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U.S. Department of Commerce  
Testimony before  
Senate Commerce Committee's  
Subcommittee on Interstate Commerce, Trade and Tourism

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Chairman Dorgan, Ranking Member DeMint, and distinguished Members of the Subcommittee, thank you for the invitation to appear today to update you on the status of the United States travel and tourism industry. I would also like to take this opportunity to thank you for your support of this important sector of our economy.

The travel and tourism industry in the United States is strong and continues to be the most lucrative travel and tourism industry in the world. I am pleased to report that international visitors to the United States set a new record level of spending in 2006. While we are enjoying record levels of revenues, it is also noteworthy that sectors such as hotels and lodging and restaurants are achieving new levels of profitability.

Although the industry is making significant progress, the United States faces its share of challenges due to the impact of 9/11, uncertainties in the airline industry, and increased competition from emerging destinations. We are working to address these issues collaboratively with our colleagues at the Departments of State and Homeland Security and with the private sector.

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

I would like to begin by sharing with you the good news before discussing existing challenges.

The travel and tourism industry is a major contributor to our nation's gross domestic product (GDP). Travel and tourism represent 2.6 percent of GDP and generated more than \$1 trillion of sales in 2006 alone.<sup>1</sup>

The travel and tourism industry is one of America's largest employers, with more than 8 million Americans employed. It is important to highlight that over 90 percent of the U.S. travel and tourism industry is classified as small and medium-sized businesses.<sup>2</sup>

The travel and tourism sector has been a substantial contributor to our positive balance of trade in services. The United States has enjoyed a continuous surplus in travel since 1989. A surplus occurs when international visitors spend more in this country than we do when traveling abroad. In 2006, the United States exported more than \$107 billion in

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

<sup>2</sup> U.S. Chamber of Commerce

travel and tourism-related goods and services and posted its 18th consecutive annual trade surplus in travel. In fact, travel and tourism generate over one fourth of total U.S. services exports, according to the Bureau of Economic Analysis.

Key sector indicators are largely positive. According to Price Waterhouse Coopers, in 2006 lodging industry profit levels have returned to the previous record level of \$22.5 billion. In addition, data from the Bureau of Economic Analysis indicate total restaurant sales were less affected by 9/11 relative to other travel and tourism sectors and have steadily increased 15 per cent in real terms between 2000 and 2005.

### **Recent Trends and Challenges**

Following the events of September 11, 2001, U. S. travel and tourism receipts and international visitor levels both sharply declined. Receipts declined roughly 22 percent from the peak in 2000 to a trough in 2003. As the accompanying chart indicates, travel and tourism receipts in 2006, at \$107.8 billion, are five percent over the record set in 2000. At the same time, our 2007 international visitor levels are projected to surpass the 2000 record, reaching 52.9 million. This clearly demonstrates the industry's resiliency as we move forward.

The United States is first in the world with respect to travel receipts, with nearly double the value of receipts generated by France, even though they lead the world in visitation. While receipts provide a critical measure to gauge the industry's strength, it is true that global market share of visitors to the United States has fallen since its peak in 1992. However, global market share of visitors alone does not give an accurate measure of performance. In fact, eight out of the world's top ten markets have lost market share of global visitors. This is due to the reality of considerably more competitors in the global arena for travelers today than in 1992. In addition, much of global growth in visitors is due to short trips. For example, while France and Spain are the world's number one and two markets for numbers of international visitors, much of their leading positions are attributable to intra-regional travel (i.e., people from Spain visiting France and vice versa). Therefore, concerns about declining market share should be put in perspective. In summary, multiple yardsticks are necessary to accurately assess the performance of travel and tourism as an export value.

While the U.S. travel and tourism industry is strong and growing, in recent years it has had to wrestle with various challenges in a post-9/11 environment.

I would now like to focus on how we are responding.

The development of new security processes has challenged both government and the private sector to achieve the right balance of security while continuing to welcome visitors and facilitate their entry into the United States. Secretary Gutierrez requested that the Department of Commerce's Travel and Tourism Advisory Board (TTAB) make recommendations on how the federal government can support the travel and tourism industry's efforts to compete for international travelers. The TTAB is a private sector advisory board comprised of 15 industry leaders, representing various sectors of the

industry. These recommendations have been referred to the Tourism Policy Council (TPC), which is led by the Secretary of Commerce and made up of 17 federal agencies engaged in travel and tourism issues and policies. The TPC is currently engaged in a review of these recommendations and member agencies are actively moving forward on implementing a number of them. I am pleased to report that many of the issues covered by the TTAB's recommendations were already being addressed by the Departments of Homeland Security and State. We believe that this cooperation indicates that government and industry are largely in agreement on the way to move forward.

## **Safety and Security**

At the Department of Commerce, we believe that the safety and security of Americans and those who visit our nation are paramount. The events of 9/11 demonstrated that our nation must migrate to a new generation of travel security processes in order to protect our citizens and guests. This requires the development of new and secure travel documents and ways of matching individual travelers to those documents in order to verify entry and departure, as well as screening procedures to ensure that air travel to and from the United States is safe.

This is no small undertaking, and requires the development of new technologies and new work processes and collaboration and communication with other nations, the travel industry and consumers. Government and industry share a vision that upon completion of this effort our system will in fact result in the United States being one of the most accessible and safest nations for people to visit. Such a system is good for our economy, good for our national security, and good for our public diplomacy.

We have worked with the Departments of Homeland Security and State to provide industry perspectives in the development and implementation of some of these measures and see progress being made toward this goal. Allow me to briefly review a few examples in this regard.

The Departments of State and Homeland Security are collaborating with the travel and tourism industry and the Department of Commerce on model ports of entry projects at the Houston International Airport and the Washington Dulles International Airport. The goal of this initiative is to ensure a more welcoming environment for international visitors through improved entry procedures and passenger assistance measures.

Another challenge is implementation of the next phase of the Western Hemisphere Travel Initiative (WHTI), which requires that all tourist travelers, including U.S. citizens, traveling to and from Canada, Mexico, the Caribbean, and Bermuda have a passport, or other acceptable documents, to enter or re-enter the United States by land or sea. The Administration will make every effort to ensure that implementation and communication of the land and sea requirements will be as successful in facilitating travel into the United States as were the implementation and communication of the requirements for travel by air. Implementation of the requirements for air has not inhibited travel to the United States from within the Western Hemisphere.

We will continue to work with our colleagues at the Departments of Homeland Security and State to facilitate input from business and industry, provide statistical analysis, and assist the efforts of those agencies to communicate the new requirements to industry and the traveling public.

## **Visas**

The United States welcomes legitimate travelers from all regions. More than 68 percent of our international travelers not from Mexico and Canada come to the United States from Visa Waiver Program (VWP) countries and 60 percent of all our receipts (exports) come from VWP countries.<sup>3</sup> The VWP enables nationals of 27 countries to travel to the United States for tourism or business for stays of 90 days or less without requiring them to obtain a visa, and is an important program for the health of the U.S. travel and tourism industry.

For citizens of non-VWP countries, a visa is necessary for entry to the United States. We must ensure that our visa policy excludes those who would do our country harm, but at the same time, the policy should ensure that to the extent possible, legitimate travelers are permitted entry. In the transition to the next generation of travel security processes, we are challenged to meet the demand for visas as quickly as both the government and the private sector would like. The Department of State has taken a number of steps to improve the transparency, efficiency and predictability of the visa process. These efforts have included adding new consular positions, investing in automating outdated systems, and finding new ways to streamline the visa process while maintaining all necessary security measures.

In November 2006, President Bush announced his intention to work with Congress to reform the VWP. It is in our interest to ensure that countries across the globe join us in implementing travel security processes that ensure the safety and security of travelers to the United States and protect our national security interests. Reforming the VWP and extending it to countries that demonstrate a commitment to security will facilitate travel to our country while maintaining the safety and security of our people.

## **Tourism Export Expansion**

The Department of Commerce identifies U.S. export opportunities and eliminates barriers to entry into those markets. The Department is currently working to identify key travel and tourism markets and facilitate access to markets with significant growth potential, such as China and India.

### Travel and Tourism Promotion

#### *U.S. Commercial Service*

Staff in the Department's Commercial Service, who work in 108 offices in the United States and in more than 80 countries worldwide, helps to increase U.S. travel exports.

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<sup>3</sup> U.S. Department of Commerce, Office of Travel and Tourism Industries

This effort is effectively delivered through the Commercial Service's Travel and Tourism Team, which has a total of 125 (74 international and 51 domestic) travel and tourism industry sector specialists. The Team also has partnerships with other U.S. Government agencies such as the Department of State, the National Park Service, and the Department of Homeland Security.

In some countries, the Team coordinates with the local Visit USA Committee. These Committees are primarily comprised of local travel agencies, tour operators, marketing companies and representatives of U.S. companies selling travel to the United States (e.g., airlines, destinations, hoteliers, attractions, etc.). The Team is instrumental in providing a variety of market entry services to the Visit USA Committees, including seminars, trade show support, and opportunities for the travel and tourism industry to gain exposure with local media.

The Commercial Service officers work to match U.S. suppliers with international buyers. They do this by assisting U.S. businesses with trade shows (over 200 in the past three years), travel missions, familiarization tours, and other marketing venues to sell U.S. travel products and services. In 2006, the Team participated in 79 travel and tourism events. Since 2005, the Commercial Service has posted over 735 export successes, accounting for over \$61 million dollars in the travel and tourism sector. As an example, the Las Vegas Convention and Visitors Authority (LVCVA) worked with Commercial Service officers on trade missions to Brazil and China to sell Las Vegas as a destination for trade shows. The LVCVA reports that since the trade missions an additional 3,000 Brazilian and Chinese visitors have visited the Las Vegas area, equating to approximately \$4,515,000 of revenue.<sup>4</sup>

#### *Department of Commerce International Tourism Promotion Program*

In 2005, Congress provided the Department of Commerce with \$9.6 million to conduct an international tourism promotion campaign to market the United States as a travel destination. The program was implemented for a second year in the United Kingdom. In addition, a pilot program was implemented in Japan in the fall of 2006. A third-party research study by Longwoods International indicated that the initial campaign in the United Kingdom returned \$117 in spending on travel to and within the U.S. for every \$1 of advertising expenditures. Japan is on track to show positive results as well.

Congress further allocated \$3.948 million for international tourism promotion. The TTAB recommended that these funds be used to provide a grant or cooperative agreement to develop a web portal for the nation's top five source markets. In March 2007, a \$3.9 million cooperative agreement was awarded to the Travel Industry Association for this purpose.

The promotion campaigns in the United Kingdom and Japan demonstrate that marketing the United States as a travel destination can be effective. We encourage the U.S. travel

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<sup>4</sup> Las Vegas Convention and Visitors Authority

and tourism industry to consider the results of these programs as it makes its own marketing plans.

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

Trends reveal that there is significant potential for growth of Chinese tourism to the United States. In fact, Chinese visitation to the United States increased 19 percent last year compared to 2005. However, Chinese policies restrict group leisure travel to destinations, such as the United States, that do not have a bi-lateral agreement with China. Traditional agreements of this kind are not in keeping with U.S. laws or open market principles. We are working through the Strategic Economic Dialogue and through the U.S.-China Joint Commission on Commerce and Trade to open this market through a commercial agreement tailored to the United States which would comply with all of our laws. The Department of State, through the TourTrack program, has demonstrated how the U.S. might facilitate visas for legitimate travelers who wish to engage in group leisure travel to the United States, should the Chinese government eliminate its market restrictions on this type of travel.

#### Brazil Dialogue

The Department of Commerce is engaged in a series of commercial dialogues with Brazil, including discussions on travel and tourism. Brazil is becoming an outbound travel market again, due to the increased strength of its economy. We are working to support the Departments of State and Homeland Security in exploring such possible policy changes as extending visa length from five years to ten years on a reciprocal basis. Such an agreement would ease pressures on visa issuance, reduce costs for individuals and families to come to the United States, and facilitate market access.

#### Air Linkages

Air service is key to tourism growth. The liberalization of air services between countries generates significant additional opportunities for airlines, consumers, travel and tourism, and other industries. To date, the U.S. Government has initiated and completed over 70 Open Skies bilateral agreements with foreign countries. In addition, more liberalized (but not yet 'Open Skies' per se) agreements are in place with China and Japan. An Open Skies agreement with the EU was initialed on March 2, 2007. Under the agreement, key gains for the United States will include greater access to London's Heathrow airport, cargo rights in the UK, and Open Skies treatment for new EU Member States. We are hopeful that a final agreement can be achieved.

#### **Forecast**

Now let us look toward the future--what we believe will be a bright future for the U.S. travel and tourism industry. The Department of Commerce forecasts a record number of travelers will come to the United States in 2007. This will mark a full recovery since the attacks of 9/11, surpassing the previous peak in 2000. In addition, we forecast a 21% increase in travelers over the next five years, reaching 61.6 million visitors by 2011. Overseas markets, especially South America and Asia, will significantly contribute to this projected growth. Chart 3 includes 2011 projections for the top ten markets. We feel

confident that the travel and tourism sectors are on track to deliver increasingly strong performances for years to come.

## **Conclusion**

The travel and tourism industry in the United States leads the world in market share of global travel revenues and is well on its way to enjoying record levels of visitors. We are on track for full recovery since 9/11 and project continued growth in international travel for the next five years. Since the last quarter in 2003, both arrivals and receipts have been on the rise.

We believe that the appropriate role for government is to create a positive business climate by promoting supportive policy within our own government and working with other governments to remove market impediments and build bridges to new markets. We are working with our colleagues at the Department of Homeland Security and the Department of State to evaluate and respond to industry concerns and evaluate industry recommendations. I am pleased to report that the majority of industry concerns have previously been identified and are being addressed, largely through the *Rice-Chertoff Joint Vision: Secure Borders and Open Doors*. This document, issued in January 2006, outlines next steps on issues such as Model Ports of Entry, Improved Visa Processing, and Improved Exit Systems.

At the Department of Commerce, we are working to open new markets and improve market access in countries like China and Brazil. We are reviewing additional growth markets to identify and remove barriers to entry. In this way, we will create the most competitive business climate for the private sector to continue to reach record highs.

Chart 1



## U.S. Travel and Tourism Exports (Receipts) 1996-2006



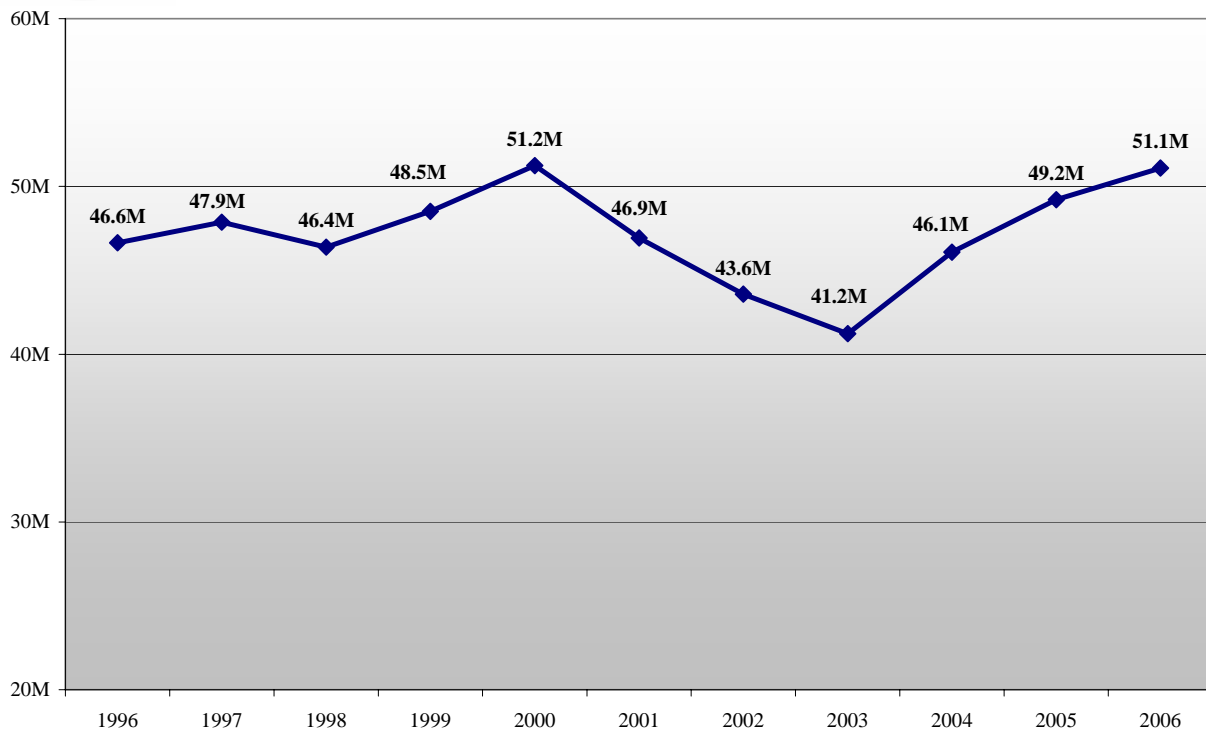
Source: U.S. Department of Commerce, Office of Travel and Tourism Industries, Bureau of Economic Analysis



Chart 2



## International Visitors to the United States 1996-2006



Source: U.S. Department of Commerce, Office of Travel and Tourism Industries.

Chart 3

**Top Origin Markets for International Travelers to  
the United States (2006 and 2011 projected)**

Origin of Visitor	2006 (000s)	2011 <sup>P</sup> (000s)	2011 <sup>P</sup> /2006 (% change)
International Total	51,061	61,556	21%
1 Canada	15,993	19,106	19%
2 Mexico	13,400	15,699	17%
3 United Kingdom	4,176	5,213	25%
4 Japan	3,673	4,661	27%
5 Germany	1,386	1,707	23%
6 France	790	923	17%
7 South Korea	758	958	26%
8 Australia	603	746	24%
9 Italy	533	653	23%
10 Brazil	525	672	28%

p=projected

Source: U.S. Department of Commerce, Office of Travel and Tourism Industries.