. As a result of these revenue declines, states and local governments have been forced to reduce services at exactly the same time their citizens—who are also feeling the effects of the economic slump—require more assistance.

Where Do We Go From Here?

The travel and tourism industry, as well as many states and cities, have undertaken a number of efforts in the past year to encourage people to start traveling again. TBR took the lead last fall to work with Senators and Members of Congress to craft viable proposals to stimulate travel that could be included in an economic stimulus package. We also commissioned two major surveys—conducted at the beginning and end of October 2001 by Penn, Schoen, Berland and Associates and Burson-Marsteller—which we shared with the industry and the Federal Government, that helped us gain a better perspective of traveler confidence. On the marketing side, the Travel Industry Association launched a Travel Industry Recovery Campaign, funded by all sectors of the U.S. travel and tourism industry, which included a plea from President Bush for people to start traveling again. On the local level, states such as Florida and California, and cities such as New York and Washington, undertook successful public-private advertising campaigns to attract travelers in the region and within their own jurisdictions. We can all be proud of how our industry and state and local governments came together to work toward recovery. And, while we are seeing promising signs that reaffirm the progress being made, we clearly have more work to do as we look to work collaboratively with our elected officials to find solutions that will get more Americans traveling, and spur more international travelers to visit the U.S.

The collaborative nature of this effort is key. Included in my testimony are a number of recommendations about how the industry, states and local governments and the Federal Government can work together to achieve a true recovery for travel and tourism in the U.S. However, the most fundamental thing that you, as Senators, can do right now is listen to us and believe us when we say that the United States and all of the destinations within it represent a unique product that we can and must market to the world with as much effort as we market any other American export product.

Just as we worry about losing market share to our foreign competitors for products such as automobiles and computers, Americans need to understand and respond to the fact that we have been losing out to our foreign competitors in the area of travel and tourism for several years now. The events of September 11 only served to exacerbate that decline. The numbers paint a very clear picture. Though travel and tourism generated a balance of trade surplus of nearly $26 billion for the United States in 1996, by 2001, that surplus had plummeted to $7.7 billion. Moreover, for several years now, the U.S. has been ranked as the *third* most sought-after travel destination behind Spain and France.

What do these countries have that we don't? For one thing, they spend tens of millions of dollars to promote themselves to foreign visitors. In 1997—the most recent year for which such figures are available—the government of Spain spent $71.6 million to promote the country as a desirable tourist destination. France spent $57.4 million. Meanwhile, the United States spent nothing.

In 2000, international visitors spent an estimated $106.5 billion in the U.S. It is well known that international visitors spend more than domestic travelers when they travel. For example, New York City is the nation's number-one international visitor destination, and though international travelers comprise only a small portion of the City's visitors, they are responsible for a disproportionately high level of spending. In 2000, though foreign visitors made up only 18 percent of New York's total visitors, they were responsible for 42 percent of all visitor spending. It seems like good business sense—and good policy—to spend some money on promoting what the U.S. can offer to these visitors in an effort to retain and grow this powerful market share.

Beyond the financial benefits, travel and tourism increases awareness and understanding among diverse cultures and can help eradicate prejudices based on ignorance. The need to better define America abroad has become all too clear since the events of last fall. The marketing of the United States overseas would be an ideal mechanism to help combat misconceptions about us around the world.

Recommendations

TBR has a number of recommendations for both short- and long-term programs and initiatives that Congress can enact to help the U.S. regain its dominance in the international travel and tourism market, as well as stimulate the domestic leisure and business travel sectors. We offer these suggestions with the recognition that the Federal Government is experiencing the same types of fiscal restraints that state and local governments and the private sector are also facing. As has been the case since our inception, it is TBR's goal to offer politically and economically feasible solutions. We do not want to overreach or ask for things that are unrealistic or unachievable. However, we hope that you will share our belief that a small investment now will yield multiple returns in the coming years.

For several years now, TBR has been calling for the development of an aggressive brand marketing campaign, funded from both private and public sources, to promote the U.S. as a desirable travel destination. The Federal Government must play a role in this effort, as it is the United States as a whole that will be marketed as a product. TBR has been in discussions with the Commerce Department and is exploring the possibility of undertaking partnered research between the Department and the private sector, to be conducted by an academic institution, that would examine successful international marketing efforts by our largest foreign competitors. We hope that the information derived from this important study will create a roadmap for the development and funding of an economically and politically credible international destination marketing program for the United States.

Recognizing that resources are scarce and this year's congressional timetable is growing shorter, we would like to offer some incremental measures to start us on the path to this longer-term goal:

- *Establish a Presidential Advisory Council on Travel and Tourism:* More than a year-and-a-half ago, TBR called for the creation of this body, which is currently under consideration within the Bush Administration. Comprised of 35 presidentially appointed representatives of business, government and non-profit organizations with expertise in policy matters impacting tourism development, the Council would be the ideal body to explore ways that the travel and tourism industry can work for the benefit of our nation. The Council would advise the President on national tourism policy and would help ensure that travel and tourism receives a more sustained and vigorous policy focus at the federal level. It would also help coordinate the activities of the Administration and the many departments and agencies that impact travel and tourism. While the Council would be created by Executive Order under the Federal Advisory Committee Act (FACA), TBR requests your support in urging the President to create this body.

- *Create a Destination Marketing Pilot Program:* A pilot program should be undertaken immediately to test the efficacy of international destination marketing initiatives. For example, Congress could select five states and five cities across America based upon geographic and population diversity, and appropriate a fixed dollar pool to underwrite a specific, new international marketing initiative. The participants would select their own international targets and could employ whatever marketing strategies deemed appropriate. Within three months of the conclusion of the outreach, a written report would be due to Congress that defined in measurable terms the tangible success of the program's ability to increase the targeted international arrival pool.
- *Increase Funding for the Market Development Cooperator Program or Fund a Similar Tourism-Specific Program:* We understand that Congress appropriates $2 million annually to the Department of Commerce to run this matching grant program to help state offices, trade associations, chambers of commerce and other non-profit organizations market their non-agricultural products and services overseas. While this could be an ideal tool for state tourism offices and convention and visitors bureaus to leverage to promote their destinations overseas, a Commerce official has informed us that the fund has not been tapped for tourism-related purposes—most likely because no one in the industry has heard about it. Increased funding for this program, or the establishment of a similar program that is specifically aimed at travel and tourism ventures, would help encourage eligible travel and tourism entities to take advantage of this program. TBR pledges its assistance in getting the word out to ensure that eligible travel and tourism entities apply for such funds.
- *Enact the American Travel Promotion Act (H.R. 3321):* Last November, Congressmen Foley and Farr, the Co-chairs of the Congressional Travel and Tourism Caucus, introduced this legislation in an effort to encourage states to boost their travel promotion efforts. We urge Congress to pass H.R. 3321, because we believe the $100 million in matching grants to states that this legislation would provide is a much-needed stimulus to states, local governments and the U.S. travel and tourism industry as a whole.
- *Remove Structural Impediments to Expanded International Arrivals:* Agencies of the Federal Government such as the U.S. Commercial Service at the Commerce Department, which staffs commercial officers throughout the world, should be better educated to become tourism promotion savvy. Congress should direct federal officials to aggressively look for ways to promote travel to the U.S.
- *Increase and Restore the Tax Incentives that Spur Business Travel:* The reduction of the business meal and entertainment tax deduction from 100 percent to 50 percent and the elimination of the spousal travel tax deduction negatively affected the restaurant and entertainment industries and the business customers they serve even before September 11, particularly harming small businesses. As I noted earlier, even the Federal Reserve Board has recognized the affects of the drop in business travel across the country. TBR encourages Congress to upwardly revise the business meal and entertainment tax deduction and restore the spousal travel tax deduction. Doing so would provide an immediate incentive for small businesses and corporations alike to authorize their personnel to start traveling again.
- *Continue Funding for the Commerce Department's Request for Travel and Tourism Satellite Accounts (TTSAs):* TTSAs serve as a primary source of data for tourism policymaking by establishing a consistent, measurable framework for analyzing tourism expenditures and employment in a systematic manner. The sectors measured include purchases of airfares, lodging, meals and beverages, shopping and other travel activities. This research helps the Department and the industry gain a better understanding traveler preferences and economic trends across the varied sectors that make up the travel and tourism industry. TBR urges Congress to continue funding for this vital research.

- *Ensure that the Industry has a Consultative Role in the Creation of the New Department of Homeland Security:* There are a variety of ways in which the activities of the agencies that will comprise the new Department of Homeland Security will immediately affect the vitality of our industry. With that in mind, TBR created a Homeland Security Task Force this summer and sent to Congress a series of recommendations about issues of immediate concern. The goal of creating a central point of coordination to protect American citizens within our borders is a worthy one, and our industry supports this important mission. As Congress considers legislation on the new Department, we hope you will bear our recommendations in mind, particularly with an eye toward ensuring that there is a formal, consultative process that helps the Department achieve its important mission without compromising the industry's ability to create economic growth throughout our nation.
- *Work with Mayors and Governors to Develop Achievable Travel and Tourism Strategies:* America's Mayors and Governors are on the frontlines and have an intimate understanding of the power of travel and tourism as a driver for economic development and job creation in their cities and states. We urge you to work closely with them to develop strategies that will spur travel and tourism growth across the nation.

Conclusion

My final request of you requires no congressional action, but would make all the difference in the world to the businesses and employees that comprise the U.S. travel and tourism industry. Above all things, I urge you and your colleagues to help end the indifference that Washington has long held toward the travel and tourism industry. A recent independent Gallup poll found that the restaurant industry is the most highly regarded business sector in the country, closely followed by the travel industry, which ranked eighth. Clearly there is a recognition outside the Beltway of our industry's importance. The United States, much like the rest of the world, is defined by its service economy. The 1950s industrial economy has given way to the 21st Century service economy. Travel and tourism defines that service economy around the world. We create jobs and careers; we fulfill important social policy goals, such as moving people from welfare to work; we contribute more than $99 billion in tax revenue for federal, state and local governments to drive our economy; and we create an enormous travel trade surplus to offset even the worst national balance of payments deficit. We are in 50 states and 435 congressional districts. In short, we are your core constituency. Please respect our contribution by nurturing our employers and employees with policies that will enable us to accomplish even more.

Again, I thank you for inviting the Travel Business Roundtable to present its thoughts and concerns today, and we look forward to continuing to work with you to enact realistic policy solutions to spur increased travel to and within the United States. I am happy to answer any questions you may have.

Membership

American Airlines
American Express Company
American Hotel & Lodging Association
American Resort Development Association
American Society of Association Executives
Amtrak
Asian American Hotel Owners Association
Association of Corporate Travel Executives
Budget Group Inc.
Business Travel News
Carey International Limousine
Carlson Hospitality Worldwide
Cendant Corporation
The Coca-Cola Company
Commonwealth of Puerto Rico
Delta Air Lines, Inc.
Detroit Metro Convention and Visitors Bureau
Diners Club International
Distinguished Restaurants of North America
Fairmont Hotels & Resorts
FelCor Lodging Trust
Four Seasons Hotels & Resorts

Greater Boston Convention and Visitors Bureau
Greater Fort Lauderdale Convention & Visitors Bureau
Greater Miami Convention & Visitors Bureau
Gucci Services Ltd.
The Hertz Corporation
Hilton Hotels Corporation
Hotel Employees and Restaurant Employees International Union
HRW Holdings, LLC
Hyatt Hotels Corporation
IBM
Inc. Magazine
International Association of Convention and Visitors Bureaus
International Council of Shopping Centers
Interval International
JetBlue Airways Corporation
Las Vegas Convention and Visitors Bureau
Loews Hotels
Los Angeles Convention and Visitors Bureau
Lufthansa Systems North America
Mandalay Resort Group
Manhattan East Suites Hotels
Marriott International Inc.
MeriStar Hotels and Resorts Inc.
The Mills Corporation
National Basketball Association Entertainment
National Football League
National Hockey League
National Restaurant Association
New York University
Newport County Convention and Visitors Bureau
Northstar Travel Media, LLC
NYC & Company
Omega World Travel
Pegasus Solutions, Inc.
PricewaterhouseCoopers, LLP
The Rappaport Companies
Seattle's Convention and Visitors Bureau
Six Continents Hotels Inc.
Smith Travel Research
Starwood Hotels & Resorts
Strategic Hotel Capital Incorporated
Taubman Centers, Inc.
Tishman Construction Company
United Airlines
Universal Studios
United States Conference of Mayors
USA Today
Vail Resorts, Inc.
Walt Disney Parks and Resorts
Washington DC Convention and Tourism Corporation
Waterford Group, LLC
WH Smith USA Travel Research
World Travel and Tourism Council
Zagat Survey

Travel Business Roundtable, August 22, 2002

SURVEY SHOWS TRAVELER CONFIDENCE RETURNING; CONCERNS OVER THE ECONOMY'S HEALTH IS PRIMARY REASON CONSUMERS ARE AVOIDING TRAVEL

- Business travel recovering more slowly than leisure, with nearly one in five frequent business travelers making fewer trips
- Overwhelming majority of travelers think airport security is better now than before September 11, but acknowledge a hassle-factor and room for improvements

Washington, D.C.—Nearly one year after the September 11 terrorist attacks, price-cutting by the travel industry and enhanced security measures at airports have stimulated demand and largely restored the confidence of U.S. travelers. But an industry rebound remains uncertain, with leisure and business travelers both citing the economy as the prime reason they are traveling less, according to a new nationwide survey released today that was commissioned by travel website Orbitz for the Travel Business Roundtable (TBR) in conjunction with NYC & Company and the Washington Convention and Tourism Corporation (WCTC).

The August 14–15 survey results of interviews with 700 respondents follow two surveys administered by TBR in October 2001 that touched on many of the same issues. The opinion research was done with a random sample of Americans identified as travelers who had taken at least one airline trip or spent one night in a hotel during the previous six months.

The new data shows that while nearly 90 percent of Americans are now traveling more or at about the same level as before September 11, frequent business travelers, who make up the majority of the industry's revenue because of their tendency to purchase higher-priced airfares or rooms, continue to make fewer trips.

"Though lower prices and increased security measures have helped get Americans traveling again, the ongoing economic uncertainty in the U.S. is a barrier to the industry's recovery," said Jonathan Tisch, chairman of TBR and chairman and CEO of Loews Hotels. "With consumers seeing their savings significantly decreased or wiped out by the recent performance of the stock market or their 401k retirement plans, they are cutting back on discretionary spending, including travel. Vacations are being shortened or canceled altogether. Likewise, businesses continue to cut back on non-essential travel, keeping their travel costs down as well."

Nearly one-half of all travelers surveyed cited economic factors as the reason they would avoid taking a trip. Thirty-two percent of all travelers surveyed said budget considerations would be the prime reason keeping them from traveling more than 100 miles from home or that traveling had become too expensive, and 12 percent said that they are not traveling due to economic uncertainty.

Not coincidentally, the reluctance of Americans to travel could hinder the speed of an economic recovery in the U.S. As the nation's second largest employer, employing more than 18 million people, and the third largest retail industry, travel and tourism was a $582 billion industry in 2000, generating nearly $100 billion in federal, state and local tax revenues.

Forty-six percent of business travelers were either much more or somewhat more reluctant to travel in the month following the events of September 11, and today 39 percent of business travelers remain much more or somewhat more reluctant to travel—an improvement of only seven percentage points. On the other hand, 27 percent of leisure travelers today are much more or somewhat more reluctant to travel—an improvement of 18 percentage points from last October.

According to Jeff Katz, Orbitz president and CEO, luring the frequent business traveler back to the air and the road is also critical to the travel and tourism industry's recovery.

"There are very promising signs that indicate Americans are nearly back to their normal levels of travel," said Katz. "The resiliency that is being demonstrated by leisure travelers since September 11 is especially encouraging. Discounts and great travel deals are still available, and continue to help drive the recovery of the leisure travel market."

Katz continued, "However, there is a clear lag in the resumption of business travel patterns. Among frequent business travelers, 17 percent say that they are traveling less now—five percent more than the population at large. Though a small percentage of the traveling population, these frequent business travelers contribute to nearly half of the industry's overall revenue."

The Orbitz-sponsored survey for the TBR also found:

- While 89 percent of all travelers think airport security is better now than it was before September 11, 2001, three in ten (30 percent) believe that the current level of security measures imposed so far are "insufficient" and more can be done—an increase of five percentage points from last October.
- Business travelers' and leisure travelers' opinions differ on the new security measures. Among frequent business travelers, only 60 percent think that the new measures are sufficient, versus 74 percent of frequent leisure travelers.
- Nearly four out of every five (79 percent) frequent business travelers have received heightened security screening (i.e. a "pat down" or removal of shoes).
- Just over one in five (21 percent) frequent business travelers find security screening procedures very consistent from airport to airport.

- More than one in ten travelers (11 percent) have canceled their flights or fly less frequently because of the hassles of airport security.
- Thirty-one percent of female business travelers who have reduced their level of flying because of the hassles of security have done so because of the personal "intrusion from security," compared to 12 percent overall. By contrast, of male business travelers who have reduced their level of travel, only 4 percent cited the intrusion of security as the reason.

According to Tisch, while commercial airline travel is perceived to be very safe, the "hassle-factor" associated with heightened airport security, a lack of confidence in the sufficiency of the airport security measures and inconsistencies in the screening process from one airport to another confirm a recent trend by travelers to make trips by car instead of airplane. The percentage of those who view automobiles as the safest place to be has risen from 69 percent last October to 76 percent.

Among the survey's other results:

- Of those who say they are traveling more now than a year ago, 45 percent say they are more inclined to book their travel online, either through the airline directly or via an independent travel site such as Orbitz (versus 20 percent who say they are less inclined).
- Of those who purchase travel online, 21 percent use an independent website versus 17 percent who book directly via the airline website.
- Twenty-nine percent of travelers are less inclined to take an international trip since the events of September 11. Almost one in ten (nine percent) have delayed, postponed or canceled an international trip. The number is even higher among male business travelers, of whom 16 percent have canceled an international trip.
- Nearly one in four (23 percent) travelers who are less inclined to take an international trip say they would rather travel in the U.S. and support the domestic economy.
- Travelers are more inclined to visit Washington, DC or New York City now than they were a year ago. Seventy-six percent of travelers surveyed said they would not avoid a trip to Washington, DC and 75 percent said they would not avoid a trip to New York City, an improvement over last year of seven percentage points and four percentage points respectively.
- Fifty-eight percent of travelers are closely watching the debate over the future World Trade Center Memorial and 75 percent plan to visit it.
- A majority (68 percent) of frequent business travelers say the travel industry response to the events of September 11 was "better than expected," while nearly one in four say the industry response was "worse than expected." Comparatively, 74 percent of all travelers said the industry responded "better than expected."

"One year later, the tragic events of September 11 continue to impact the travel and tourism industry," said Tisch. "The industry has responded, and we are seeing promising signs that reaffirm the progress being made. Clearly, more needs to be done, and the industry and government should continue to work collaboratively to find solutions that will get more Americans traveling, and spur more international travelers to visit the U.S."

The survey was commissioned by Orbitz and conducted on behalf of the Travel Business Roundtable in conjunction with NYC & Company and the Washington Convention and Tourism Corporation by Penn, Schoen, Berland and Associates on August 14 and 15. The survey had a sample size of 700 respondents (margin of error +/- 3.8 percent). The sample was broken in equivalent groups of business and leisure travelers. This is the third wave of the survey that seeks to track changing traveler attitudes in the aftermath of the September 11 terrorist attacks. The first and second waves were conducted in October 2001.

About TBR:

The Travel Business Roundtable is a CEO-based organization representing all sectors of the travel and tourism industry, including major airlines, hotels and lodging, restaurants, retail outlets, travel management companies, car rental companies, financial services institutions and others. The roster of members reflects the interdependence of all sectors of the travel and tourism industry and demonstrates the need to work collaboratively, especially during these challenging times.

About Orbitz:

Orbitz is a leading online travel company offering consumers the largest selection of low airfares, as well as deals on lodging, car rentals, cruises, vacation packages and other travel. Orbitz' state-of the-art flight search engine searches more than 455 airlines—up to 2 billion flight and fare options—offering an unbiased and comprehensive list of airfares and schedules. Founded by the world's leading airlines—American (AMR), Continental (CAL), Delta (DAL), Northwest (NWAC) and United (UAL) airlines—Orbitz also offers consumers a large collection of discounted web-only air fares. For more information, visit www.orbitz.com.

About WCTC:

The Washington, DC Convention and Tourism Corporation serves as the lead organization to successfully manage and market Washington, DC as a premier global convention, tourism and special events destination. Through successful development and execution of centralized and cohesive sales and marketing strategies, the WCTC generates economic benefits to the citizens of the District of Columbia, the convention and tourism industry, stakeholders and the Washington Convention Center Authority, with a special emphasis on the arts, cultural and historical communities.

The private, non-profit corporation has a membership of nearly 1,000 businesses and organizations that support the travel and tourism industry in our nation's capital. The city's tourism industry generates more than $10 billion in direct spending each year and sustains 260,000 jobs.

The Washington, DC Convention and Tourism Corporation was established by business and community leaders in April 2001 by merging the Washington, DC Convention and Visitors Association and the DC Committee to Promote Washington.

About NYC & Company:

NYC & Company, the city's official tourism marketing agency, is a private, non-profit membership organization dedicated to building New York City's economy and positive image through tourism and convention development, major events and the marketing of the city on a worldwide basis.

Check out NYC & Company's new web site at www.nycvisit.com.

Senator DORGAN. Mr. Tisch, thank you very much.

Next we will hear from Mr. Fred Lounsberry, National Chair of the Travel Industry Association of America. Mr. Lounsberry, why don't you proceed.

STATEMENT OF FRED LOUNSBERRY, NATIONAL CHAIR, TRAVEL INDUSTRY ASSOCIATION OF AMERICA

Mr. LOUNSBERRY. Thank you. Mr. Chairman and Members of the Subcommittee, on behalf of the 2000-plus member organizations of the Travel Industry of America, I want to thank you for the opportunity to update this Subcommittee on the state of the travel and tourism industry.

Last October, our industry shared with you the devastating impact on our employees of the terrorist attacks of September 11th, 2001. The sudden and dramatic decline in air travel rippled out to hurt all segments of the industry, including hotels, restaurants, rental car companies, and my business, theme parks and resorts.

We are grateful that so many of you cosponsored legislation embodying our proposed industry relief plan. Unfortunately, for reasons beyond our collective control, that legislation did not become law, and many of our former employees are still without jobs or are working significantly fewer hours.

Today I want to describe the current state of our industry one year later and suggest how you might help our industry share American values abroad, generate jobs, increase tax receipts, and help our Nation compete for international visitors in the future. We hope you will step forward, as you did last year, to help us.

One year later, our industry's situation has improved but recovery is neither full nor complete. Auto travel and travel by recreational vehicles have been leading positive indicators as Americans have expressed more interest in family travel and staying closer to home.

Domestic air travel recovery, however, has stalled. In the first half of 2002, enplanements were down 10 percent over the previous year. Business and convention travel was down nearly 9 percent in the first 6 months of 2002.

But the most affected segment by far has been international travel. In 2001, overseas travel to the U.S. declined 15 percent overall.

Travel industry employment has been affected dramatically. From September to December of 2001, TIA estimates that more than 270,000 travel industry employees lost their jobs. From December 2001 to July 2002, an additional 47,000 jobs were lost in our industry.

The single biggest obstacle to a full and complete recovery of our industry is the loss of international travelers to the United States. In 2001, international travelers spent $72.3 billion here and an additional $17.7 billion on transactions with U.S. air carriers. These expenditures directly generated 1 million jobs and more than $12 billion in tax revenue for Federal, State, and local governments, including the income tax of industry workers who are employed because of international visitors.

These economic benefits are not limited to any specific region of the country. In fact, one-third of international visitors visit two or more States, 28 percent visit small towns, and 21 percent tour the countryside. One-fifth of all international visitors spend time at national or State parks.

Bringing international travel levels back to the record-setting levels of the year 2000 will help replace the 320,000 jobs that have been lost since September 2001 and generate tax revenue for governments that are struggling with deficit budgets.

Yet, we should not be satisfied with the return to 2000 levels of inbound international travel. Our country's market share of world arrivals has decreased 28 percent in the last 10 years. The United States is no longer the world's premier destination. We are third behind France and Spain. We continue to lose share in five of the six world's largest tourist markets and continue to miss opportunities to share American values abroad.

The United States is the only western industrialized nation without a unified national tourism campaign that reaches out to global visitors and encourages them to see America. Our travel and tourism industry is asking Congress to join with us in exploring ways to brand, position, and promote the United States as the premier travel destination in the world. We are prepared to match Federal dollars on a one-for-one basis.

This idea has been unanimously endorsed by TIA's board of directors, the National Council of State Tourism Directors, and the National Council of Destination Organizations. Additionally, this year the Southern and Western Governors Associations have called on the Federal Government to fund a sustained international advertising and marketing program that encourages travel to the United States.

We encourage the Members of this Subcommittee to support exploration of a public-private partnership to promote travel to the United States. Our industry needs to regain the international visitors that have been lost in the past decade and reverse the decline of visitors since September 11th, 2001. Our Nation needs to replace the jobs and tax revenue that have been lost. Our industry looks forward to working with you on legislation to achieve this goal.

This concludes my testimony, Mr. Chairman, and I look forward to answering any questions you may have.

[The prepared statement of Mr. Lounsberry follows:]

PREPARED STATEMENT OF FRED LOUNSBERRY, NATIONAL CHAIR, TRAVEL INDUSTRY ASSOCIATION OF AMERICA

Mr. Chairman and Members of the Subcommittee:

On behalf of the 2,100 member organizations of the Travel Industry Association of America, or TIA, I want to thank you for providing me with this opportunity to update this Subcommittee on the state of the travel and tourism industry. I am TIA's National Chair as well as Senior Vice President, Sales, for Universal Parks and Resorts.

Last October, TIA was privileged to present a witness to share with you our concerns about the devastating impact on our industry and on our employees of the terrorist attacks of September 11, 2001. As you will recall, our industry was struggling badly. Business had dropped off 35 percent in the month following the terrorist attacks, with the sudden and dramatic decline in air travel rippling out to hurt all segments of the industry, including hotels, restaurants, rental car companies and—my business—attractions and amusement parks.

At your last hearing, our industry asked for help. We were grateful that so many of you cosponsored legislation embodying our proposed industry relief plan and other measures aimed at helping keep our employees on the job. For reasons beyond our collective control, however, the legislation did not become law, and the economy has not fully recovered. As a result, many of our former employees are still without jobs or are working significantly fewer hours.

Today, I want to describe the current state of our industry and to suggest how you might help our industry share American values abroad, generate jobs, increase tax receipts, and help our nation compete for international visitors in the future. In short, our industry has coalesced around the notion of a public-private partnership that would promote travel to and within the United States for the benefit of every state in the union. We need your support, and hope you will step forward as you did last year to help us. Working together, we can persuade more visitors to visit the United States for the benefit of the country as a whole.

One Year Later

One year later, our industry's situation has improved, but recovery is neither full nor complete. Most of our progress has been made in domestic leisure travel. Auto travel and travel by recreation vehicles have been leading positive indicators, as Americans have expressed more interest in family travel and staying closer to home. Lower gas prices and a shift away from air travel have reinforced these trends.

Domestic air travel recovery, however, has stalled. In the first half of 2002, enplanements were down 10 percent over the previous year's numbers, according to the Air Transport Association. Airlines continue to struggle financially, grappling with enticing customers back to the skies while managing to reverse the trend of red ink.

Business and convention travel, which was down 3 percent in 2001, was down nearly 9 percent in the first six months of 2002. Corporations continue to trim expenses in order to stay profitable in these precarious economic times, and travel continues to bear the burden of this trend. Hotel occupancy is improving slightly each month, but occupancy rates in the first two quarters of 2002 have still been lower than they were one year ago.

But the most affected segment by far has been international travel. In 2001, overseas travel to the U.S. declined 15 percent overall, according to the U.S. Department of Commerce. The United States saw even more dramatic drops in visitors from key markets such as Japan, where travel slipped 18.5 percent; Brazil, where inbound

U.S. travel declined 22.7 percent; and Germany, which posted a 24.6 percent drop. Industry analysts do not predict that international travel to the U.S. will catch up to 2000 levels until 2004.

This disturbing trend, combined with the struggling domestic air market and the decline in business travel, has affected travel industry employment dramatically. From September to December of 2001, travel employment declined significantly. Based on data from the Bureau of Labor Statistics, TIA estimates that more than 273,000 employees working directly for the travel industry lost their jobs during this time.

Unfortunately, 2002 is shaping up to be even worse overall than 2001. The first eight months of 2001 showed positive job growth, so the overall trend for the year was flat. However, from December 2001 to July 2002, an additional 47,000 jobs were lost in our industry. While travel industry employment levels have stabilized in the past six months, they are still almost four percent lower than the same months of the previous year. With no positive growth yet this year and none indicated for the coming months, 2002 is likely to show a significant decline.

Reversing These Trends

The single biggest obstacle to a full and complete recovery of our industry is the loss of international travelers to the United States. You may wonder why this segment is so important. The numbers speak for themselves.

The average international traveler spends an average of 15.6 nights and more than $1,600 in our country. In 2001, international visitors spent $72.3 billion here and an additional $17.7 billion on transactions with U.S. air carriers. These expenditures directly generated 1 million jobs. One out of every eight travel industry employees is working because of international visitors.

International travel to the United States does more than generate jobs; it is a revenue source for federal, state and local governments. According to TIA, international travelers directly generated more than $12 billion in tax revenue in 2001, including income tax of those industry workers who are employed because of international visitors.

These economic benefits are not limited to any specific region of the country. International visitors see all parts of our nation. One-third of international travelers visit two or more states. Thirty-one percent visit historical places. Twenty-eight percent visit small towns, and 21 percent tour the countryside. One-fifth of all international visitors spend time at national or state parks. The impact of international travel is felt through the United States.

Bringing international travel levels back to the record-setting levels of the year 2000 will help replace the 320,000 jobs that have been lost since September 2001 and generate tax revenue for governments that are struggling with deficit budgets during these difficult economic times.

Going Even Further

Yet, we should not be satisfied with a return to 2000 levels of inbound international travel. In the past decade, our country has been losing market share of world travelers. While total outbound travel worldwide has increased 49 percent since 1991, arrivals to the U.S. have increased by only 7 percent. Our country's market share of world arrivals has decreased 28 percent in the past ten years.

The United States is no longer the world's premier destination; we are third, behind France and Spain. We continue to lose share in five of the world's six largest tourist markets. We are being outpaced by other countries who are promoting themselves aggressively to the growing world tourism market.

Increasing our share of international visitors would have tangible economic benefits. Adding just one percentage point to the 2001 U.S. market share of world arrivals would result in an additional 7 million international visitors, an additional $11 billion in expenditures in our country and the creation of 151,000 more travel industry jobs.

Such growth would benefit U.S. governments as well. Adding one percentage point to the 2001 U.S. market share of world arrivals would generate an additional $1.9 billion in tax revenue for federal, state and local governments, including income tax. It's easy to see why our industry is so focused on the international market.

Growing Travel to the U.S.

As travel continues to grow worldwide, other countries continue to increase their market share of worldwide travel. While some of this shifting is inevitable as former communist bloc countries enter the travel and tourism business, much of it is attributable to the success of sophisticated, aggressive marketing campaigns undertaken by governments that understand the economic value of promoting in-bound travel.

The United States is the only western, industrialized nation without a unified national tourism campaign that reaches out to global visitors and encourages them to see America. The most recent report of the World Tourism Organization provides information about national tourism offices worldwide. Here are a few snapshots of the 1997 budgets of our competitors:

- Australia—$87.5 million
- France—$58.2 million
- New Zealand—$32.8 million
- Brazil—$92.3 million
- Germany—$26.6 million
- Mexico—$103.2 million
- Spain—$147.0 million

As you can see, we face stiff competition in the global marketplace. Other countries have recognized the value of international travelers, and they are growing their market shares while our share is declining. In order to increase our share of worldwide travelers, the United States needs to engage in a tourism promotional campaign.

Successful Models

Our travel and tourism industry is asking the Federal Government to help our industry market the U.S. internationally. As an industry, we have long recognized the benefits of leveraging marketing dollars, and there are several successful models in our own country that could serve as examples of how to structure a national tourism marketing campaign.

The State of Florida created VISIT FLORIDA, a public-private promotional effort designed to create a unified brand for the state. I am the immediate past chair of VISIT FLORIDA's private sector board of directors, which oversees the work of this non-profit organization. The state of Florida contributes dollars for marketing initiatives, and those dollars are matched one-for-one by the private sector. In this way, the state is able to generate more in advertising value from its investment of public funds. The state of California has a similar marketing effort. Indeed, combining public and private sector dollars for tourism marketing purposes is common throughout the world.

Our industry has already implemented a demonstration campaign, which was developed and administered by TIA. SeeAmerica is our industry's brand, and SeeAmerica.org is the website that consumers can use to make travel plans. The SeeAmerica name and logo are used at all major international tourism trade shows, such as ITB in Berlin and JATA in Japan. Travel guide inserts in major UK Sunday newspapers utilized the SeeAmerica name, as did a subway advertising train campaign in Japan.

These and other projects and programs have been paid for by 225 separate industry sources, including state and local tourism organizations and private-sector companies, and they show the willingness of our industry to put up matching dollars for a broader federal campaign. They also demonstrate the success of the SeeAmerica brand, which has been used by individual travel and tourism companies in their own advertising efforts.

What our Industry is Asking

As we seek to rebuild our industry and to create jobs, our industry now asks that Congress will help us build on the success of these programs by joining us in exploring ways to brand, position and promote the United States as the premier travel destination in the world. Our industry encourages that, like the Florida model, any organization be managed by the private sector.

This idea has been unanimously endorsed by TIA's Board of Directors, which represents all segments of the industry from all regions of the country. The National Council of State Tourism Directors and the National Council of Destination Organizations have passed resolutions supporting this proposal. Additionally, this year, the Southern and Western Governors Associations have called on the Federal Government to provide a sustained, federally funded international advertising and marketing program that encourages travel and tourism to the United States.

We encourage the Members of this Subcommittee to support exploration of a public-private partnership for promoting travel to the United States. This is our industry's best hope of regaining the international visitors that have been lost in the past decades and reversing the decline of visitors since September 11, 2001. This is our nation's best hope for replacing the jobs and tax revenue that have been lost. And it offers a way for our nation to share our values with individuals throughout the world. Our industry looks forward to working with you on legislation to achieve this goal.

Mr. Chairman, I appreciate the opportunity to testify today, and I look forward to answering any questions you may have.

Thank you.

Senator DORGAN. Mr. Lounsberry, thank you very much.

Finally, we will hear from Ms. Noel Hentschel, the Chairwoman and CEO of AmericanTours International. Why don't you proceed.

STATEMENT OF NOEL IRWIN HENTSCHEL, CHAIRMAN AND CEO OF AMERICANTOURS INTERNATIONAL

Ms. HENTSCHEL. Thank you, Mr. Chairman and Ranking Member Fitzgerald and Members of the Subcommittee. Thank you for the opportunity to testify.

And I concur with Senator Fitzgerald that we need to be more aggressive.

I am Noel Irwin Hentschel, Chairman and CEO of AmericanTours International, ATI, which I co-founded 25 years ago with the specific mission of promoting tourism to and within the United States of America. As the Nation's largest Visit USA tour operator, bringing more than 500,000 visitors each year from 70 countries to the United States, ATI is the only major Visit USA tour operator which is till American owned. We also promote all 50 States of America as a preferred partner of the American Automobile Association, AAA, by providing on-line travel services for their 46 million members domestically.

The events of September 11th had a profound impact on the U.S. travel industry, with international tourism and overseas arrivals down 15 percent in 2001 over 2000. Some markets have suffered more drastic drops in passenger arrivals than others, with the United Kingdom down 11 percent, France down 14 percent, Japan down 19 percent, Italy down 21 percent, and Germany down 25 percent to the United States. According to the Department of Commerce, the total international receipts for travel expenditures and passenger fares were down 12 percent, for a loss of $11.9 billion from 2001 versus 2000, and 2002 will reflect an even greater loss.

While Americans are traveling around America, especially by car, they are moving dollars from one State to another. International travelers bring in new money.

The challenges for tourism go beyond the tragedy of September 11th and it is time for America to take Visit USA tourism seriously.

Travel and tourism generates more than $550 billion in total expenditures and 18 million jobs nationwide, which equates to 1 out of 7 people employed in the private sector. Visit USA international travel and tourism alone generated $90 billion in expenditures and was responsible for 1 million jobs nationally. As a service export, international travel and tourism provided a positive balance of trade in 2001 of $7.7 billion.

But it seems that the Government of the United States does not take tourism seriously. We have had a severe lapse in policy on tourism in America, and we are paying the price. We are paying the price economically but also politically.

America needs to market and promote the United States as a destination. America spends zero dollars on promotion and yet Cyprus spends $40 million and Thailand spends more than $100 million annually to promote travel to their countries.

Exactly one year ago, I met with Secretary Don Evans and other leaders of our industry and recommended that instead of bailouts, the United States needs to allocate $100 million immediately to market and promote America as a destination. This can be done in joint marketing with TIA, States that have individual tourism budgets, and with tour operators overseas who could provide matching funds. We need to be proactive and to create a demand for travel to the United States. Not only will this contribute positively to our economy and our employment rate, but it will also have a positive impact on our balance of trade.

We should ask the Office of Global Communication to work with CNN, CNBC, and others to provide PSA's in cooperation with our tourism industry to invite and encourage people to travel to America by showcasing different attractions from Broadway to the Grand Canyon to Branson, Missouri, to Waikiki Beach. Many of you will remember years ago when New York had the "I Love New York" campaign. We need to launch a similar "I Love America" campaign worldwide, and we have the celebrity power to deliver this message.

Since September 11th, I have traveled extensively to Europe and to Asia, and I have met with the tour operators. While they are cautiously optimistic of 2003, they all feel very strongly that the United States needs to be more proactive in promotion. They are also concerned about the U.S. dollar versus the euro and the timing of any potential conflict with Iraq so that it doesn't impact the main booking season.

Most countries have a ministry of tourism. We need to create a national tourism office and provide them with a budget for marketing and promoting America throughout the world. If Malaysia spends $42 million and Australia spends $87 million, how can we expect to compete and spend nothing?

Not only will increasing international tourism have a positive economic impact, but also a positive political impact. What better way for people from around the world to have a constructive view of America than to visit the Grand Canyon, Mount Rushmore, and the Grand Ole Opry? When international visitors fall in love with the beauty of our country and the friendliness of our people, they become our greatest ambassadors and they take their personal stories from their American experience. Tourism generates literally millions of goodwill ambassadors spreading a positive image of our country abroad.

In addition to spending money to promote tourism, we need to protect the U.S. tourism industry. We need to level the playing field with the foreign companies doing business in America. Tour operators from Europe or Asia need to operate legally, and our laws need to be enforced. American companies that pay taxes and operate within the law should not be penalized or driven out of business because of unfair and illegal business practices by foreign-owned companies.

Unfortunately, we are too often viewed internationally as a society where our laws are not enforced. The U.S. travel industry needs enforcement to stem the tide of billions of dollars that are flowing overseas each month. Thousands of U.S. workers are being unemployed every day because the INS, the Department of Labor, and the IRS are not enforcing our laws with foreign corporations doing business in America. Often viewed on the surface as bringing visitors into the United States and therefore presumed to benefit the economy, some foreign tour operators instead host an underground economy that undermines a myriad of U.S. laws while unfairly competing with all law-abiding companies.

We must level the playing field and protect our U.S. companies. We need to hold foreign corporations and foreign CEO's doing business in America to the same standards that we hold American corporations and American CEO's. Foreign entities should not be able to hide profits off shore through non–U.S. subsidiaries, transfer pricing, or predatory pricing. A recent article that I have attached from Touristic Report in Germany exposes an example of this activity.

Second, foreign tour operators need to be forced to abide by U.S. labor laws. Tour guides performing labor in the United States should be required to be authorized to work in the United States. Tour guides without authority to work in the U.S. should be promptly deported.

Third, foreign entities should not receive windfall tax breaks or special treatment for tax evasion because collection efforts may be viewed as harder. Companies illegally evading taxes or who have received substantial compromises should be required to pay income tax on the amounts discharged.

And finally, companies who charge consumer taxes on travel transactions, but never remit these amounts to the respective taxing authorities, should be charged with fraud and prosecuted to the full extent allowed by law. As an example, foreign-owned operators in New York City have been claiming for the past 5 years that they are permanent residents of the hotels they contract. They do this in order to evade the payment of hotel occupancy taxes, which they fraudulently collect from the consumer. The wrongful retention of taxes has been a multi-million dollar windfall to these foreign operators who are billion dollar foreign corporations. This unfair competition has driven American law-abiding companies out of the market and into bankruptcy.

Stem the tide of foreign tour operators illegally operating tours in the United States and you will add billions to the U.S. treasury and thousands of jobs. Enforcement action will not decrease visitors but will increase revenues to both Federal and State governments as overseas operators are forced to legally record their transactions, and American companies will, once again, be able to compete.

In the materials I have submitted, I have provided 10 ways to help the industry by enforcing laws of this great land. * We hope you will help motivate the Department of Justice, the INS, and the State and local governments to take action now before there are no more American owned visit USA tour operators.

* The information referred to has been retained in Committee files.

There is a significant cost to be paid if we do not protect our U.S. tourism industry and aggressively promote the United States of America as the greatest and most diverse travel destination in the world. On the other hand, there is significant political and economic benefit to be gained if we can begin to take tourism seriously in America and provide the funds needed to compete as an international travel destination.

Mr. Chairman, tourism is an enormous source of revenue and an enormous opportunity of political influence. Our Government's policies of not supporting this critical industry will potentially cost billions of dollars and scores of thousands of jobs. It will also deny foreigners a chance to see the real America and to go home and confront growing anti–Americanism. On tourism, the train is leaving the station very quickly. I urge your Committee to act aggressively and to put tourism on the front burner of commercial policy.

Thank you very much.

[The prepared statement of Ms. Hentschel follows:]

PREPARED STATEMENT OF NOEL IRWIN HENTSCHEL, CHAIRMAN AND CEO, AMERICANTOURS INTERNATIONAL

Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to testify.

I am Noel Irwin Hentschel, Chairman and CEO of AmericanTours International (ATI), which I co-founded 25 years ago with the specific mission of promoting tourism to and within the United States. As the nation's largest visit USA tour operator, bringing more than 500,000 visitors to the United States annually from 70 countries, All is the only major Visit USA tour operator, which is still American owned. We also promote all 50 states of America as a preferred partner of the American Automobile Association (AAA) by providing online travel services for their 46 million members domestically.

The events of September 11 had a profound impact on the U.S. travel industry with international tourism and overseas arrivals down 15 percent in 2001 over 2000. Some markets have suffered more drastic drops in passenger arrivals than others with the United Kingdom down 11 percent, France down 14 percent, Japan down 19 percent, Italy down 21 percent and Germany down 25 percent. According to the Department of Commerce, the total international receipts for travel expenditures and passenger fares were down 12 percent for a loss of 11.9 billion dollars from 2001 versus 2000 and 2002 will reflect an even greater loss. But the challenges for tourism go beyond the tragedy of September 11 and it is time for America to take tourism seriously.

Travel and tourism generates $545 billion in total expenditures and 18 million jobs nationwide, which equates to one out of seven people employed in the private sector. Visit USA international travel and tourism alone generated $90 billion in expenditures and was responsible for over one million jobs nationally. As a service export, international travel and tourism provided a positive balance of trade in 2001 of 7.7 billion dollars.

But it seems that the government of the United States does not take tourism seriously. We have had a severe lapse in policy on tourism in America and we are paying the price. We are paying the price economically but also politically.

America needs to market and promote the United States as a destination. America spends zero dollars on promotion and yet Cyprus spends over $40 million and Thailand spends over $100 million annually to promote travel to their countries.

Exactly one year ago today, I met with Secretary Don Evans and other leaders of our industry and recommended that instead of bailouts, the U.S. needs to allocate $100 million immediately to market and promote America as a destination. This can be done in joint marketing with TIA, States that have individual tourism budgets and with the tour operators overseas who could provide matching funds. We need to be proactive and to create a demand for travel to the USA. Not only will this contribute positively to our economy and employment rate, but it will also have a positive impact on the balance of trade. We should ask the office of Global Communication to work with CNN, CNBC and others to provide PSA's in cooperation with our tourism industry to invite and encourage people to travel to America by showcasing different attractions from Broadway to the Grand Canyon to Waikiki Beach. Many of you will remember that years ago New York launched an “I Love New York” campaign. We need to launch a worldwide “I Love America” campaign and we have the celebrity power to deliver this message.

Since September 11, I have traveled extensively to Europe and Asia to meet with tour operators. While they are cautiously optimistic for 2003, they all feel strongly that the U.S. needs to be more proactive in promotion. They are also concerned about the U.S. dollar versus the Euro and the timing of any potential conflict with Iraq so that it doesn’t impact the main booking season.

Most countries have a Minister of Tourism. We need to create a National Tourism Office and provide them with a budget for marketing and promoting America throughout the world. If Malaysia spends $42 million and Australia spends $87 million, how can we expect to compete as an international destination and spend nothing?

Not only will increasing international tourism have a positive *economic* impact but also a positive *political* impact. What better way for people around the world to have a constructive view of America than to visit the Grand Canyon, Mount Rushmore or the Grand Ole Opry? When international visitors fall in love with the beauty of our country and the friendliness of our people, they become our greatest ambassadors with personal stories about their American experience. Tourism generates literally millions of goodwill ambassadors spreading a positive image of our country abroad.

In addition to spending money to *promote* tourism, we also need to *protect* the U.S. Tourism Industry.

We need to level the playing field with the foreign companies doing business in America. Tour operators from Europe or Asia need to operate legally and our laws need to be enforced. American companies, that pay taxes and operate within the law, should not be penalized or driven out of business because of unfair and illegal business practices by foreign owned companies.

Unfortunately, we are too often viewed internationally as a society where our laws are not enforced. The U.S. Travel Industry needs enforcement to stem the tide of losses of billions of dollars that are flowing overseas each month. Thousands of U.S. workers are being unemployed every day because the INS, Department of Labor and the IRS are not enforcing our laws with foreign corporations doing business in America. Often viewed on the surface as bringing visitors into the United States and therefore presumed to benefit the economy, some foreign tour operators instead host an underground economy that undermines a myriad of U.S. laws while unfairly competing with all law abiding companies.

We must level the playing field and protect our U.S. companies. We need to hold foreign corporations and foreign CEO’s doing business in America to the same standards that we hold American corporations and American CEO’s. Foreign entities should not be able to hide profits offshore through non-U.S. subsidiaries, transfer pricing or predatory pricing. A recent article that I have attached from Touristic Report in Germany exposes an example of this activity.

Second, foreign tour operators need to be forced to abide by U.S. labor laws. Tour guides performing labor in the U.S. should be required to be authorized to work in the U.S. Tour guides without authority to work in the U.S. should be promptly deported.

Third, foreign entities should not receive windfall tax breaks or special treatment for tax evasion because collection efforts may be viewed as harder. Companies illegally evading taxes or who have received substantial compromises should be required to pay income tax on the amounts discharged.

Finally, companies who charge consumer taxes on travel transactions but never remit these amounts to the respective taxing authorities should be charged with fraud and prosecuted to the full extent allowed by law. As an example, foreign owned operators in New York City have been claiming for the past five years that they are “permanent residents” of the hotels which they contract. They do this in order to evade the payment of hotel occupancy taxes, which they fraudulently collect from the consumer. The wrongful retention of taxes has been a multi-million dollar windfall to these foreign operators who are billion dollar foreign corporations. This unfair competition has driven American law-abiding companies out of the market and into bankruptcy.

Stem the tide of foreign tour operators illegally operating tours in the United States and you will add billions to the U.S. treasury and thousands of jobs. Enforcement action will not decrease visitors but will increase revenues to both federal and states governments as overseas operators are forced to legally record transactions, hire U.S. and documented workers and pay taxes in the U.S.. American companies will once again be able to compete with foreign operators who have unabashedly operated unhampered by U.S. laws and regulations.

In the materials I have submitted I have provided ten ways to help the industry now by enforcing the laws of this great land.* We hope you will help motivate the Department of Justice, INS and State and local governments to take action *now* before there are no more American owned Visit USA Tour Operators.

There is a significant cost to be paid if we do not protect our U.S. tourism industry and aggressively promote the United States of America as the greatest and most diverse travel destination in the world. On the other hand, there are significant political and economic benefits to be gained if we can begin to take tourism seriously in America and provide the funds needed to compete as an international travel destination.

Mr. Chairman, tourism is an enormous source of revenue and an enormous opportunity of political influence. Our government's policies of not supporting this critical industry will potentially cost billions of dollars and scores of thousands of jobs. It will also deny foreigners a chance to see the real America, and to go home and confront growing anti-Americanism. On tourism, the train is leaving the station very quickly. I urge your Committee to act aggressively to put tourism on the front-burner of commercial policy.

Thank you, Mr. Chairman.

Senator DORGAN. Thank you very much Ms. Hentschel.

Senator Fitzgerald?

Senator FITZGERALD. I would be interested in the thoughts of others on the panel regarding Ms. Hentschel's suggestion that we spend $100 million—I think that was your figure—to promote tourism. Is it correct that the Federal Government does not spend any money advertising for tourism abroad?

Ms. HENTSCHEL. Zero.

Senator FITZGERALD. Private interests would spend money on advertising, Correct?

Mr. LOUNSBERRY. That is correct. Currently the Federal Government does not support any type of a national tourism message. You have individual companies, airlines, theme parks, hotel chains promoting, but there is not a consistent USA——

Senator FITZGERALD. And States promote come visit our State.

Mr. LOUNSBERRY. Correct, but there is not a national campaign on behalf of the United States.

Senator FITZGERALD. Has anybody ever proposed one before? Has this come up before in Congress? Has it been voted on or defeated? Does anybody know the history of that?

Mr. TISCH. Senator, right after the White House Conference on Travel and Tourism in 1995, which was the first opportunity for our industry to speak with a unified voice and which was very successful and allowed us to create organizations like the Travel Business Roundtable, there was congressional movement towards creating a national tourism organization. It was in place for about 2 years, and unfortunately, we were not able to find a correct funding mechanism for the public side of the public-private partnership.

At the Travel Business Roundtable, we understand that there is a need to develop this partnership and come up with some dollars for international destination marketing. But we also know that anything we do has to be politically and economically feasible. So, the $100 million number in a perfect world would be a great place to start, but I am not sure that in today's world it is a realistic place to start.

* The information referred to has been retained in Committee files.

We are calling for some easy steps, some beginner steps working with the Commerce Department, and I do want to recognize Secretary of Commerce Evans and Linda Conlin on his team who have really focused on the needs of the travel and tourism industry working with the administration, working with Capitol Hill.

But, for instance, there is a $2 million program called the Market Development Cooperator program, and a nonprofit organization can go and ask for loans up to $400,000. We want to do more of that kind of mining for business through the nonprofits and maybe take some of those dollars and really focus them on travel and tourism or do a pilot grant program in certain cities in certain States. Take five cities. Take Chicago. Take Fargo, North Dakota and come up with certain amounts of dollars and see what works. See what the best practices are. See where the successes are. But start small. Let us see how we can grow the industry. Let us see how we can work with Government and then look down the road to a $100 million number.

Senator FITZGERALD. One of the problems in promoting a Visit America program in other countries is we would have to decide which part of America we would advertise, unless we advertised such a broad cross section of America that nobody would get mad.

Ms. HENTSCHEL. A rising tide will lift all boats. So, the main thing is we need people to come to America first because right now they're choosing to go to South Africa, to Australia, to other parts of the world, even to Turkey. Turkey is sold out this year.

Senator FITZGERALD. Do you think $100 million would do more overall for the tourism industry in America than the bailout that the airlines are asking for?

Ms. HENTSCHEL. Absolutely.

Senator FITZGERALD. Does anybody disagree with that?

Mr. TISCH. Well, the airlines are such an important factor in getting people from point A to point B.

Senator FITZGERALD. Will the airlines no longer get people from point A to point B if they have to file bankruptcy and operate under Chapter 11?

Mr. TISCH. That remains to be seen. If the airlines go out of business and fares go up——

Senator FITZGERALD. Do you think the airlines will go out of business? You do not think they will just file for bankruptcy and eliminate their debts? Do you think they will go out of business?

Mr. TISCH. Some may, but the Travel Business Roundtable supports a strong airline industry. Clearly we are in favor of this main mode of transportation. What we are seeing now is that people are finding ways around airlines. They are driving more.

Senator FITZGERALD. But when an airline files bankruptcy, do their creditors not take the hit? U.S. Airways filed for bankruptcy. They are still fine. Are they not?

Mr. TISCH. Yes, they are.

Senator FITZGERALD. I mean, are we not really bailing out their shareholders?

Ms. HENTSCHEL. And from overseas, you cannot drive here. So, the key is we have to be able to promote, and if we do promotion and marketing, the people will come and that will mean that the flights will be full and then the airlines will not need the bailouts.

Senator FITZGERALD. Mr. Rosenbluth, you were here last year after September 11th, were you not—after the airline bailout? I may have asked you this at that time, but I know your industry has been suffering greatly in the last couple of years, particularly the last year. Do you think that you have been losing a lot of your travel agents because they can no longer compete with Orbitz, which is owned by the airlines and is an indirect beneficiary of the taxpayer dollars?

Mr. ROSENBLUTH. I do not think it is Orbitz or any other on-line agency, although there has been some market share shift to on-line travel sites.

The problem with the travel agency industry per se is twofold.

One is that there are just fewer people traveling now, partly economic, partly as a result of, I think, some uncertainty for the future.

The other part is that the airlines, for the most part have systematically tried to remove certain segments of the travel agency industry in order to be able to deal directly with the public. One of the unintended results of their actions, however, is that now, having removed commissions from agencies, dealing directly with the public is the airline's most expensive form of distribution.

I believe we need a very strong airline industry, but I believe that the airline industry can help themselves in a lot of ways. Now, I listened to some of the testimony yesterday over in the House where there was discussion about war risk insurance and things like that, and it will probably work its way over here and cockpit doors. I think those things are important.

However, the airlines, it has been stated, will lose approximately $7 billion this year. I believe that a good $5 billion is their own doing and that if the airlines were to reform the way they price, both on-line and off-line, then in fact——

Senator FITZGERALD. You mentioned reform of their pricing. Do you think their pricing structure is just too complex with too many different fares? Do you think that hurts them?

Mr. ROSENBLUTH. No. I think it is completely broken. It is not in the complexity. I think you can get airline reform without simplification.

The problem with the airlines is self-inflicted. What they have been doing over the past number of years is indiscriminate discounting for major corporations. The way it works is very simple. They set a benchmark walk-up fare, which are the high-yield fares that everybody talks about which the airlines say they are not getting those passengers anymore. They then discount the corporations off of that benchmark fare, 30, 40, 50 percent. But in return for that, they are requesting or requiring corporations to move 40 percent, 60 percent, 70 percent share to the airlines.

What has happened because airlines have not had the backbone to go to corporations who are not fulfilling their end of the bargain is that tens of millions, if not hundreds of millions, of dollars a day are just going down the drain because major corporations that are doing their part, that are in fact moving the share and getting the discounts appropriately, are subsidizing other corporations that are not hitting their share numbers, and the airlines are not holding them to it.

So, it is just as if you were to go out and order 30,000 books and get a discount for that but only buy 3, you would get the same discount without every buying the other 29,997 books. So that is what is broken. That is where the money is going.

Senator FITZGERALD. That is only some airlines, though. It is really the big six airlines. For Southwest and Jet Blue—their traffic is up. Southwest's business I think, is up 100 percent in the last year. Is that not correct?

Mr. ROSENBLUTH. They have very different models, but those other airlines are not Jet Blue. They are not Southwest. But they are there. And, yes, the marketplace is taking care of some of the situations, as you mentioned, some of the bankruptcies, and there may be more, et cetera. But the shareholders do not have to lose if, in fact, you can have a profitable airline system. And the way to a profitable airline system is to change the airfare structure so that you don't have this disparity that is between the last minute walk up fare, of which many do not even fly anymore because the fares are too high, those that are good corporations subsidizing bad ones and the leisure traveler who is getting fares from a number of places, which is just confusing the entire marketplace.

So, I think major airfare structure reform is necessary, and the airlines can see billions of dollars flow to their bottom line. Commerce would be better for it. Everyone at this table would be better for it. I do not believe it requires that the Government do any bailouts. I do think there is definite room to help with some of the security measures that have been imposed on the carriers, but there is some self-help that can be done here that will be beneficial to all.

Senator FITZGERALD. Mr. Tisch, does the hotel industry support continued taxpayer money for the airlines?

Mr. TISCH. I cannot speak on behalf of the hotel industry to answer your question, Senator. I can speak on behalf of the Travel Business Roundtable and that we support a strong airline——

Senator FITZGERALD. Are the airlines members of that?

Mr. TISCH. We have about 6 airlines that are members of the Travel Business Roundtable. We are not the ones causing any red ink paying their dues to us. I guarantee you.

We call for a strong airline industry. It is an integral part of the travel and tourism industry. It is a major employer in this country. The issues are very complicated. We just want to see a strong, profitable system that will get our travelers from point A to point B.

It is important to keep in mind that business travel is way down. That is one of the significant anchors on the travel and tourism industry right now, and that is why we are calling for other ways to stimulate travel. Let us increase the amount of business meals deduction to 100 percent. Let us reinstitute a spousal travel deduction so that two people are going on a trip, two people are staying in a hotel room, two people are eating at a restaurant, two people are visiting theme parks, and two people are shopping. It is those kinds of ideas that I think we can work together with Congress to explore how we get more people traveling.

And when we call for the creation of a presidential advisory council on travel and tourism, we need a body where we can discuss these kinds of ideas and the whole notion of creating these public-private partnerships. It is working with the public sector that is going to get these ideas into action and get more people traveling.

Senator FITZGERALD. I know Senator Dorgan wants to ask some questions.

The business of hotels in major cities such as New York, Chicago, L.A., Washington, and the big hotels, is probably down substantially. But, I would imagine the smaller hotels, such as the Hampton Inn, the Courtyard by Marriott, and hotels along the interstate highways are probably doing pretty well right now because travel has shifted from airplane to automobile. Is that not correct?

Mr. TISCH. Yes, Senator. What we are seeing is that across the board, market by market, it may vary. You look at New York City, you look at some of the bigger markets—San Francisco is unfortunately suffering quite a lot. Occupancies have remained about the same as last year. Our average rates are down anywhere from 10 to 15 to 20 percent depending on the particular market. We used price as a tool last year to get people out of their homes. Then the economy continued to soften, so we are unable to raise the prices in certain key markets. Because people are driving, certain roadside hotels, lower priced facilities are doing quite well.

What we have been pleasantly surprised about is that the number of hotel/motel foreclosures is not as significant as we thought it might be. That is because in the last few years, to build a new property, to buy a hotel, the amount of equity needed was far in excess of what it was 10 years ago when the industry was in a similar bind. So, we are pleased that the basic economies of the hotel industry continue to remain strong. We have become much more productive. The breakeven point on a hotel is lower than it has ever been because we have gotten a little bit smarter about how to do things, but the big cities are hurting because business travel is off and meetings and conventions are off.

Senator FITZGERALD. What is the room occupancy in New York right now?

Mr. TISCH. We will end the year, Senator, at about 76 percent, but our rate will be down about 15 percent over last year.

Senator FITZGERALD. And over 2000?

Mr. TISCH. In 2000, we were at about 84 percent with a much higher average rate.

Senator FITZGERALD. Well, do you all agree on the importance of promoting the United States to the international travelers? One of your cited statistics suggests that international tourists are 19 percent of our tourists, but constitute 42 percent of tourist spending in the U.S.?

Mr. TISCH. That was a New York City statistic.

Senator FITZGERALD. That was a New York City statistic. So, if we could just have a slight increase in international tourists, that would really work wonders.

Mr. LOUNSBERRY. Yes. The international segment has been the most devastated this past year, and as we have talked about, our competition that has been taking market share away from the United States for the past 10 years has just been exacerbated. When you talk about tour operators internationally not seeing the U.S. market itself, they turn to the countries and destinations that are. It is up to the destination to create the awareness and the interest in traveling to that destination.

Senator FITZGERALD. And this has happened even though our dollar has weakened vis-a-vis other major currencies in the last year. We had more foreign tourists when our dollar was stronger. Is that not correct, Ms. Hentschel?

Ms. HENTSCHEL. Well, yes and no, because tourism was starting to decline from Europe prior to September 11 because of the dollar becoming stronger. The programs are costed about a year or 18 months in advance for many of the European tour operators, so you do not really get the effect immediately. So, now with the dollar becoming on par with the euro, that will help for next year. And that is why there are cautiously optimistic, but it depends on other elements.

Promotion is a key area. Actually we are viewed as almost embarrassing that the United States of America—like we do not care about visitors coming from overseas. As Fred just stated, other destinations are very aggressive. South Africa took over many of the taxicabs in London and painted their flag on it, telling everybody to come to South Africa. This kind of really helps, and that is what we need to do.

Senator DORGAN. Let me ask a few questions. We had invited several people involved with destination resort attractions to be here, but did not have a witness from them. Mr. Tisch, what has been the experience, to the extent you know. You have a hotel near Universal in Florida. What has been the experience of Disney World, Disney Land, Universal, and so on?

Mr. TISCH. Well, Senator, I can handle the hotel portion of that question because, as it turns out, we are partners with Universal in three hotels on the grounds of Universal Studios, the third one, a 1,000 rooms, having opened just 3 months ago.

Our hotel experience is that we had a very good summer, and it is interesting to note because in our 1,000-room hotel, which was designed as about 75 percent group business, this summer we ran out of parking spaces. If you went in the parking lot, you would see cars from Florida, Alabama, Georgia, because people were driving to the destination. So, with the great marketing that our partners at Universal are able to accomplish, we had a very good summer.

It is not necessarily the case in the whole destination—and once again, I just focus on the hotel aspect, and Fred can probably answer the theme park portion of your question, Senator.

Mr. LOUNSBERRY. Yes. My real job is Senior VP of Sales for Universal Parks and Resorts, to Jonathan's comment.

I think it really comes back to the international segment. Orlando, as a whole, had a pretty good summer, but it was really driven by local, state, close-drive market. All of the down turn, pretty much across the board, you would hear in central Florida and even south Florida, which is also dependent on international, has been the international segment.

Senator DORGAN. Let me ask about the international issue. Prior to September 11, we had pretty robust tourism from international sources. We did that, I assume, without massive advertising. We did not have an organized effort. We certainly had no publicly funded effort with respect to that.

But since September 11, you indicate that international travel is down. I was interested in the discussions where you described New York, Mr. Tisch. The international traveler apparently spends almost twice as much as the domestic traveler in New York. Tell me the cause of the drop in international travel. I believe I understand some of it, but tell me your perspective. What has caused it?

Mr. TISCH. Senator, I think there are three reasons.

One, there is still the lagging effect of September 11th. There are societal issues in many of the countries that send us visitors where they feel it is still not proper to visit specifically New York City, but the United States of America.

You also have to keep in mind that many of the economies that send us our visitors are suffering themselves. If you look at Florida, we have a motel on Miami Beach, which did not have a particularly good summer, you have to fly into Miami Beach, and most of those people are coming from international destinations. Their economies are not very strong.

And the third reason is one that we have all talked about, that countries we are competing with get travel and tourism. They are spending hundreds of millions of dollars to get visitors to come to them and not come to us. When you look at all the new travelers that might come out of Asia and when you look at all the new travelers that are coming out of Europe, now that the EU markets themselves as one particular destination, the competition is stiff. They get it and we do not.

Senator DORGAN. I will come back to that in a moment.

Let me ask a question about airlines. I believe some of you have referred to surveys that have been taken. Business travel is down. That is a significant part of the success of airlines, to have robust business travel.

But it seems to me there are two other issues. One is the hassle. There is an increased hassle to fly with respect to all the security issues and so on. But the second is I assume there is some component of the flying public—at least constituents have told me this—who just do not want to fly. They are a little concerned.

What percentage of the difficulty with respect to air travel comes from the downturn in business travel? What percentage do you think from surveys comes from just the hassle? And what percentage is represented by a group of people who decide just based on safety issues, watching an airplane run into a building, I do not want to fly anymore? Have any of you done any surveys that describe those issues?

Mr. TISCH. Senator, the Travel Business Roundtable concluded a survey the second week in August to judge flyers and traveler sentiments a year after, and we found that safety and security has become sort of a minimal issue. People are resuming their normal traffic patterns and their normal travel patterns. Only 1 in 10 were very obsessed with safety and security. They feel that the airlines and the Government have done a pretty good job of dealing with the safety and security issues.

What we did find is that the economy is the major deterrent to people traveling. When you combine that with, as we said, the hassle factor, it is creating enormous problems. It is not the fear of the airplane anymore. It is the fear of the airport. And people just do not want to deal with the problems that they may encounter or may not encounter. They just do not know. When you combine that with economic reasons not to travel, they are deciding to stay home. That is an enormous challenge for us to overcome as an industry.

Senator DORGAN. Mr. Tisch, have you been selected for an enhanced inspection at some moment at an airport?

Mr. TISCH. I have on the shuttle about 2 months ago.

Senator DORGAN. Senator Fitzgerald, have you?

Senator FITZGERALD. Yes.

Senator DORGAN. They seem to be looking for me as I arrive.

[Laughter.]

Senator DORGAN. I get the double enhanced inspection I guess. Ms. McDowell and Mr. Durst, both of you I think described the fact that your resort areas and your State—the success of tourism there is more a function of people driving than flying, and you described a circumstance where those who have chosen not to fly and perhaps because of the economy are driving and taking vacations that are fewer miles away. It means that you have not seen the same downturn or the same difficulties that some other parts of the industry have experienced.

As you project ahead now, we have a kind of a troubled economy, some say a weak economy. Some are worried about a double dip recession. We have got the intersection of a war on terrorism, the September 11 of last year, a stock market that has largely pancaked because of the deflation of the tech bubble, corporate scandals. We have a whole series of things that create uncertainty in the mind of the American consumer.

In our economy, and especially it seems to me the tourism sector of our economy, is all about people's confidence. If they express confidence in the future, they do things that manifest the confidence: they buy a house, buy a car, take a trip, and so on. That becomes expansion. If they feel not very confident, not good about the future, then they do it exactly the opposite. They defer the purchase of the car, the trip, the vacation, and so on.

As you look at the future, and plan for the future in Branson, for example, or through your tourism efforts in your State, what are you expecting? And let us assume nothing happens here in public policy. You all have given us some ideas and thoughts. But let us assume nothing happens here with respect to public policy. What do you expect to happen in Branson and also in the State of South Carolina with respect to the next couple of years?

Ms. MCDOWELL. All of the issues that you described are of grave concern to Branson, Missouri. Even though we do not depend on international travel and we do not depend on business travel, we depend heavily on senior citizens and adult couples who may have a limited income. In addition to travel being influenced by confidence, it is greatly influenced by disposable income. It is not something that anyone has to do. Therefore, when returns in the stock market and other investments are on the decline, 50 percent of our visitor base is at significant risk for not coming to Branson. Even though we are perceived as a value destination, we are still a luxury in terms of what are the necessities of life and what are not. Therefore, all of that can have tremendous impact on us and especially our senior visitors.

Senator DORGAN. The notion that the average retirement account has diminished by perhaps a third or close to a third, that gives people the feeling that maybe we ought to defer this travel. That would especially affect your type of resort, would it not?

Ms. MCDOWELL. Yes, it definitely would and we have seen that in the past with economic downturns of that sort.

Senator DORGAN. Mr. Durst?

Mr. DURST. Thank you, Mr. Chairman. In the aftermath of September 11, one of the first things that we did was to put together a consortium of some of our sister States in the south to do some pretty extensive ongoing research to try and find out exactly what the travelers' attitudes were and then from that to tailor our marketing program. You absolutely are right on the mark with regard to what those surveys were pointing out, as was Mr. Tisch.

The thing that we see, sir, down the road is that—no pun intended—States such as ours, which are a drive destination, are going to be holding their own so long as they are strategically using their marketing dollars to try to bring the folks in that are within, like in our case, a two tanks-full of gas or so drive away.

Plus, of course, you need to have the tourism product that you are putting forth to the folks and making sure that you are connecting with them. Family values was mentioned, and that is one major component of our advertising message, talking about our beaches, talking about our golf, talking about the family type experience.

But I think, respectfully, that areas such as ours are going to be holding their own. We have not begun any kind of campaign saying, if you come to South Carolina on the way down to Florida and stop and stay there instead of going to Florida, that you will save two days' worth of vacation by going on our beaches as opposed to going to Universal. We would not want to dare do anything like that.

[Laughter.]

Mr. DURST. But we do know, sir, with respect to our sister States in the south that we feel cautiously optimistic that we will be able to hold our own by going toward that drive market.

But going back to an earlier question that you had posed, the folks that come into South Carolina by car have gone up 10 percent in the aftermath of September 11, which is no surprise. But therefore, we are playing to our strength in going after that market.

Senator DORGAN. Let me just ask one additional question. Mr. Rosenbluth, I have taken a look at the white paper, you were kind enough to send to me. I think it is a fascinating description of some of the issues the airlines need to be concerned about. We did not have an airline representative on this panel because they have been to Capitol Hill in the last couple of weeks and have testified with respect to their segment. But I agree with all of you that it is a very, very important segment of the travel and tourism industry because we just must have a healthy, vibrant commercial air travel system in this country. Those are the companies that haul passengers to your hotels and resorts and destinations.

But I guess I would ask the question, Mr. Rosenbluth, have you shared your white paper with the airlines and what is their reaction?

Mr. ROSENBLUTH. I have had a discussion or two with the airline executives. For the most part, I am not sure they understand it. I also believe at the same time that they are about to capitulate and do something radical because they need to. Airlines are risk-averse, and yet something radical needs to change. I am not certain that the most senior officers of airlines have heard from those that are at lower levels exactly what the problem is because there has been such a fight for share out there that they have gone after share and, as a result, have lost billions of dollars. This goes back far before September 11th. It has been going on for a number of years now, but it is going to stop.

What I am afraid of is that the airlines will do something arbitrary in nature and just stop corporate discounting completely as opposed to doing it in a rational way where, like any other business, you get a discount in return for giving something back or for buying something in bulk or for getting market share. But by allowing people to just get these prices, then not getting anything back in return, the airlines have severely shot themselves in the foot.

Senator DORGAN. Mr. Rosenbluth, thank you very much. This testimony has been very helpful and instructive and Senator Fitzgerald and I will, along with our colleagues, evaluate it and try and develop some suggestions, working with you, Mr. Tisch, with the Travel Business Roundtable, and Mr. Lounsberry, with the Travel Industry Association. We would invite you, because this Subcommittee has some jurisdiction here, as we move along, periodically to send us information. Do not wait for a hearing. If there are things you think that we should know that is happening in your industry, we want you send it to us and have the advantage of that.

We know that you have come from some distance here today to testify and we very much appreciate your testimony.

Senator FITZGERALD. If I could just say I really encourage all of you to get involved as the airlines come forward with another bailout package for themselves. They are looking out for themselves. They are not necessarily looking out for the rest of you. They are very accustomed to getting benefits from the government. As a regulated industry, their CEO's are out in Washington regularly. I see CEO's from the airlines more than I see most CEO's from Chicago. They are out here all the time. They are getting very used to surviving by virtue of special laws put into effect for them, such as in the case of last year—a bailout.

The bailout bill is probably going to move quickly. The bill bailing them out moved more quickly than any bill that I have seen in the 4 years I have served in the United States Senate. The airlines have awesome power on Capitol Hill. I think that is unfortunate because I do not think we have necessarily helped the general public by helping them.

But I encourage you to be very active and aggressive in getting your voices heard so that you are just not left out of whatever the airlines are on the verge of getting. That would just be my words of advice to you. I will try to be there, speaking for all the others, but you need to come here yourselves too. I am glad you all were able to appear today.

Senator DORGAN. Let me just say that I personally think that we should consider some initiatives and some incentives. It was not too long ago that we had actually a significant part of the Commerce Department with an assistant secretary who was working full time and concerned about these issues, and that was abolished.

I think there are a number of suggestions you make today. Some are incremental suggestions to begin from one direction. The others come from the other direction, but they aim at the same spot, and that is try to increase the interest that people around the world have in this country as a destination for travel and tourism. I do think that it is a big, big, significant industry in our country. And I do not think all of this happens by accident. If you watch the way other countries in the world promote themselves and try to promote and aggressively achieve the currency that is spent for travel and tourism, they do that because it works. In our country it would be well advised to understand that sitting back and doing nothing in competition means that you lose the competition.

So you have offered a good number of ideas today and we will certainly consider them. We think they are very useful.

Now, Mr. Fitzgerald used to be Chairman of this Subcommittee, and he has taken the gavel.

Senator FITZGERALD. I hope to be again some day.

[Laughter.]

Senator DORGAN. If he will provide the gavel, we will adjourn the Subcommittee before he is Chairman once again.

[Laughter.]

Senator DORGAN. Before we get into a long discussion of that, we will be adjourned.

[Whereupon, at 3:59 p.m., the Subcommittee was adjourned.]

A P P E N D I X

PREPARED STATEMENT OF SAMUEL H. WRIGHT, SENIOR VICE PRESIDENT, GOVERNMENT RELATIONS, CENDANT CORPORATION

Cendant Corporation ("Cendant") appreciates the opportunity to submit this statement to the Committee and respectfully requests that this statement be included in the official record of the hearing.

Cendant Corporation is a diversified global provider of business and consumer services within the hospitality, real estate, vehicle, financial and travel sectors. Cendant's hospitality division is the world's leading franchisor of hotels through ownership of brand names that include Ramada, Days Inn, Howard Johnson, Travelodge, Knights Inn, Super 8 Motel, Wingate Inn, Villager Lodge/Premier and AmeriHost, a leading operator of branded time share resorts (Fairfield) and the world's leading time share exchange service (RCI).

Cendant provides global ticket distribution services to the travel industry through its Galileo and Wizcom operations as well as its on-line (Trip.com and Cheaptickets.com) and off-line (Cendant and Cheap Tickets) travel agencies.

As indicated during the hearing, the travel and tourism industry is a huge segment of the domestic economy that generates more than $582 billion in revenue each year and employs directly and indirectly more than 18 million people. There is no doubt that the events of September 11th continue to have a negative impact on our industry. One year later we continue to struggle to overcome the external challenges facing our industry.

I would like to clarify two points raised during the hearing: the financial recovery of moderately priced hotels and the impact that Orbitz has on travel agents. It was suggested that moderately priced hotels/motels although adversely affected have bounced back financially. This is a misconception. The entire lodging industry is being hit harder than expected. Business travel has not recovered as expected, so the industry has been more dependent on leisure travelers staying at moderately priced hotels/motels. Leisure customers are reserving trips with shorter leads times, forcing hotels/motels to continue discounting room rates. As a result, consumers continue to postpone reservations, knowing that rates are low and the discounting ultimately ceases to have an incremental effect. Consider the following statistics released by PricewaterhouseCoopers Lodging Practice, entitled *U.S. Lodging Industry Forecast*:

- Revenue per available room, a standard measure of hotel-room prices and occupancies, is now expected to decline 2.3 percent this year, down from a previous estimate of 0.7 percent.
- For 2003, revenue per available room is expected to rise only 3.5 percent, instead of a previously forecast 5 percent. Not until 2004 is such revenue expected to increase at a more robust 5.6 percent pace.
- This year's occupancy levels of 59.5 percent are the lowest, except for six years during other recessions, in the past 75 years. Consecutive decreases in room rates last year and this year are the first since the Great Depression, when rates declined from 1930 to 1933.
- PricewaterhouseCoopers estimates that the average daily hotel-room prices will decline 1.4 percent this year, compared with previous estimates of a 0.3 percent decrease. Occupancy is expected to faIl 0.5 percent to 59.5 percent, instead of 0.3 percent, as previously projected.

The second point of clarification, is in response to a question at the hearing from Senator Fitzgerald concerning the impact that Orbitz has on travel agents. Orbitz is the online travel services joint venture owned by the nation's five largest airlines (American, Continental, Delta, Northwest and United). Orbitz is structured by its airline owners to provide Orbitz with exclusive access to the lowest priced fares offered by the airlines (so called "web fares"). This structure eliminates competition among other online and bricks and mortar travel agents for webfares, which, in turn, harms the traveling public. Please consider the following:

- The owners of Orbitz operate nearly 80 percent of all domestic air travel.
- Orbitz is one of the highest cost distribution systems available for selling passenger tickets.
- Orbitz' owners have eliminated commissions to all independent travel agents, while the owners continue to pay guaranteed transaction fees to Orbitz. Meanwhile, Orbitz, on behalf of its owners, has assessed service fees to consumers, which will likely increase as Orbitz forces other independent distributors to exit the market.
- By restricting access to critical fares and inventory, the Orbitz exclusivity provisions threaten all independent travel distributors as well as the millions of consumers they serve.

The Subcommittee needs to address the current plight of all hotels/motels and the negative impact of Orbitz on travel agents as it considers measures to assist the nation's travel and tourism industry.

Respectfully submitted,
Samuel H. Wright

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