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# AN ECONOMIC ANALYSIS OF NEW VISITOR ENTRY POLICIES FOR THE UNITED STATES

**CONTACT:**

Adam Sacks  
Managing Director | Tourism  
Economics  
An Oxford Economics Company  
+1.610.995.9600  
[adam@tourismeconomics.com](mailto:adam@tourismeconomics.com)

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## KEY FINDINGS: MORE REVENUE, ENHANCED SECURITY

Expanding the U.S. Visa Waiver Program and launching new security and promotional efforts funded by a \$10 Visa Waiver transaction fee paid by overseas visitors would yield significant dividends. Based on an economic model developed by Tourism Economics, an Oxford Economics company, these policy improvements would:

- Increase overseas travel to the United States by nearly 1.6 million new visitors a year, yielding \$8 billion in new visitor spending and \$850 million in new federal tax revenue;
- Generate an average of \$200 million in fee revenue per year, including \$100 million per year to fund visa and entry security improvements, such as:
  - Additional Customs and Border Protection officers at America's ports of entry;
  - An exit tracking system<sup>1, 2</sup> to enable the government to identify wanted persons if they attempt to flee the country and flag foreign visitors who overstay their visas;
  - Enhanced electronic information sharing with other governments regarding lost, stolen or fraudulent travel documents;
  - Deployment of 10-finger-scan readers at U.S. consulates and ports of entry to facilitate more accurate and efficient security screening; and
  - Deployment, on a pilot basis, of biometric technology to screen passengers departing for the United States from overseas travel hubs.

## ISSUE OVERVIEW: IMPROVING AMERICA'S SECURITY, ITS IMAGE, AND ITS BOTTOM LINE

“Restricting...travel with many countries that seek stronger ties to America has hurt the U.S. economy and diminished America's image abroad.” (The Heritage Foundation)

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<sup>1</sup> Senator Diane Feinstein, Chairman, Senate Judiciary Committee, Subcommittee on Terrorism, Technology and Homeland Security, January 31, 2007. “I believe that we will not be able to protect our nation effectively until we can protect our borders. We must know who is coming in and out of our country... it is not enough to know who is entering the country...Today...we still do not have a reliable means of measuring who leaves our country.”

<sup>2</sup> Heritage Foundation, J. Carafano et al., Web Memo No. 1400, March 19, 2007. “Congress should require the 11 [U.S.] international airports with the largest numbers of foreign travelers to implement a mandatory exit [tracking] system.”

**Overseas travel to the United States is one of America's most effective public diplomacy tools and yields significant economic returns – in terms of jobs, economic growth and tax revenues.**

Studies<sup>3</sup> show that international travelers who have visited the United States have a more favorable opinion of America – by a wide margin – and are more likely to support U.S. policies.

International travel adds more than \$107 billion per year to the U.S. economy.

Inbound international travel is a leading American “export,” yielding a \$7.2 billion positive trade balance in 2006.

**Overseas travel to the United States has declined at a time when worldwide travel is expanding.**

Overseas travel to the United States has fallen 17 percent since its peak in 2000, with a cumulative cost of more than \$100 billion in lost visitor spending, almost 200,000 jobs and \$16 billion in lost tax receipts.<sup>4, 5</sup>

World economic growth has been stronger during the past three years than at any other three-year period in the past thirty years. Almost all destinations – outside of the United States – have benefited from increased inbound travel amidst this rising economic tide. Worldwide, international travel has been expanding at a rate of six percent per year.

Making the decline all the more perplexing, the United States is a price-attractive destination for international visitors with the dollar weakening 30 percent against the euro and 22 percent against the pound since 2001. Historically, a weakening dollar *should* drive robust gains in visitation to the United States.

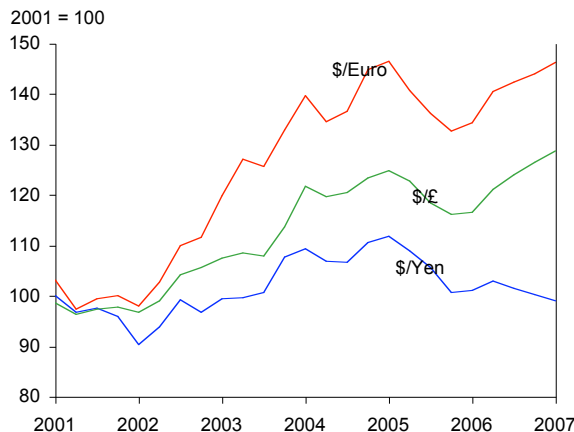
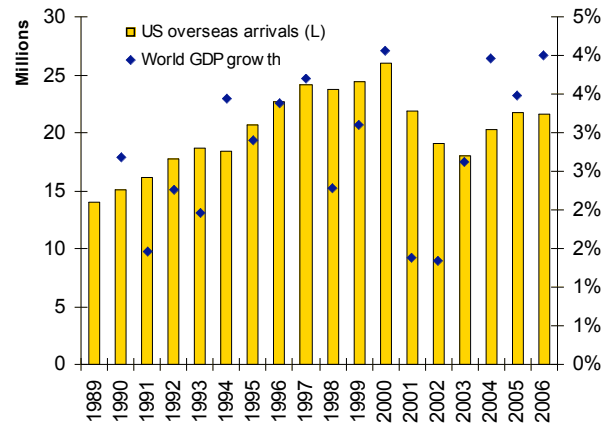
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<sup>3</sup> RT Strategies, Inc., November 2006 Survey of 2,011 non-U.S. resident international travelers

<sup>4</sup> Travel Industry Association of America, 2006 Inbound Travel Summary

<sup>5</sup> C. Stewart Verdery, Jr., Monument Policy Group and Center for Strategic and International Studies, Testimony Before the Senate Judiciary Committee, Subcommittee on Terrorism, Technology and Homeland Security, January 31, 2007. “The overwhelming majority of potential business or tourist travelers to the United States who are refused a visa are turned down for reasons that have nothing to do with terrorism.”

## Travel to America falters despite strong economic growth...



**...and despite strong visitor market currencies.**

**The perception that U.S. visa and entry policies do not welcome international visitors is the largest factor in the decline of overseas travelers to the United States.**

According to a survey<sup>6</sup> of more than 2,000 non-U.S. resident international travelers:

- By a greater than two-to-one margin, respondents say the United States has the “world’s worst” entry process;
- Sixty-six percent of respondents say they are worried they may be detained for hours because of a simple mistake or misstatement at a U.S. airport;
- More respondents were concerned about U.S. immigration officials (70 percent) than the threat of crime or terrorism (54 percent) when considering a trip to the United States; and
- Sixty-one percent of respondents believe that the United States makes little effort to attract international visitors compared to other countries.

<sup>6</sup> RT Strategies, Inc.

## ADDRESSING THE PROBLEM: BRINGING U.S. ENTRY PROCEDURES INTO THE 21<sup>st</sup> CENTURY

The Discover America Partnership has proposed a three-point plan called, *The Blueprint to Discover America*, to address real and perceived barriers to overseas travel into the United States:

- Create a streamlined, modernized visa system that enhances security while minimizing inefficient barriers to inbound travel, including:
  - An expansion of the U.S. Visa Waiver Program;
  - Creation of an exit tracking system; and
  - Requiring all visa waiver travelers to obtain an Electronic Travel Authorization that will provide advance information on travelers to U.S. customs and border officials.
- Modernize and secure America's ports of entry, including:
  - Creating an International Registered Traveler program;
  - Expanding the "Model Ports of Entry" program to additional airports; and
  - Utilizing private-sector expertise to improve customer service.
- Counter negative perceptions of the U.S. entry process through a nationally coordinated campaign to promote overseas travel to the United States – a program that matches government outlays dollar-for-dollar with the private sector.

## ECONOMIC IMPACT OF PROPOSED SOLUTION

The analysis we present here examines the economic impact of two elements of the Discover America Partnership proposal:

1. Expansion of the Visa Waiver Program to travelers from an additional 10 countries beyond the current 27 participating nations.
2. Establishment of a \$10 visa waiver transaction fee to fund security improvements to America's visa and entry system and to fund a sustained nationally coordinated campaign to promote overseas travel to the United States.

### **Section 1: Who and How Much - Who is included and how much revenue would a Visa Waiver transaction fee create?**

There are presently 27 countries that participate in the U.S. Visa Waiver Program. The current qualifications for Visa Waiver Program status include a

three percent refusal rate on visa applications. The program could be expanded to include approximately 10 additional countries if the threshold were changed to a 10 percent refusal rate (as passed by the U.S. Senate in 2007 as a part of S. 4, the “Improving America’s Security Act of 2007”). Other criteria for new entries would include adequate reporting of lost and stolen passports, assistance in counter-terrorism efforts and approval from the Department of Homeland Security and the Department of State.

An expansion of the program would generate visitor demand for two reasons:

1. The cost of entry could be substantially reduced for these markets (the current visa application fee is \$100).
2. The application process would no longer require travel, exhaustive paperwork, personal interviews and often lengthy delays.

In order to estimate the potential benefits of expanding the program, Tourism Economics assessed its historic effects on visitation to the United States. International visitor arrivals increased 49 percent from the program’s inception in 1988 through 2000, and total spending by international visitors expanded 170 percent during the same period.

Overseas travel from Japan and the UK, the first two countries to join, grew a collective 21 percent in the first full year of their membership in the program. After another seven countries were added in 1989, these markets expanded by eight percent in each of the following three years. Visits from Ireland increased 37 percent in the year after its entry into the program. Visits from Uruguay increased 21 percent in the first year after induction.

Viewed in reverse, the effects are even more dramatic. Argentina was removed from the Visa Waiver Program in March 2002. Visits from Argentina plummeted 62 percent in 2002 and an additional eight percent in 2003. The economy of Argentina and its currency were also suffering during this time, but it would be fair to attribute half of the decline to the policy change.

Uruguay was removed from the Visa Waiver Program in April 2003. Visits from Uruguay declined 65 percent in the following month. For all of 2003, visits declined 26 percent and fell another 19 percent in 2004.

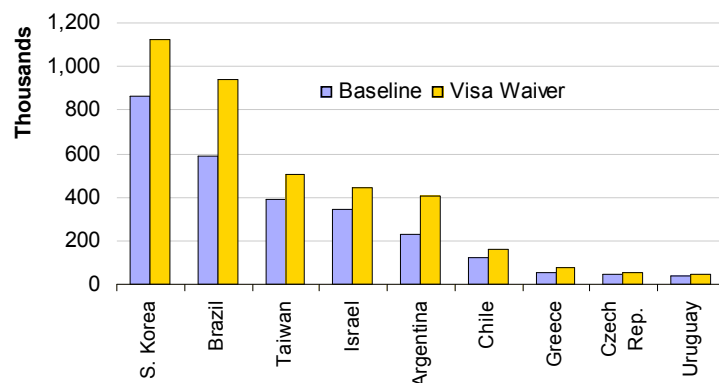
With travel barriers falling around the world, increased marketing of competing destinations and tremendous growth of emerging destinations globally, the existence of visa barriers affects U.S. competitiveness more dramatically now than it did 20 years ago. It is our conclusion that a significant upside exists for each of the potential new entries to the program.

Tourism Economics developed a visitation model that estimates the potential effects of an expanded Visa Waiver Program acceptance for 10 additional countries:

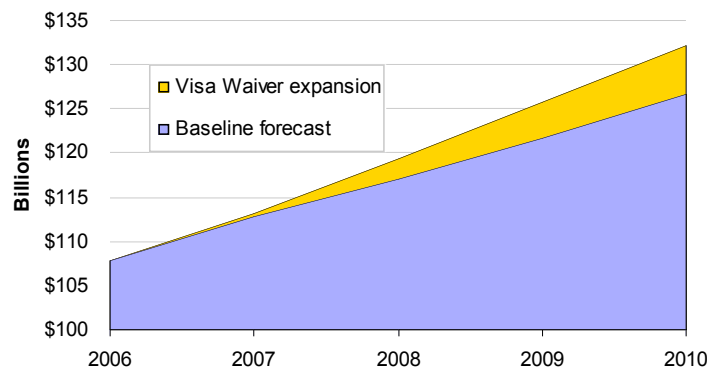
- |                   |                |
|-------------------|----------------|
| 1. Argentina      | 6. Greece      |
| 2. Brazil         | 7. Israel      |
| 3. Chile          | 8. South Korea |
| 4. Czech Republic | 9. Taiwan      |
| 5. Estonia        | 10. Uruguay    |

The model begins with a baseline forecast of visitation taking into account market conditions and current trends for each country. It then estimates the incremental effect of the Visa Waiver Program on that baseline forecast using benchmarks measuring the historical effects of the program. Within three years, the United States would conservatively experience an increase of 1.1 million overseas visitors, a four percent increase over our baseline forecast.

For the eligible countries, entry into the Visa Waiver Program will conservatively increase visits to the United States by an average of 40 percent over the baseline forecast by 2010.



By 2010, \$5.5 billion in additional visitor expenditures will be channeled into the U.S. economy—an increase of 4.3 percent over the baseline forecast.



The inclusion of 10 additional nations in the Visa Waiver Program would create a strongly positive federal net tax impact. Although visa application fees would be reduced, this would coincide with reduced staffing requirements in the consulates of these countries. Even after netting out these fee declines, a net increase of \$155 million in federal taxes would be created in 2008 and \$434 million by 2010.

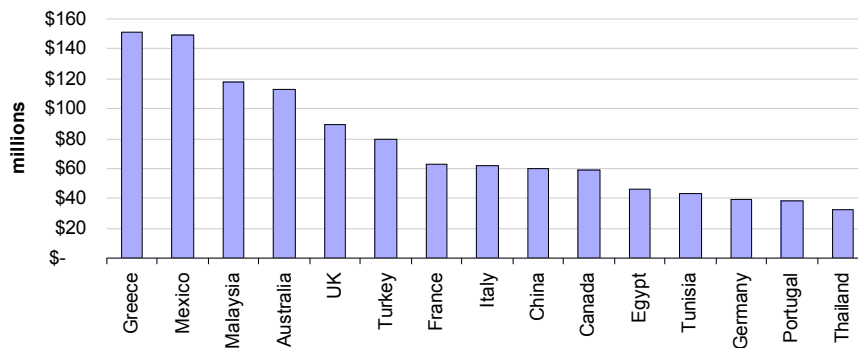
	2007	2008	2009	2010
Visa application fee decline	\$ (14,911,012)	\$ (58,073,071)	\$ (58,516,222)	\$ (58,737,034)
Departure/arrival	\$ 3,554,293	\$ 14,847,950	\$ 24,160,357	\$ 32,749,545
Customs/immigration	\$ 2,000,761	\$ 8,358,117	\$ 13,600,201	\$ 18,435,174
Personal and corporate income	\$ 38,118,758	\$ 189,410,821	\$ 327,697,211	\$ 441,899,004
Total	\$ 28,762,800	\$ 154,543,818	\$ 306,941,546	\$ 434,346,689

## Section 2: A Visa Waiver fee: What will it do and why will it benefit the United States?

A nominal Visa Waiver transaction fee will provide the resources to launch a sustained and substantial international promotion campaign, positioning the United States as a top leisure and business destination while strengthening customs and border security.

The United States remains the only major global destination without an ongoing marketing program to brand and promote itself. Many experts have concluded that the marketing program is the only way to combat negative perceptions among international travelers about visiting the United States and to reassure international visitors about the modernization of this nation's entry procedures and technologies.

### Destination Promotional Spending, 2005



Studies on tourism marketing return on investment (ROI) around the world provide a range of estimates of the impact of a well-funded and well-executed campaign. Recent studies indicate a range of 5:1 to 117:1 for new tourism spending per marketing dollar invested. This range of return on investment (ROI) makes a strong case for a U.S. international marketing campaign.

A nominal Visa Waiver transaction fee would also provide additional revenue for increased investments in technology and personnel to improve the security of U.S. visa and entry systems. Flat funding of visa and entry security programs for the past three years has stalled the growth of important security improvements.

Additional revenue generated by a Visa Waiver transaction fee could provide new funds for recommended security enhancements, including:

- Additional Customs and Border Protection officers at America's ports of entry;
- An exit tracking system to enable the government to identify wanted persons if they attempt to flee the country and flag foreign visitors who overstay their visas;
- Enhanced electronic information sharing with other governments regarding lost, stolen or fraudulent travel documents;
- Deployment of 10-finger-scan readers at U.S. consulates and ports of entry to facilitate more accurate and efficient security screening; and
- Deployment, on a pilot basis, of biometric technology to screen passengers departing for the United States from overseas travel hubs.

### **Section 3: How could the money be allocated and what would be the return on investment?**

Tourism Economics assessed both the potential benefits and costs of this initiative. The proposed \$10 fee will be applied to all Visa Waiver Program visitors, with \$5 allocated to a targeted marketing campaign (which includes a dollar-for-dollar match by the private sector), and \$5 to the Departments of Homeland Security and State.

Taking the model results of the expanded Visa Waiver Program, this fee will generate an annual average of \$200 million in revenue over the first three years, generating annual promotional funding of roughly \$100 million (not including private sector contributions) and increased security funding of \$100 million. This would place the United States on a competitive plane with its aggressive global competitors while simultaneously strengthening America's entry process.

This is based on the understanding that the United States is an attractive destination that is underperforming in its key overseas markets. Based on existing travel marketing return on investment (ROI) studies, Tourism Economics has conservatively projected an ROI of 5:1 in 2008, 15:1 in 2009, and 25:1 in 2010. These ROI projections also assume the right messaging, market focus, media choice and ample funding.

By 2010, the promotional campaign would yield \$2.5 billion in visitor spending by 489,000 additional overseas visitors. Total federal government revenues generated by the campaign reach \$200 million by the third year of the campaign—implying a 2:1 fiscal ROI.

		2008	2009	2010
<b>Funds from VW fee</b>				
Marketing fund	\$ 22,057,114	\$ 94,145,712	\$ 99,224,606	\$ 105,073,761
Security funding	\$ 22,057,114	\$ 94,145,712	\$ 99,224,606	\$ 105,073,761
<b>TOTAL</b>	<b>\$ 44,114,227</b>	<b>\$ 188,291,424</b>	<b>\$ 198,449,212</b>	<b>\$ 210,147,521</b>
<b>Campaign impact</b>				
ROI		5:1	15:1	25:1
Spending impact		\$ 110,285,569	\$ 1,412,185,681	\$ 2,480,615,146
Visits impact		22,974	276,675	488,528
<b>Taxes generated by campaign</b>				
VW fee	\$ 229,735	\$ 2,766,751	\$ 4,885,278	
Other Federal taxes	\$ 8,850,612	\$ 113,330,401	\$ 199,073,757	
<b>TOTAL</b>	<b>\$ 9,080,348</b>	<b>\$ 116,097,152</b>	<b>\$ 203,959,035</b>	

#### **Section 4: Effect on travel patterns - Little Pain, Substantial Gain.**

The question arises as to whether this \$10 fee could in itself have a negative effect on visitor demand by making the United States a more expensive destination. There are five reasons why the negative effects of this fee would be negligible.

1. The fee represents a virtually unnoticeable increase in a visitor's travel budget. With average spend per overseas visitor (including airfare) of over \$4,000, \$10 adds one-quarter of a percentage point (0.25 percent) increase to trip cost.
2. The fee would not make the United States uncompetitive with other destinations, most of which levy far greater entry and exit fees.
3. For newly admitted countries to the Visa Waiver Program, the \$10 fee is actually a reduction in cost from the current \$100 visa application fee.
4. The proceeds of the fee would be utilized to strengthen the major weaknesses, and greatest deterrents to overseas visitors, in the U.S. travel system.
5. Exchange rate shifts over the past four years have made the United States substantially less expensive to visitors from Europe and Asia, making the new fee even less significant.

Although the potential negative effects of any new fee should be carefully considered, it should be held in view that the current prospects for visitation to the United States are not bullish. In the midst of one of the greatest economic and travel expansions, the United States has lost millions of overseas visitors. Performance has lagged economic model predictions for the past three years. U.S. competitiveness has not been hampered by fees but by a difficult entry experience

and lack of concerted communication. This initiative helps to deal with the root problems.

## CONCLUSION

Expanding the U.S. Visa Waiver Program and launching new security and promotional efforts funded by a \$10 Visa Waiver transaction fee paid by overseas travelers to the United States would significantly increase overseas travel to the United States and the revenues it generates. According to the Tourism Economics visitation model, the negligible dampening effect of a modest fee would be overwhelmed by the positive effect on visitation from the promotional campaign financed by the fee.

Based on the visitation model and the experience of other nations' travel promotion efforts, Tourism Economics estimates that, within three years of implementation, the promotional campaign would increase overseas travel to the United States by nearly 500,000 new visitors a year, yielding \$2.5 billion in new visitor spending, over 200,000 new jobs and more than \$200 million in new federal tax revenue.

By expanding the Visa Waiver Program to include an additional 10 countries, the United States economy would receive the benefits of an additional 1.1 million visitors who would spend \$5.5 billion and generate incremental federal taxes of \$430 million.

If structured as proposed, the Visa Waiver transaction fee would also provide an additional \$100 million per year to fund visa and entry security improvements.

*Tourism Economics is a subsidiary of Oxford Economics dedicated to providing high value, robust, and relevant analyses of the tourism sector that reflects the dynamics of local and global economies. By combining quantitative methods with industry knowledge, Tourism Economics designs custom market strategies, project feasibility analysis, tourism forecasting models, tourism policy analysis, and economic impact studies.*