

quarterly market report

FRANCE

April - June 2007

Market Highlights

of outbound visitors:

% change from previous
quarter:

of visitors to Canada:

% change from previous
quarter:

Comments / Other information:

The six-monthly barometer (November 1, 2006 to April 30, 2007) published by the Association of French Tour Operators (CETO) shows that business grew 6.6% against the same season during financial year 2005/2006 (like-for-like). Over the course of the period, CETO members made travel arrangements for 2,816,380 customers, with an average unit revenue of €780 (+2.1%), thereby generating business volume of €2,198M, up 8.9%. Air-only flights were mainly responsible for the growth, with 845,024 passengers (+25% overall). Package sales, on the other hand, were stagnant in terms of number of passengers (1,971,356, +0.1%).

Fortunately, while traffic was disappointing, business volume was much better. Over the winter, the average unit revenue for package tours stood at €947M (+6.9%) and the CETO's TO members garnered business volume of €1,867M, i.e. 7% better than the previous year. There is no doubt that the qualitative upgrading of many tour operators contributed to this sound financial performance. This is especially true in the long-haul sector. The number of

package passengers increased only 1% (to 619,965), but the average basket grew to €1,626 (+9.8%), i.e. business volume up 10.9%, while that of the medium-haul sector posted quite decent growth of +4,6%, with 997,478 customers.

With regard to long-haul travel, the Dominican Republic, “reaching maturity”, but also better “regulated” by the TOs, who have reduced their offering to prevent price-slashing, is down 4.8%. Mexico found something to smile about again (+14.8%), but not Cuba, which was in a free fall (-25.5%). The recovery of the French West Indies has not been established, practically stagnant at -2.2%. Réunion is far from being back on its feet (-30.6%). This is not the case of Mauritius, leading the field in terms of growth at +46.9% and 40,401 passengers. In its wake, the Seychelles (+43.6%) and Maldives (+5.5%) also contributed significantly, to the delight of specialist TOs. As for the Americas, the United States grew +8.7%, which bodes well for the summer. South America, however, is bringing up the rear, penalized by Brazil, which has completely stalled (-49.5%). In Africa, Senegal had the wind in its sails again, confirming the recovery that began last winter. Asia, however, seems the healthiest at the moment, with Vietnam and Thailand at +38.2% and +40.5%, respectively.

Air Capacity

Air Transat is extending its Paris/Ottawa flight, adding a direct flight between Marseilles and Toronto and increasing its capacity to Montreal from provincial towns: Lyon (fourth flight), Marseille (third flight), Nantes and Toulouse (second flight).

Icelandair is offering three flights a week between Paris and Halifax via Reykjavik.

Zoom Airlines is doubling its Paris/Calgary/Vancouver flights, with 42 round trips and is offering a new direct weekly Paris/Halifax flight from 13 June to 31 October.

Air France is launching a new direct daily flight to Seattle.

Economic / Political Environment

GDP growth:	2% in 2006
forecasted economic growth:	2.2%
unemployment rate:	8.3%
inflation:	1.3%
consumer price index:	+ 0.5%
exchange rate:	€1 = CAD1.45
net national disposable income:	Women: €19,182 Men: €23,778

Comments / Other information

Presidential election:

Nicolas Sarkozy was elected president of France, with 53.06% of the votes (18,983,138 votes) against 46.94% for Ségolène Royal (16,790,440 votes).

37,342,004 French citizens (83.97%) voted in these elections. The abstention rate was one of the lowest compared with previous elections (16.03%).

The Socialist Party feels that the Party must absolutely be rebuilt or reformed and is calling on its members to gather together.

After the results were in, some members of the Socialist Party criticized their candidate's electoral campaign.

Nicolas Sarkozy appointed François Fillon (who has been a minister several

times) Prime Minister.

According to a recent survey, with popularity at 65%, Nicolas Sarkozy is the most popular president to enter the Elysée Palace since General de Gaulle in 1958. François Fillon is also in a good position, with a 62% vote of confidence. Only the appointment of Alain Juppé, former Prime Minister and heading up an important Ministry of the Environment, Energy and Transport, is perceived badly by a majority (55% discontented voters).

Legislative elections: the UMP, a right-wing party, won without triumphing, and the Socialist Party lost, limiting the damage. Indeed, the majority obtained 346 elected representatives against 226 for the opposition and four for the new centrist party, MoDem.

The mark of 400 elected representatives for the majority, which would have been a record under the Fifth Republic and which was forecast by the survey institutes, was not achieved.

Minister of Ecology, Development and Land-Use Planning, and second in command of the government, Alain Juppé, who lost, must resign from the government. And this defeat forces the Prime Minister to reshuffle ministerial posts more than anticipated.

The abstention rate for this election (40.1%) is the highest for Legislative elections under the Fifth Republic.

Despite the low voter turnout, the second round of the elections marks a profound readjustment in terms of the results of the first round.

The announcement of the establishment of a social VAT, which has sparked off a debate, has weighed heavily on the polls, remobilizing left-wing voters and demobilizing right-wing voters.

The “employment, work and purchasing power” law, which brings together President Sarkozy’s key measures, will be presented to the Council of Ministers very quickly.

The new president has put an end to the tradition of amnesty for traffic

convictions. By breaking with tradition, Nicolas Sarkozy is thus putting an end to a system that encouraged drivers to adopt dangerous driving behavior ahead of the presidential election.

Very small businesses (VSB), which account for 96% of the economic fabric, feel that the governments have not contributed enough to “defending their interests”. Employment, taxes, purchasing power and salaries are their top priorities and they are waiting for Nicolas Sarkozy to succeed where Jacques Chirac failed.

President Sarkozy has stated that he wants “a France of owners” and that as a result, he would take action to deduct real estate interest expense to make it easier for people to buy their principal residence.

Household consumption is down 0.3% and household indebtedness has hit a record high, representing more than two-thirds of French people’s disposable income.

Quarterly industrial growth remains stable at 0.5%.

The guaranteed minimum wage (SMIC) will increase 2% on 1 July, i.e. the absolute minimum provided by law. This comes as no surprise, as President Sarkozy has always stated his intention not to give the minimum wage a boost.

Emerging Tourism Trends

Travel continues to take off on the Internet. The web is still taking market shares from the other distribution channels. Reservations in France rose 35% last year, representing business volume of 4.2 billion euros against 3.1 billion in 2005. The Internet apparently accounts for more than 10% of the tourism market in France and more than 10 million French people make their travel arrangements over the Internet each month. The use of blogs makes 59% of websurfers want to leave and influences their reservation choices in 44% of cases.

Despite the democratization of the Internet, the digital divide continues: 75% of Internet users went on vacation in 2006 against 41% of non-Internet users.

Vacation barometer: the French have less desire to leave than other Europeans. The British are in the lead, with 74% having vacation plans against 65% of the French. This year, Europeans have earmarked a budget that is 6% lower than in 2006, i.e. an average budget of 2,145 euros. On the other hand, the French have earmarked a budget that is up 6%.

A study on tourism among people between the ages of 18 and 25 years shows that this market is primarily European. Far from the “backpacker” stereotype, young people are demanding consumers.

Summer sales got off to a good start at the beginning of the spring, but have since slowed and the month of May did not live up to expectations.

The European Commission agreed to the merger between Germany’s TUI and Britain’s First Choice. In France, this new group accounts for 2 million travelers.

Market Development Activities

Radio and Internet campaign for the 23 April launch of the new French site for New Brunswick, www.tourismenouveau-brunswick.fr.

Transat in Quebec for 30 travel agents in May with Vacances Transat, Air Transat and Tourisme Québec

Participated in two specialist tradeshowes on fishing and hunting by tour operator Terre Canada

Promotional evening and conference on Canada with Vacances Transat for the OVP travel agency network

The Fairmont Hotels and Resorts / Raffles Hotels and Resorts group held a working session bringing together 25 general managers of the chain and representatives from the French tourism industry (media, tour operators, event-driven agencies and airlines).

CTC Activities

Trade Development

Organized the visit of a delegation of 16 tour operators to Rendez-Vous Canada in Quebec. Organized a small lunch for the delegation.

Participated in a promotional evening dedicated to the group travel market with the tour operator Vacances Transat.

Participated in Jetset's Roadshow in partnership with Travel Alberta in May in six cities in France.

Organized the visit of five tour operators and a journalist and participated in a fam tour in Nova Scotia and Newfoundland from 29 May through 5 June.

Organized a tour with Canada Specialist agencies in May and June in Paris and four provincial cities, information meetings followed by a lunch. Participation of 39 agents.

Drafted a letter devoted to the Canada Specialist agencies, first edition on New Brunswick.

Consumer Development

Preparation of the Manuel des Voyages au Canada Hiver 2007-2008.

Adaptation of the Inside Guide brochure for the French market under way.

Implementation of a poster campaign in seven Energie Forme sports clubs featuring a competition with 10,000 entry forms during this promotion, which began on 7 April and will end on 30 June. A URL (www.canada.travel/energie) created for this promotion has been included on the posters to count the number of visitors to the site.

Partnership of CTC with Vacances Transat and Air Transat in an advertising campaign comprising a fleet of 100 SMART cars with an XXL-format visual

covering Paris and the surrounding area for four weeks.

The general public version of the Canada letter will be sent to more than 48,000 French consumers announcing a package with Comptour du Canada and Mont Tremblant.

Media

Nine journalists sent individually to Canada.

Organized two group tours.

Organized a press breakfast to promote short-stay packages to Montreal with tour operator Rambaud Voyages. 10 media present.

Quarterly newsletter emailed to all of the media.

Publication of seven reports in the written press (advertising value: CAD 510,615) after press tours.

Public Relations

Competitive Environment

Generally speaking, tour operators' summer reservations are doing very well. The summer period seems to be looking up as bookings are more advanced than last year; word is already spreading about Tunisia's brazen success (+20% at Fram), a radiant summer for Morocco, and a pleasant surprise for Spain, where price stability and the efforts made last year to promote the destination have paid off.

Tourist traffic to the United States is rising from the ashes for summer 2007. And while air-only flights are doing very well at Go Voyages, which, in mid-April, was already reporting +117% in terms of the number of summer departures,

packages have nothing to be ashamed of, performance-wise.

At VAT France, guided tours, auto tours and à la carte formulas to the United States have met with so much success that at the end of May, the TO was already expecting to run out of supply. In April, Patrice Caradec, the General Manager of VAT, was already noting a 50% increase compared with the same period last year. The question is knowing whether, once the United States has sold out, customers will turn to Canada as a last resort like last year.

So French customers are returning to the United States, especially for the great summer classics, such as the American West, New York and Florida. Indeed, the disastrous figures for 2006 have pushed US professionals to offer hotel and air promotions, as well as a 16 million dollar government budget to praise the destination – which has never been seen in a country that until this point felt that its “myth” would always be enough to attract crowds. The initiatives to revive the market have been very marked in France, with, specifically, the creation of L’Avion’s Paris / New-York business class offering, Air France’s opening of a Paris / Seattle connection, the addition of a daily flight between Paris and New York (totally new day return), not to mention a number of new summer offerings from French tour operators.

Future Outlook

The growing trend of short stays is confirmed while the length of long stays is stabilizing. In general, more stays in commercial accommodations are observed, except in North America and overseas, where 30% of personal trips involve non-commercial accommodations (family, friends) and are more active stays.