Turbulence in Mediterranean tourism

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Abstract

Since mid-2015, the Mediterranean region has been rocked by a series of events that have collapsed major tourism markets like Egypt and Tunisia. This phenomenon has led to a substantial diversion of demand toward the countries of the Northern Mediterranean as evidenced by the rise in hotel prices. This growth in demand, however, has not been broad-based. While it has significantly benefited destinations such as the Balearic Islands, other destinations have seen a rather small effect. Also, at the level of company type and category, the new situation has primarily benefited low-end and mid-range establishments and major hotel chains. Lastly, Brexit has added market uncertainty and pushed down both the British pound and the share prices of large companies in the tourism sector—phenomena that will have long-term effects.

Keywords: Mediterranean region Refugees Hotel industry Prices Diversion of demand

1. Introduction

The aim of this paper is to analyse the diversion of tourism demand resulting from the conflict situation in several Southern Mediterranean countries since mid-2015. We start from an inescapable reality that holidaymakers seeking sun and sand are deeply risk-averse in every respect. They not only fear events that might affect their physical person, such as terrorist attacks, but they also know that critical events might cut short their prized holiday and turn it into an ordeal of unexpected transfers and repatriations amid a situation of war or serious upheaval.

The response of tourists to serious events has already been treated extensively in the literature on tourism (Baker & Coulter, 2007; Kozak, Crotts, & Law, 2007; Williams & Baláz, 2013), as have the tourist costs generated by incidents of varying types (Butler & Fennell, 1994; Cirer-Costa, 2015; Crotts & Mazanec, 2013; Ritchie, Crotts, Zehrer, & Volsky, 2013). Practically all of these studies, however, address the damage done to the destination affected by the event, analysing the cause of the fall in demand and its immediate consequences, but not the indirect effects. By contrast, this paper does focus on the indirect effects rather than on the damage, addressing the unexpected benefits accruing to destinations that have similar characteristics to the affected ones and so become alternatives, receiving an additional influx of tourists. The interest here is not to assess the damage, but to identify the phenomena of diverted tourism demand.

The Southern and Eastern Mediterranean have always been focal points of serious conflict. Nevertheless, some of the countries in the area, such as Tunisia and Egypt, had succeeded in developing a substantial tourism industry. In the Southern Mediterranean, some years had passed since tourists were the victims of terrorist attacks (Wynne-Hughes, 2012), but the situation spiralled out of control when attacks in Tunisia claimed the lives of dozens of European tourists. In the Eastern Mediterranean, a bomb explosion on a Russian airliner over Egypt and attacks on tourists in Turkey convinced millions of potential visitors to cancel their holidays in those countries.

A large portion of those tourists were not willing to give up their annual visit to the warm waters of the Mediterranean and decided instead to look for alternative destinations. This is precisely the focus of the present study, to locate geographically the places that reaped the benefits of an unexpected rise in demand and to determine the types of establishments and companies that experienced a greater increase in revenue.

Lastly, Brexit will be introduced among the disturbances that have affected Mediterranean tourism in the past two years. The UK’s eventual departure from the European Union has had few direct effects on the tourism market in 2016, but it has led to a falling British pound and declines in the share price of companies in the tourism sector—two factors that will doubtless affect tourism in the medium term.

2. The data in the sample

Throughout the spring of 2015, the authors collected data from the Internet on the prices of hotels in the fourteen Mediterranean islands that have an international airport. The islands were selected on the basis that they were the most representative destinations for mass tourism coming to the Mediterranean Sea. All of the islands had direct flight connections with the major tourist-generating airports in Europe. Also, focusing on islands served to limit the analysis to sun-and-beach tourism in the strict sense. In addition, the destinations are mature in
every respect, from their level of tourism taken strictly to their inclusion in sales channels on the Internet, ensuring the homogeneity of prices and the absence of any complex pricing strategies that may be used by companies (Bock, Lee, & Li, 2007; Cirer-Costa, 2013; Hung, Shang, & Wang, 2010).

The object of the data collection was to use these prices as an additional element in a project aimed at distinguishing the main characteristics of the supply of tourist accommodation at each destination, a strategy already used by various authors (Baldassin, Gallo, & Mattevi, 2016; Papatheodorou, 2002; Thrane, 2005).

The prices were obtained from a single provider called Alpharooms to ensure their homogeneity, a technique well established in a variety of earlier studies using online data (Chen & Rothschild, 2010; Lee & Jang, 2011; Thrane, 2005). The typical stay was for a couple occupying a double room for seven nights, from Saturday to Friday, in the central weeks of the months of June, July, August and September, that is, the core of the summer’s high and medium-high seasons. The booking was carried out with advanced notice of between two and three months because that is when prices are most stable, discounts for early bookings have disappeared, and neither heavy discounts nor surcharges are yet being applied for last-minute customers (Bilotkach & Gaggero, 2015; Salanti, Malighetti, & Redondi, 2012).

By chance, the data collection process ended just before the onset of the “Syrian refugee crisis” that primarily affected the Aegean Sea and before the intensification of the flow of irregular immigrants between North Africa and Sicily. The dramatic images of overcrowded boats and of dead bodies floating in the sea became increasingly more prevalent on European newscasts from June 2015 at the time of the attacks on tourists in Tunisia.

These were the conditions in which the idea emerged to repeat the data collection recently completed in the summer of 2015 in the following year, 2016, to evaluate the impact of the various crises suffered by the Southern Mediterranean on the prices of tourist accommodation being offered on the islands of the Northern Mediterranean. The new search only took into account the 1750 hotels that had featured in the 2015 list and that had not changed category or undergone other significant changes. The data collection was limited to the “bed and breakfast” board type because it is the most common across the entire geographical area under analysis and the timing for obtaining the data was repeated exactly one year later. The result was a new database that included 5061 prices for the months of June, July, August and September in 2015 and 2016, for 1750 hotels. Throughout the summer of 2016, data continued to be collected to determine the evolution of the prices over the course of the tourist season.

Fig. 1 highlights the fourteen island destinations used in the study. They are part of six different countries: Spain, France, Italy, Malta, Greece and Cyprus. None of these countries has been directly affected by the events in Tunisia, Egypt or Turkey.

The central object of interest for this study lies in the variations in prices, not in their absolute level. For this reason, we can directly use gross price data and the differences between 2015 and 2016 without any need to resort to weightings or indices.

3. Setting out the hypotheses

We are using the prices of tourist accommodation as indicators of the state of the tourism sector. This requires us to identify prior price trends, which depended on the conditions of supply and demand before the various events listed in Table 1 caused them to change.

On the supply side, the market trend was clearly downward, given the special economic circumstances existing in Mediterranean countries. In recent years, all of these countries have been immersed in a deep economic crisis characterised by high unemployment levels and systematic declines in domestic prices (Cellini & Cuccia, 2015). Also, one of the basic inputs of the tourism sector, oil, has seen sharp drops in price. In a competitive sector like tourism, the simultaneous fall in real wages and consumer prices are factors that generate clear downward pressure on hotel prices.

On the demand side, the prospects were better, but not much. The main European tourist-generating countries had emerged from the economic crisis and their GDP per capita was growing, with an increasing number of potential tourists, but this growth has been mild and it has barely offset the losses in domestic markets, which have been sharply affected by the economic crisis being experienced in Mediterranean countries.

Table 2 shows the stability in the Mediterranean tourist accommodation market in the three years preceding the period analysed. The Greek islands and Sardinia were growing vigorously, but the remaining island destinations recorded little growth or even moderate losses.

Despite the growth in demand experienced in some destinations, prices did not follow a similar trend. Table 3 shows the prices offered by the online travel agency Hotels.com for various Mediterranean island destinations. A comparison of 2015 prices with those of the preceding year points to a clear tendency toward stability, with the increase in bookings not enough to push prices higher. Indeed, Hotels.com indicates that prices for Europe & Middle East in 2015 stagnated after four years of modest gains.

Another factor to take into account has been the emergence of new forms of informal supply in tourist accommodation, most notably Airbnb because of its character of disruptive innovation (Guttentag, 2015). To assess the impact of this new type of accommodation offering, the number of Airbnb rooms available on each of the fourteen islands in the study was quantified for the high season in 2017. The total came to 3394 rooms, a very small figure in relation to the traditional hotel offering. At present, Airbnb has only a marginal presence in the Mediterranean accommodation market, with one notable exception: Italy. Of
the total above, 15% is located in Sardinia and 47% in Sicily. It cannot be ruled out, therefore, that the prices in Sicily have been affected by the emergence of new forms of accommodation offering, which tend to drive down the prices of lower categories of accommodation, particularly at times of greater demand (Zervas, Proserpio, & Byers, 2016).

In addition, the analysis addresses variations over a very short timeframe: one year. In such a limited period, it is impossible for the various destinations to have experienced significant variations in competitiveness. There has been no change in the infrastructure or the general tourism image of each island.

The use of accommodation prices as reliable indicators of variations in demand is supported by the high degree of maturity and competitiveness in the Mediterranean tourism market. Most firms have been offering their product for many years and incompetent or collusive behaviours can be ruled out (Medina, Medina, & Sánchez, 2016; Rosselló & Riera, 2012). Also, the large-scale introduction in the hotel sector of pricing strategies based on revenue management ensures that prices respond rapidly to the smallest variations in demand (Guillet & Mohammed, 2015).

On this basis, we can pose the main hypotheses that we want to test in the present study:

**Hypothesis 1.** Prices have been affected at the Mediterranean level. If the political situation has caused sharp diversions in demand, they will have pushed prices upwards in our sample of fourteen islands.

**Hypothesis 2.** The variations in prices experienced in the different destinations in the Northern Mediterranean are the result of causes that are clearly external to their tourism competitiveness, such as their geographical position relative to the focal points of conflict. As a consequence, the price variations will follow a geographical trend in line with their relative position.

**Hypothesis 3.** Throughout the spring and summer of 2016, a series of news items that are potentially negative for tourism have had a clear geographical concentration. This would affect the evolution of bookings during the period.

**Hypothesis 4.** A severe shock that affects tourism demand must have distinctive features that can be detected through variations in hotel prices. The changes will generate losses and gains that will be distributed in a non-homogeneous manner among the different types of tourism companies according to the category and location of the establishments, etc.

**Hypothesis 5.** The UK’s approval of a referendum to leave the European Union may or may not have affected the tourism industry as a whole.

### 4. Price variations: overall and by island

The overall analysis of our 5061 pieces of data indicate that, in 65% of cases, the establishments raised their rates in 2016 with respect to 2015 and the average increase was 5.97%. These data clearly show a significant upward trend in prices over the analysed area taken as a whole. Combining the average increase with the preceding trends noted earlier, which tended more toward maintaining prices than toward raising prices, it seems to us that it can be concluded that a major process of demand diversion has driven prices upwards in the tourist destinations of the Northern Mediterranean, away from the conflict areas in the South.

**Fig. 2** clearly shows the radical change in tourist accommodation prices in the Mediterranean region between the summers of 2015 and 2016. As can be seen, this change is distributed unevenly among the different destinations. In fact, the fourteen islands analysed can be clustered into four major groups according to the evolution of their prices.
4.1. Islands that have been very negatively affected

This group includes Rhodes, Sicily and, above all, Kos. Prices on the first two islands have not changed, that is, they have not benefited from the overall Mediterranean increase. On the Greek island of Kos, more than half of the establishments, 56%, chose to lower their prices so that, as a whole, prices fell significantly, by nearly 4%.

4.2. Islands that have been somewhat negatively affected

On Corsica, Cyprus and Corfu, prices rose modestly, in the region of 2.5%. This figure would frankly have been positive in a normal situation, but in the current circumstances it reflects a relative loss.

4.3. Islands that have relatively benefited

On these islands, prices have risen between 5% and 6%. That is, they are in line with the evolution of Mediterranean prices overall.

4.4. Islands that have greatly benefited

On the Balearic Islands and Zakynthos, over three-quarters of the establishments have raised their rates and their prices have risen by far more than average, between 10% and 15%. This is exceptional growth, which can only be explained as a result of a severe shock that has shaken the Mediterranean tourism market.

The three islands of the first group, the ones that have clearly been affected negatively, stand on the front line of media coverage of the refugee crisis. The island of Kos is an especially significant case in that its name features in many articles and television programmes on the subject and a large number of correspondents were sent there throughout the winter of 2015 and the spring of 2016. Malta is also an especially significant case because its prices have risen in spite of its location along the route taken by boats overcrowded with refugees and immigrants leaving Libya bound for Sicily. In this case, the policy followed by the Maltese authorities to refuse to accept refugees has kept the island out of the media spotlight and enabled Malta to pick up part of the excess tourism demand that has arisen.

These results clearly show the political origin and geographical focus of the shock that has affected Mediterranean tourism. The islands located close to the sources of conflict are experiencing declines, while the islands located farther away are seeing a sharp rise in rates. One highlight is the homogeneity of the result for the Balearic Islands, which lie in second, third and fourth place in terms of price rises. This confirms the view of these islands as destinations with relatively low levels of risk and uncertainty (Jacobsen & Munar, 2012). Next come the Ionian Islands, although in their case the individual position of each island is more scattered, depending on their differing opportunities to benefit from the new situation. In comparison to the Balearic Islands, the Ionian Islands have a much smaller tourism industry and a low density of flight connections and these features may account for their differing responsiveness.

Fig. 2 also indicates that the national factor is not important. The Spanish islands appear concentrated, while the Greek islands are dispersed, occupying the first and last place, and the two Italian islands, Sicily and Sardinia, are well separated. Nor are the two island-states of Malta and Cyprus close to each other. Malta is ranked in the middle, while the results for Cyprus do not bode well for the island’s ability to overcome the poor situation experienced by its tourism industry in previous seasons.

5. Evolution of prices through the summer

As the summer season advances, tourist establishments close bookings and fill their rooms; in high season, their objective is to reach 100% occupancy using a time-dependent process to adjust prices to demand that is typical of all highly seasonal tourist destinations (Collins & Parsa, 2006; Haddad, 2015; Henley, Cotter, & Herrington, 2004; Pellinen, 2003). To learn how this process evolved, we followed the existing supply for a room in a three-star hotel on a B&B basis for check-in on 10 September. Our interest is to focus on the gradual disappearance of the cheapest rooms from web pages, because as bookings are filled, this type of room disappears from the market and more expensive rooms, such as suites and rooms with a sea view, are left (Reisch, 2012).

The results of this analysis appear in Fig. 3, which shows the percentage for each island group out of the total supply in the 14 destinations being considered. For ease of interpretation, the destinations have been clustered into four groups of islands presenting a similar evolution.

The first group contains the Ionian Islands and Crete. The supply for this set of islands evolved practically the same as the average, always representing 25% of the total supply. The second group includes Corsica, Sardinia and Cyprus, the islands whose supply fell slightly more slowly than the average. On 12 June, these islands were offering 17% of the total places considered and on 23 August 21%. The third group is made up of the Balearic Islands, whose supply diminished in an accelerated fashion from 30% to 15% over the same dates. Finally, the last group includes the islands that have had difficulty filling their bookings. Along with the three islands previously appearing in the group that was very negatively affected, Kos, Rhodes and Sicily, this group now adds Malta. In early June, these four islands accounted for 28% of the supply and on 23 August, their percentage had risen to 40%. Clearly, the islands closer to the refugee crisis are the ones that have had the greatest problems in selling all their rooms, while the Balearic Islands have succeeded in hanging the “No Vacancy” sign furthest in advance.

Thus, we can confirm our third hypothesis. Not only has the refugee crisis prevented the directly affected islands from raising prices for early booking, but also these islands have been the last to succeed in closing bookings for the rooms on offer. Their market position has become residual and they have been considered by potential tourists only as other destinations have filled their bookings and disappeared from the market. If these islands have finally reached a good occupancy level and raised last-minute prices charged to clients, it has been thanks to the sharp increase in the holiday demand in the Northern Mediterranean overall.

6. Qualitative variations in demand

6.1. Type and category of establishment

Fig. 4 shows the variation in prices across the entire geographical area under study according to the type and category of establishment. Excluded are rural hotels and guesthouses. The results are very clear. Looking at the core of the tourist offering, we find without exception that the prices for two-star, three-star and four-star hotels and for
three-star and four-star aparthotels—altogether representing three-quarters of the total—are situated slightly below the average, with growth in the region of 5.5%. Luxury establishments have also benefited from the general increase in demand, but to a lesser extent; their prices only rise in the vicinity of 3.5%. Undoubtedly, lower-cost establishments have benefited most. This includes all categories of apartments, one-star hotels and two-star aparthotels. Indeed, the rise in prices is spectacular in the case of two-star and three-star apartments and one-star hotels, which show price rises greater than 10%.

Tunisia and Egypt were sun-and-beach destinations with medium-to-low prices and the tourists who visited them often had limited budgets that, when transferred to the Northern Mediterranean, constrain choice. Also, they are visitors who are relatively loyal to a destination (Choyakh, 2008) and therefore unfamiliar with the available alternatives. As a result, when displaced, they face the typical problem of selecting an unknown product with a high price (Kirmani & Rao, 2000; Klein & Leffler, 1981). As a result of these limitations, the displaced tourists opted to focus their preferences on destinations that were better known and on establishments that were more economical in terms of overall holiday cost: apartments.

6.2 Monthly variation and the influence of proximity to the beach

Table 4 shows the data on the variation in prices over these four months. One highlight is the notable growth in September, while August saw the least growth, probably because it is the month in which prices are already initially so high that little margin remains to absorb additional price increases.

If we look at the variation in prices in terms of the hotel’s proximity to the beach, the data in Table 5 indicate that the new demand was spread nearly homogeneously across the three categories used.

6.3 Benefit gained from the favourable situation by type of hotel company

Most of the 1750 hotels included in the sample do not belong to a hotel chain. However, while only 330 operate under the name of one of these companies, their pricing behaviour has been much more competitive. Their prices have grown by 9.5% between 2015 and 2016, whereas the prices of the 1420 independent hotels only rose by 4.7%.

Table 6 shows that small chains have been the company type with the least dynamic evolution, followed by independent hotels. Medium-sized and large chains account for most of the price increases and they have absorbed the greatest share of the unexpected gains generated by the new situation.

These last data at the business level and the price variations by category confirm Hypothesis 4: there has been a severe shock characterised by the presence of asymmetries in the distribution of additional revenue. The largest beneficiaries of the changes are medium-sized and large hotel chains owning medium and medium-high category establishments, as well as small companies offering apartments and hotels at the lower end.

This redistribution of revenue will likely be transient since tourists unexpectedly visiting the islands of the Northern Mediterranean have made a choice forced upon them by circumstances that have prompted them to concentrate their new demand on the lower end of the market and on better-known destinations. In any event, the additional gains have benefited a specific set of companies that now have additional, unanticipated financial capacity, a factor that may modify their capacity or expectations for future growth. This result indicates that brief shocks have different effects on market structure than those caused by long slumps (Cirer-Costa, 2014) and that large chains can gain greater benefit than independent establishments from unexpected shocks affecting the tourism market, whether the shocks are positive or negative (O’Neill & Carlbäck, 2011).

7. A final tourism shock in 2016: Brexit

7.1 The steep fall of the British pound

All of the countries in the Northern Mediterranean are part of the eurozone, whereas the United Kingdom has maintained its own currency, the pound sterling. As the UK is one of the major sources of tourists seeking sun and sand in the Mediterranean region, it is obvious that the euro/pound exchange rate has a strong impact on tourism markets.

The British pound started 2015 trading at 1.28 euros and ended the year up 6%, trading at 1.36 euros. From that moment onwards, it began to fall, dropping to 1.18 euros at 31 August 2016, when it was worth 15.5% less than at the beginning of the year. The currency’s decline in value began in early 2016, at the same time at which a referendum known as Brexit was seriously proposed on the UK’s departure from the European Union. Exchange rate volatility became the norm until 23 June 2016, when the British electorate voted to leave the EU. At that point, the value of the pound plummeted, losing an additional 8%–9% within a few days.

Fig. 5 shows the evolution of the €/£ exchange rate, the average prices for a double room in September and for airfares in September between London and the 14 islands. The effect on hotel prices was negligible. Airfares, by contrast, show severe temporary alterations with respect to the evolution predicted in the absence of disturbances...
required or because of these companies’ particular stream of revenue generation (Jeon, Kang, & Lee, 2004; Muradoglu & Sivaprasad, 2014). As we shall see next, the turbulence in the Mediterranean tourism market has severely affected the share prices of these companies and the specific time sequence has been surprising.

Table 7 shows the trading indices of the main tourism companies’ shares on the London and Frankfurt stock exchanges, as well as the general index for both stock exchanges, the FTSE and DAX, respectively. As can be seen, stocks in airlines and hotel chains moved upwards throughout 2015, broadly equalling or exceeding the evolution of the general index of the stock exchange where they are traded. However, shortly after the start of 2016, the stocks began to fall and they slumped severely between June and August of 2016.

Figs. 6 and 7 show that these stocks suffered an initial sharp decline in February, when the Brexit referendum was called. In June 2016, at the time of the British referendum, the decline was widespread and the shares in tourism companies, without exception, fell to levels below – and sometimes far below – the general index of the stock exchange where they were traded.

If we analyse the types of companies, we see that the two major European tour operators, Thomas Cook and TUI AG, were the hardest hit. In the first eight months of 2016, they amassed losses of 43% and 24%, respectively. They are followed by the airlines, among which no special differences can be observed between the traditional ones, such as Lufthansa and British Airways, and low-cost carriers like EasyJet. The enterprises with the most favourable evolution are the hotel companies, especially the Spanish Melia Hotels and the French Accor SA.

The conclusion drawn from this evolution is that Brexit has acted as a trigger for the well-known mistrust of the financial world toward tourism. The British referendum has truncated the positive evolution of tourism stocks throughout 2015, a year in which the threats looming over the sector were already evident, but had not yet undermined share prices.

Based on all of these data, we can conclude that Brexit has had unexpected effects on tourism. First, while its direct impact on Mediterranean markets was shallow and limited in duration, it did cause a surprising loss of confidence in tourism-related companies on the part of the financial markets. Second, Brexit has seriously eroded the value of the British currency and this, over the medium term, will cause a marked increase in the cost of holidays for British citizens in the Mediterranean region, which will doubtless limit its market potential.

8. Conclusions

For years, the Southern and Eastern Mediterranean have been marked by focal points of serious conflict, e.g., in Algeria, Libya and Syria. However, these conflicts appeared to have little effect on the tourism industry located on the coasts of some of the countries in the region. Only in Egypt did terrorist attacks some years in the past affect Europe’s tourists, and even then the media coverage of the events was modest.

### Table 7

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Figs. 6 and 7. Evolution of share prices for tour operators, airlines and hotel chains on the London and Frankfurt stock exchanges between 1 January and 31 August 2016.
The situation changed radically shortly after the beginning of the summer of 2015, when new attacks against tourists reached a high level of intensity and the crisis of Syrian and Libyan refugees and immigrants filled the television newscasts with images of dead bodies floating in the “paradisiacal” waters of the Mare Nostrum.

The slump in the tourism markets in Muslim countries has caused a sharp diversion of demand toward destinations in the Northern Mediterranean that is perfectly visible in the marked increase in prices charged by hotel establishments. The diversion in demand has been widespread, but it has especially benefited the Balearic Islands, while the destinations on the routes of emigration, namely Kos, Rhodes and Sicily, have barely been able to maintain their market position or have had to cope with moderate reductions.

The unexpected rise in demand has been distributed asymmetrically not only at the geographical level but also at the level of hotel companies. Low-end and medium-range establishments have done the best, while luxury establishments have raised their prices only moderately. Strong asymmetry can also be observed in the size of the company to which each hotel belongs, with the large chains taking much better advantage of the good situation than independent hotels or small chains.

Lastly, in June 2016, the final major disturbance took place. The United Kingdom voted to leave the European Union. At first, Brexit had little impact on tourism markets and even this impact was rapidly diluted. However, Brexit has had two effects that may have significant long-term consequences. First, the value of the British pound has plummeted, making future holiday bookings by British citizens in the Mediterranean considerably more expensive. Second, Brexit has led to severe falls in the share prices of the few tourism companies traded on European stock exchanges, making the future inclusion of this type of companies in these markets more difficult, given the financial distinctiveness of the tourism sector.

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References


