TOURISM INDUSTRY ASSOCIATION OF CANADA (TIAC)

FEDERAL PRE-BUDGET SUBMISSION

FEBRUARY 2022

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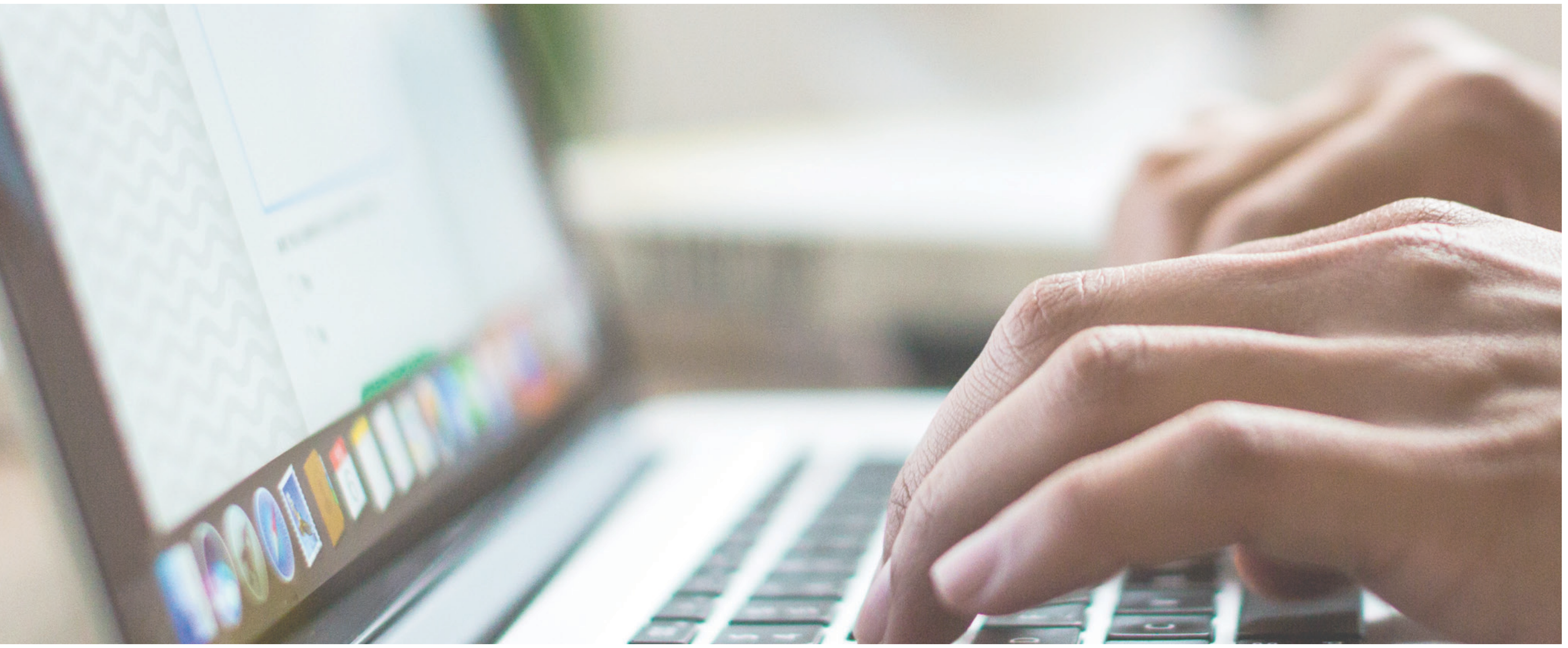

INTRODUCTION

The Tourism Industry Association of Canada (TIAC) respectfully presents this pre-budget submission to the Deputy Prime Minister and Minister of Finance, the Honourable Chrystia Freeland, and the Minister of Tourism and Associate Minister of Finance, the Honourable Randy Boissonnault. The following highlights key priorities for Canada's tourism industry for the year ahead.

Founded in 1931, TIAC serves as the national private-sector advocate for Canada's tourism industry. We act on behalf of the more than 6,000 tourism businesses across the suite of sectors our industry encompasses by championing positive measures to help the industry as a whole prosper. We are responsible for representing tourism interests at the national level, and our advocacy work involves promoting and supporting policies, programs and activities that will foster the sector's overall growth and development.

Before delving into details, however, we wish to express our deepest appreciation to you and your government on behalf of the industry from coast to coast to coast for your support of tourism in Canada. We are immensely grateful for your stewardship of Bill C-2 – An Act relating to economic recovery in response to COVID-19, ensuring its swift passage by Parliament just before the holidays. These measures, which provide targeted support to businesses that are still facing significant pandemic-related challenges, especially the Tourism and Hospitality Recovery and the Hardest-Hit Business Recovery programs, are critical to helping many operators survive through the winter until the tourism season hopefully picks up again this spring.

EXECUTIVE SUMMARY

We still have a very long way to go in rebuilding Canada's travel economy to its former glory. In early December 2021, at our annual national Tourism Congress event, TIAC set out its prime goal to rebuild the tourism industry back to the $105 billion economic powerhouse it was pre-pandemic by the end of 2025, and to position it for further growth through the end of 2026.

Some have argued these targets are too ambitious. But, TIAC is adamant our full-recovery goal is achievable, if private- and public-sector partners continue to work together and the right tools and measures are put in place to overcome existing issues and barriers.

As such, with a view to beginning the long journey ahead, we have identified several key priorities for action, grouped under three broad headings: i) Financial Supports and Infrastructure, ii) Labour Shortage in Tourism and iii) Branding and Barriers.

FINANCIAL SUPPORTS AND INFRASTRUCTURE

There are several assistance programs in support of businesses that we believe could be improved and/or modified to better meets the needs of operators in tourism, and better position the industry for faster growth. And, new financial support is needed in key priority areas.

As such, TIAC makes the following recommendations:

Recommendation 1: That the subsidy rates of the Tourism and Hospitality Recovery Program (THRP) be maintained at their current levels beyond March 2022, and that the THRP remain available to eligible businesses until September 1, 2022.

Recommendation 2: That the minimum current-month revenue loss requirement be lowered from 40% to 20% for eligible companies to access the THRP.

Recommendation 3: The THRP be modified for seasonal businesses such that the average monthly revenue reduction over the first 13 qualifying periods for the Canada Emergency Wage Subsidy be used for subsidy claims in each month from October 2021 to whenever the program sunsets where revenue in the applicable period is less than 5% of the annual revenue.

Recommendation 4: Implement a refundable tax credit for new businesses that meet the industry definitions under THRP and that began operations at any time during the first 13 qualifying periods for the Canada Emergency Wage Subsidy. The tax credit would apply to wages and CERS related expenses at rates that would provide support as favourable as those provided by the THRP.

Recommendation 5: The Tourism Relief Fund be allocated an additional $250 million to extend it until the end of 2023/24, and that the Fund be amended to provide for more operational support with clearly articulated guidelines; to either significantly lower or eliminate the cost-matching requirements; to deem 50% of the contribution to large projects as non-repayable; and, to provide access by all sole-proprietor operators on a case-by case basis as resources are available.

Recommendation 6: For both the CEBA and the RRRF, the maximum forgivable loan amount be increased from 33% to 50%, and that 0% per annum interest period be extended until December 31, 2024; and that similar forgiveness terms and repayment periods be introduced for HASCAP.

Recommendation 7: For the Canada Arts Presentation Fund and Building Communities Through Arts and Heritage Program, the Government make the current temporary funding levels permanent and increase the annual resources to each program by an additional $15 million; and create a new

"complementary" program within Economic Development (and the agencies) that will support festivals and events by virtue of their contribution to tourism and the economy, particularly festivals and events that are not "cultural" and are not supported by Canadian Heritage, and allocating $25 million per year to this program.

Recommendation 8: The Government allocate the necessary resources to help the Indigenous tourism sector recover from the impact of the pandemic, and ensure such resources are made available equitably to indigenous communities accross Canada.

Aviation impacts every sector of the economy, every region of the country, in every community large and small. The impact of the pandemic has led to substantive increases in fees and charges. This upward pressure on infrastructure costs has the knock-on effect of increasing the cost of air travel in Canada for consumers, and undermines the future competitiveness of the sector.

Recommendation 9: The Government work with industry stakeholders to develop a fulsome aviation recovery plan to address the increase in the cost of aviation infrastructure, and its negative impact on consumers, communities, and the overall competitiveness of the Canadian economy.

To mitigate the carbon impact of air travel and rebuild the economy in a sustainable way, we recommend that the federal government:

Recommendation 10: Expand Canada's production of SAF by developing a renewable aviation fuel strategy so Canada becomes a world leader in producing aviation SAF from sustainable Canadian feedstocks; signaling intent to expand Canada's SAF production capacity through comprehensive, long term targeted measures that will attract capital investment; leveraging industry funds via loan guarantees and capital grant programs; and, allowing accelerated capital cost allowance for new production facilities. And, incentivizing the use of SAF through blending inducements including by exempting SAF from the federal carbon tax when blended with

aviation fuel; exempting SAF from the federal excise tax on aviation jet fuel; and exploring refundable tax credits accessible by airlines and aviation fuel suppliers.

Canada's airports are crucial transportation hubs that drive economic development in communities across the country. But the pandemic has created critical operational and revenue pressure which is expected to have a long-term impact on the recovery of both airports and the many businesses that make up the aviation sector ecosystem.

Given that evolving landscape — and the ongoing need for public policy help — the recommendations that follow are designed to take a longer-term, strategic view of the sector's needs:

Recommendation 11: Provide a moratorium on ground lease rents for at least five years or until the airport sector business recovers, and offer more options for interest free loans and operational support programs in order to cover operating costs and allow for continued investment in critical airport infrastructure.

Recommendation 12: Make permanent the elevated Airports Capital Assistance Program funding and expanded eligibility criteria — to ensure sustainable recovery at Canada's smaller airports and ensure the protection of regional routes — and expand, refine and increase the funding for national transportation infrastructure programs to help Canada's airports meet safety, security and transit requirements.

Recommendation 13: Promote recovery of Canadian airports of all sizes by taking decisive policy steps — including modernizing the Customs Act to permit International Airports to offer Arrivals Duty Free for inbound international travelers, advancing Electronic Travel Authorization (eTA) 2.0 and revitalizing the Canada Foreign Trade Zone (FTZ) policy and program to allow businesses to leverage tax advantages.

On February 10, 2021 the Government announced new public transit investments to build strong communities, fight climate change, and create new jobs across Canada, $14.9 billion of which has been allocated for public transit projects over the next eight years. Motor Coach Canada is advocating to earmark 5% of this funding and future permanent funding to directly support private motor coach operators that offer intercity and inter-provincial transit runs.

Recommendation 14: The Government earmark 5% of this funding and any future permanent funding to support private motor coach operators that offer intercity and inter-provincial transit runs.

The business meetings, events, exhibitions, conventions, and incentive travel sector (MC&IT) represented a significant proportion of overall tourism industry activity pre-COVID. As a result of the pandemic and border closures, however, the MC&IT sector effectively ground to a halt.

With a view to helping rebuild this sector, in addition to the suggested modifications to the THRP, TRF, CEBA, RRRF and HASCAP noted previously, we recommend that:

Recommendation 15: The Government allocate additional funding and support to launch a public awareness campaign to change the narrative about safety and meetings and to stress that our borders are open; and,

Recommendation 16: The annual budget of Destinations Canada be increased and that a greater share of its budget be earmarked specifically to brand and promote the business events sector in Canada.

LABOUR SHORTAGE IN TOURISM

The recovery of the tourism industry in Canada largely hinges on addressing the significant labour shortages that currently exist. This issue is complex, and one that will require a concerted effort and close collaboration between private- and public-sector partners across all levels of government to effectively deal with.

We note that in January 2022, as a result of Omicron, employment in the tourism industry dropped by 200,000, 80% of which were in the hospitality sector.

Given the priority the tourism industry ascribes to this issue and its critical importance to helping rebuild the travel economy, we make the following recommendation that:

Recommendation 17: The Government consider allocating considerable financial resources in the 2022/23 Federal Budget for the further development and implementation of the industry-led Tourism Labour Strategy.

As tourism operators now begin preparing to meet expected higher travel demand into the spring and summer travel seasons, we have already identified immigration-related measures, as a starting point, to help quickly accelerate access to workers. In this regard, we recommend that:

Recommendation 18: The Government temporarily exempt tourism and hospitality from LMIA requirements under the Temporary Foreign Workers program; increase capacity to expedite the processing of such applications; and implement a Trusted Employer Process.

The recommendation noted above, if implemented, would only help meet a tiny fraction of the tourism industry's current total workforce demand. Moreover, Canada's current immigration policies are not particularly well aligned to help meet needs of our industry. As such, we recommend that:

Recommendation 19: The Government announced a series of pilot programs targeting most understaffed tourism positions, as a short-term measure, and commit to developing a dedicated Tourism & Hospitality Immigration Program with a pathway to permanent residency, in the longer-term.

BRANDING AND BARRIERS

Key to kick-starting the recovery of Canada's travel economy rests on a number of factors that have a direct bearing on travellers' perception. These include updating the current narrative used by government around travel, eliminating barriers to travel, and correcting the current perception both international and domestic travellers now have about travelling to and from Canada.

In many countries around the world, Canada is now perceived as closed for tourism business and/or too complicated to travel to with all its requirements.

To enable the tourism industry to more effectively plan for its recovery from the pandemic, we recommend that:

> **Recommendation 20: The Government establish a plan with a clear timeline for removing all restrictions, including the removal of all testing requirements, for fully vaccinated travellers; and,**
>
> **Recommendation 21: The Government work with tourism industry leaders on the development and execution of a concerted and comprehensive marketing strategy geared to rebuild consumer confidence and brand Canada both internationally and nationally as a premiere destination for both business and leisure travel.**

IMPACT OF COVID ON TOURISM AND LABOUR

To place the tourism industry's key priorities into context we first share the following key data which demonstrate the severe impact COVID has had on the tourism industry. The tourism industry was the first hit, the hardest hit and it will be the last to recover from COVID-19.

Before the pandemic, in 2019, total tourism spending in Canada had hit an all-time high of $105 billion. It had been growing for many years, outpacing growth in the economy overall. One year later, in 2020, total tourism spending had dropped by half, down to just over $53 billion. Half of all tourism activity in Canada disappeared in just one year. Domestic spending decreased by 40% and international spending dropped very significantly by 87%.

There is a direct correlation between spending and Gross Domestic Product (GDP). Hence, tourism GDP also dropped by 50%, and in turn having a knock-on effect in terms of our industry's contribution to Canada's total GDP which decreased from 2% to 1%.

The dire data goes on and on. No tourism sector was spared.

Between 2019 and 2020:

- Total revenues earned from passengers by Canadian airlines declined by an estimated 90%;

- Total accommodation revenues from hotel stays decreased by 71%;

  » Hotels in downtown Montreal, Toronto and Vancouver were particularly impacted, with revenues dropping by an estimated 91% representing an income loss of $2.3 billion;

- Foreign overnight visitors coming to Canada decreased from 22 million to just 3 million, a decrease of 87%;

- The total number of business events in Canada decreased by 87%, from 3,421 to 451, and the majority of the ones that did take place occurred in the first quarter of 2020 before the pandemic became widespread; and,

- The number of active tourism businesses dropped by 10%, more than three times lower than the contraction of the Canadian economy overall.

In a wide survey of tourism businesses in every province and territory undertaken by TIAC in July 2021, we got a sense of the industry. To highlight a few key points:

- One third of respondents expected up to a 50% decline in revenue in 2021 compared to 2020, and lost between 75% and 100% of revenue compared the same time in 2019;

- 64% indicated low cash flow as a challenge facing their business, with a majority citing financial burden as the biggest risk currently impacting them; and,

- Over 40% of respondents had to lay off over half of their staff due to COVID-19.

In 2019, tourism accounted for 748,000 direct jobs and supported just over 2 million in total. One out of every ten workers in Canada had a job related to tourism. But, by 2020, that changed considerably. The number of direct jobs decreased by close to 30%, a decline of 533,000, and all related jobs dropped by 23%, to 1.6 million.

Labour shortages in virtually all tourism sectors has long been identified as a substantial barrier to industry growth. While the dearth in supply of workers predates the pandemic, the impact of COVID has vastly compounded the problem.

COVID has caused significant disruption to the tourism labour market, much greater than the economy overall. The economic and social implications of an unequal and slow recovery will impact tourism disproportionately and especially those workers in the tourism industry who are most vulnerable.

Moreover, research indicates that many workers do not intend to return to jobs in tourism once they are restored. The short supply of workers, a growing skills gap, and increased barriers to employment have also contributed to reputational damage. Largely because of the protracted recovery period and the continued health measures and restrictions imposed as a result of the pandemic, many jobs in the sector are precarious and expected to remain so for quite some time. Simply put, the tourism sector is now perceived as an unstable and hence unappealing career option for many workers.

Because of the nature and complexity of the underlying issues, labour shortages in tourism are anticipated to be long-lasting. Some experts estimate it could take a decade before the industry reaches pre-pandemic employment levels.

We stress the symbiotic relationship between the tourism industry's recovery and the availability of workers. The labour market is highly competitive within other tourism jurisdictions and industries. This is extremely relevant because, at its core, tourism is driven by workers who must, at the very least, meet traveller expectations for exceptional experiences all along the value chain, whether for leisure or

business. Thus, a lack of workers in tourism directly translates to less capacity and an overall decline in the value-proposition of tourism in Canada.
As such, the recovery of Canada's tourism industry to pre-COVID levels, let alone positioning it for further growth, very largely hinges on our ability to attract and maintain an adequate supply of workers across the skills spectrum. Thus, our success in rebuilding the tourism industry is dependent on redressing labour shortage issues to ensure an adequate and consistent supply of workers.

THE FUTURE OF TOURISM

Earlier this fall, we were beginning to see some slivers of hope in the otherwise dark clouds. But then the Omicron variant surfaced and spread very quickly everywhere in the world. Increased restrictions and requirements were reintroduced as a consequence in several tourism areas. It seems, at times, we collectively take one step forward, and are then forced to take two steps back.

It is our hope that this new wave abates quickly, new variants will not emerge, infection and hospitalization levels decrease further, and fully-vaccinated rates continue to rise around the world. And, just as importantly, we hope that current restrictions and testing requirements in Canada, which represent a significant barrier to the

industry's recovery, are eliminated in the very near future. Should all this come to pass, we are fairly optimistic the coming summer season might see a revival in both leisure and business travel.

With the above-noted caveats, we are confident the tourism industry is well positioned to begin recovering over the coming year from the devastating impact of the pandemic, and to increasingly play a role in helping strengthen Canada's overall economy and fostering future prosperity for all Canadians.

It is important to note that, not only do Canadians have a positive view of the tourism industry and its economic importance to Canada, but there is also considerable pent-up demand for travel. According to Destination Canada's Revisiting Tourism: Canada's Visitor Economy One Year into the Global Pandemic Report from March 2021 [1] :

- 84% of Canadians believe that the tourism sector is very or somewhat important to Canada's economy;
- 82% of Canadians believe that visitors travelling domestically are good for Canada; and,
- 79% of Canadians believe that visitors from other countries are good for Canada.

Destination Canada's Visitor Economy Forecast Update [2] from June 2021 provided a view on what to expect moving forward. It concluded the travel fundamentals were in place, but that the overall re-opening of economies would be asymmetrical from country to country. Travel would be opened to travellers with demonstrated immunity against COVID-19 from countries maintaining low case counts of new infections. If the border reopened in Fall 2021 – as it was – it anticipated a "burst of pent-up travel demand to Canada in 2022 from immunized residents of countries with low case counts and where Health Canada approved vaccines have been deployed, and a gradual movement to a 'new normal'." [3]

1 Revisiting Tourism Report - March 8, 2021 (destinationcanada.com)
2 Destination Canada Visitor Economy Forecast Update - June 2021
3 Ibid, P.2

Moreover, it highlighted that "consumers in major economies are sitting on over $2.9 trillion in excess saving accumulated in 2020 alone, which could be fuel for a powerful recovery as the pandemic recedes... In the US, households saved over $1.6 trillion more than they would have done otherwise... Canadians accumulated on average $5,800 per household in extra savings in 2020 (over $150 billion)." [4]

Things have very slowly begun to improve from the darkest days of the pandemic. Borders have re-opened, and the reliance on pre- and post-arrival testing are alleviating in many countries. And, restrictions related to public gatherings are also beginning to ease.

But we still have a very long way to go in rebuilding Canada's travel economy to its former glory. In early December 2021, at our annual national Tourism Congress event, TIAC set out its prime goal to rebuild the tourism industry back to the $105 billion economic powerhouse it was pre-pandemic by 2025, and to position it for further growth through the end of 2026.

The latest forecasts produced by Destination Canada in December 2021 estimated that, under current conditions, total tourism spending in Canada was now tracking to return to pre-pandemic levels by 2026. However, we would note that this modelling did not account for the impact of the Omicron variant on the tourism industry.

Some have argued these target scenarios are too ambitious. But, TIAC is adamant the full-recovery goal is achievable by 2025, if private- and public-sector partners continue to work together and the right tools and measures are put in place to overcome existing issues and barriers.

As such, with a view to beginning the long journey ahead to achieving our prime goal to rebuild Canada's travel economy, we have identified several key priorities for action, as outlined in the following section.

[4] Ibid, P.7

KEY PRIORITIES FOR 2022/2023

TIAC's priorities are regrouped under three broad headings: i) Financial Supports and Infrastructure, ii) Labour Shortage in Tourism and iii) Branding and Barriers. Specific proposals under each heading are detailed as follows.

Financing Supports and Infrastructure

There are a number of assistance programs in support of businesses that we believe could be improved and/or modified to better meets the needs of operators in tourism and better position the industry for faster growth. And, new financial support is needed in key priority areas.

Tourism and Hospitality Recovery Program (THRP)

On October 21, 2021, the Honourable Chrystia Freeland, Deputy Prime Minister and Minister of Finance, announced that the government was taking targeted action to create jobs and spur economic growth. This included moving from the very broadbased support that was appropriate at the height of lockdowns to more targeted measures that would provide help where it was needed most.

Among the new measures announced was the **THRP,** which would provide support through the wage and rent subsidy programs to tourism and hospitality operators, with a subsidy rate of up to 75%.

This program is currently available only until May 7, 2022. And, as of March 13, 2022, the subsidy rates are currently scheduled to decrease by half.

To qualify under the **THRP**, eligible businesses are required to demonstrate that they meet the following two conditions: i) an average monthly revenue reduction of at least 40% over the first 13 qualifying periods for the Canada Emergency Wage Subsidy; and ii) a current-month revenue loss of at least 40%.

There are several issues with the **THRP** that we wish to bring to your attention, and related to which we make recommendations. The key outstanding issues with the **THRP** relate to i) the decrease of the subsidy rate by half in March and its sunsetting in May 2022, ii) the 40% current-month revenue loss requirement, iii) the calculation of the current-month subsidy for seasonal businesses, and iv) eligibility of new businesses.

The decision to decrease the **THRP** subsidy rate by half in March was likely predicated on modelling which estimated that economic activity in the tourism industry between October 2021 (i.e., when the program was announced) and March 2022 (i.e., when subsidy rates drop by half) would increase significantly and in lock-step to compensate for the 50% decrease in subsidy levels. This rationale, at first blush, appears to make sense – as market revenue increases, the dependence on public resources to maintain current operation levels would logically decrease.

What the modelling did not seem to account for, however, was the emergence of new COVID variants, and the resulting negative economic impact on many tourism operators caused by the reintroduction of requirements and restrictions. The rapid emergence of the Omicron variant three months ago, (i.e., in November) and the

governments' reaction to attempt to curtail its spread has had the result of further debilitating tourism operators financially, businesses that were already bearing the economic brunt as the hardest hit by the pandemic and government measures.

We are now deeply concerned that by March 2022 economic activity in the tourism industry will not have increased sufficiently enough to offset the decline in value of the expected 50% decrease in the **THRP's** subsidy rates. The recovery of the tourism industry has now effectively been delayed by three months as a result of increased restrictions and requirements related to the Omicron variant. Failing to account for this latest turn of events by modifying the **THRP** accordingly, it is very likely that further loss of employment, more business closures and an additional contraction of the tourism industry overall will ensue, all of which would increasingly hamper the industry's recovery to pre-pandemic levels.

And lastly in this regard, we point out the very nature of the **THRP** as a percentage-based program geared to offsetting a portion of revenue losses that an eligible business has suffered as a result of the pandemic. Even by maintaining the subsidy rates at current levels, as the overall economy begins to recover and business revenue increases for impacted tourism operators, the total subsidy amounts paid to eligible companies under the **THRP** would decline as a direct consequence. In other words, as the tourism industry recovers from the pandemic, its dependence on the **THRP** automatically decreases and the total cost of the program also naturally declines.

As such, to help offset the new impacts of Omicron, create more jobs, spur economic growth and better position the tourism industry towards faster recovery, we recommend:

> **Recommendation 1: That the subsidy rates of the THRP be maintained at their current levels beyond March 2022, and that the THRP remain available to eligible businesses until September 1, 2022.**

The current requirement under the THRP for businesses to have at least a 40% current-month revenue loss in order to be eligible for support is also an issue for many tourism operators. This high loss threshold to access the program is problematic specifically for operators who are experiencing current-month revenue losses in the 20% to 39% range.

Even with a 20% current-month revenue loss, many businesses are struggling to meet payroll and pay fixed operating costs. Even before paying taxes, the operating margin of many tourism operators has historically been extremely thin. They have also now drained all financial reserves and maxed out available credit which further increases their financial burden. Faced with revenue declines even between 20%-39%, operators are forced into the dreadful position of having to consider either further scaling back their operations or laying off more employees, and often both.

This situation is especially troublesome when one considers that a very large proportion of businesses in the tourism industry are micro or small in size. Many of these companies now face the very real prospect of either being forced into bankruptcy by creditors or permanently closing their operations simply to put an end to the financial haemorrhaging. As such, with a view to broadening the base of eligible tourism companies which have access to the **THRP,** helping sustain employment and promoting economic growth, we recommend:

> **Recommendation 2: That the minimum current-month revenue loss requirement be lowered from 40% to 20% for eligible companies to access the THRP.**

Again, we stress that as the tourism industry recovers and market revenue increases, the draw on the **THRP** would naturally decline.

The issue with the THRP as it pertains to seasonal businesses relates to how the current-month rate of the subsidy is calculated. Simply put, the design of the program results in a great many seasonal tourism businesses being excluded from being able to access the program.

We point out that a seasonal tourism operator is typically only open for business for a number of consecutive months during the year. For example, an excursion cruise operator may only be open from May to October. And, a snowmobile outfitter would normally be open only from about December to April.

During their “in season” (whether summer or winter), seasonal tourism operators earn revenue. However, during their “off season” while these operators earn no revenue, they must still pay some salary and fixed operating costs. In normal times, revenue earned during the “in season” typically covers all fixed costs over the entire year even if there is no revenue for a number of months during that year.

Currently under the **THRP**, seasonal businesses which typically have no revenue in each month from October 2021 to May 2022 would obviously have no revenue loss. Therefore, they are ineligible to access any assistance under the **THRP** despite having incurred wages and eligible fixed costs in each of those months.

The excursion cruise operator noted above is a perfect example of this issue. This type of business completely lost out on their “in season” over the last two summers given the pandemic and restrictions. So, it did not earn any revenue to sustain its operations. And, to put further salt in the financial wound, they now don’t qualify for assistance under the **THRP** and won’t qualify during their coming “in season” this summer because the program will have expired, unless it is extended as we recommended above.

We highlight that we have been having ongoing discussions with officials at the Department of Finance on this issue, and even put forward proposals with a view to ensure all seasonal business were eligible to the THRP. While we remain hopeful we can achieve a solution in the near future, we nonetheless recommend that:

> **Recommendation 3: The THRP be modified for seasonal businesses such that the average monthly revenue reduction over the first 13 qualifying periods for the Canada Emergency Wage Subsidy be used for subsidy claims in each month from October 2021 to whenever the program sunsets where revenue in the applicable period is less then 5% of the annual revenue.**

Before the pandemic there were many tourism entrepreneurs who had new business development projects well underway. While the final construction of these projects was delayed by the pandemic, many of those entrepreneurs managed to complete their projects and launched operations as best they could. Because they are new and had no revenue in the year before COVID-19 they can not demonstrate a revenue loss. Yet actual revenue was a fraction of what was expected and certainly no better than peers that had been in business over a number of years. Despite the fact that these businesses were incurring wage and fixed costs they were unable to make any claims under CEWS and CERS. They are similarly ineligible for the **THRP** under existing rules despite having invested considerable sums before COVID surfaced.

> **Recommendation 4: Implement a refundable tax credit for new businesses that meet the industry definitions under THRP and that began operations at any time during the first 13 qualifying periods for the Canada Emergency Wage Subsidy. The tax credit would apply to wages and CERS related expenses at rates that would provide support as favourable as those provided by the THRP.**

Tourism Relief Fund (TRF)

Recognizing that in March 2020 tourism came to a screeching halt as public safety measures kept most Canadians home and international borders closed, the federal government announced, in July 2021, a new, two-year, $500 million **TRF** to help tourism businesses and organizations recover from the pandemic and grow. Half of the resources in this Fund were intended to be disbursed in 2021/22 and the other half in 2022/23.

Recognizing that Canada's regional development agencies (RDAs) were well positioned to deliver fast and efficient support to the tourism sector, they were mandated to deliver $485 million of the **TRF** directly to businesses and organizations to help them adapt their operations to meet public health requirements while investing in products and services to facilitate future growth.

Also recognizing that Indigenous communities that rely heavily on tourism had also been disproportionately impacted by COVID-19, a minimum of $50 million was earmarked to support Indigenous tourism projects.

And, lastly, $15 million of the **TRF** was allocated to support national projects related to destination development, seasonal and local attractions, and human resources and skills development, and to be administered by Innovation, Science and Economic Development Canada (ISED).

We highlight a number of issues related to the **TRF** that, if addressed, we believe would enhance the effectiveness of this particulate program in helping tourism businesses and organizations recover from the pandemic more quickly. The first of these relates to the timing of the availability of funds and the second concerns the focus and nature of the program itself.

With regard to availability of funds, we highlight that while announced in July 2021, the advent of the federal election campaign in the fall caused significant delays in the government's final approval of resources and the subsequent operationalization of the Fund. We are quickly approaching the end of the first year of the **TRF**, and to our knowledge while a number of applications now have been approved, the financial resources for relatively few projects have actually been disbursed to businesses and organizations to date. Moreover, as of mid-February, the $15 million component administered by ISED had not yet been launched.

The nature and focus of the Fund are also worth noting as it does not align particularly well with the priority needs of the tourism industry.

The **TRF** is focussed primarily on helping eligible businesses create new (or enhance existing) tourism experiences and products to attract more local and domestic visitors, and helping the sector reposition itself to welcome international visitors by providing the best Canadian tourism experiences we have to offer the world.

But what most businesses need at the moment is assistance with financial liquidity to keep what remains of the existing operations going, as opposed to developing new tourism products to enhance the travel value-proposition of tomorrow. We note that if these businesses can't survive until the next year, there will be fewer operators to develop new tourism experiences for the future. While the **TRF** does make assistance available to cover operational needs, such applications are only being considered by RDAs on a case-by-case basis. Moreover, the guidelines around such operational support are not clearly articulated and the assistance provided to businesses, if successful, is fully repayable thus adding to a company's already high debt burden.

The Fund also largely functions on a cost-matching basis, where contributions to businesses are either non-repayable contributions up to $100,000, for up to 50 percent of eligible costs; or fully repayable contributions up to $500,000, for up to 75 percent of eligible costs. This means that to be successful in obtaining financial assistance under the **TRF**, a business must first have between 25% to 50% of their own financial resources on hand in order to trigger access to the Fund's resources to finance a project. And, for larger projects, the contribution from the Fund is fully repayable.

The current design of the **TRF** poses significant issues for many tourism operators who simply do not have the financial liquidity to match the Fund's contribution to bring a project to fruition. For smaller projects, applicants must have a minimum of $50,000 to contribute towards the project. For larger projects, they must have a minimum of $125,000 to contribute to the project. Moreover, the requirement to fully repay contributions to larger projects, significantly adds to the already over-extended debt burdens now being borne by many tourism operators.

And lastly, the **TRF**'s focus on supporting only businesses or organizations excludes a large portion of the tourism industry who operate as sole-proprietors. This issue was recently addressed for Indigenous tourism sole-proprietors who, as of January 20, are eligible to access support within the $50 million envelope reserved for Indigenous tourism projects. While we firmly support this important change to the Program, we would highlight that there are also many non-Indigenous sole-proprietors who operate in Canada's tourism industry, and who do not now have access to any public assistance to help them survive through the impact of the pandemic.

Given the above, we therefore recommend that:

> **Recommendation 5: The Tourism Relief Fund be allocated an additional $250 million to extend it until the end of 2023/24, and that the Fund be amended to provide for more operational support with clearly articulated guidelines; to significantly lower or eliminate the cost-matching requirements; to deem 50% of the contribution to large projects as non-repayable; and, to provide access by all sole-proprietor operators on a case-by case basis as resources are available.**

Canada Emergency Business Account (CEBA), Regional Relief and Recovery Fund (RRRF) and the Highly Affected Sectors Credit Availability Program (HASCAP Canada)

Launched in April 2020, and made available through traditional financial institutions, CEBA provided interest-free loans of up to $60,000 to small businesses and not-for-profits, to help cover their operating costs during a period where their revenues were reduced. This program is now closed as the deadline to complete applications was on June 30, 2021.

Loans have 0% per annum interest until December 31, 2023, at which time outstanding loans would subsequently convert to two-year term loans with interest of 5% per annum commencing on January 1, 2024, with the loans fully due by December 31, 2025. Moreover, 33% (up to $20,000) of the loan is forgivable if the full balance of the loan is repaid on or before December 31, 2023. Currently, no principal repayment is required before December 31, 2023. If the loan remains outstanding after that date, only interest payments are required until the full principal is due on December 31, 2025.

The RRRF also launched in April 2020, and delivered funding through the RDAs. It offered interest-free loans for businesses and organizations that were unable to access other federal pandemic support programs and emergency funding or that required additional assistance. It largely mirrors the CEBA, but made loans available under two options. The first providing funding of $60,000 or less as conditionally repayable contributions. The second provided funding up to $1,000,000 as unconditionally repayable contributions.

The repayment terms for loans under the **RRRF** differ from those provided by CEBA. If an eligible applicant received $40,000 or less, repaying 75% of the loan amount (or up to $30,000) on or before December 31, 2023, will result in loan forgiveness of 25% (up to $10,000). If an applicant received between $40,000 and $60,000 in funding, the terms of the forgiveness are subject to different thresholds: 25% on the first $40,000; plus, 50% on amounts above $40,000 and up to $60,000. For such loans, no payments are required until January 1, 2024. If the non-forgivable portions of the RRRF loan is not repaid by December 31, 2023, the balance owing will be converted to an additional two-year contribution (fixed repayment schedule), beginning January 1, 2024, with no forgivable portion. The contribution must be fully repaid by December 31, 2025.

Loans above $60,000 and up to the maximum funding of $1 million are fully repayable starting as of January 1, 2023, and subject to a repayment schedule set out by the RDA.

All loans have a 0% per annum interest until December 31, 2023, after which a "nominal" interest rate is applied starting January 1, 2023. The full balance of the loan must be repaid no later than December 31, 2025.

Administered through the Business Development Bank of Canada (BDC) and designed to increase a company's ability to access new credit, the **HASCAP** program provided loan guarantees to financial institutions for 100% of the value of loans, at low interest, between $25,000 and $1 million to Canadian small businesses that were heavily impacted by COVID. The **HASCAP** guarantee is available until March 31, 2022. It provides flexible and competitive terms, including a 4% interest rate and a repayment term of up to 10 years, and allows a recipient to postpone principal payments for up to 12-months from the start of the loan.

These three programs have been extremely beneficial to many operators in the tourism industry, helping them access capital to help keep their businesses afloat when revenue dropped very significantly because of the pandemic. However, as noted previously, many operators are still facing daunting challenges in relaunching their business, and the recent Omicron variant has only compounded the issues and further delayed recovery. They have faced devastating revenue losses, drained all financial reserves, and have taken on substantial debt. Many companies are still on the cusp of closing their doors permanently.

As such, with a view to lessening the existing financial burden faced by many tourism operators, we recommend that:

> **Recommendation 6: For both the CEBA and the RRRF, the maximum forgivable loan amount be increased from 33% to 50%, and that 0% per annum interest period be extended until December 31, 2024; and that similar forgiveness terms and repayment periods be introduced for HASCAP.**

Canada Arts Presentation Fund (CAPF) Building Communities Through Arts and Heritage Program (BCAHP)

Festivals and major cultural events play an important role in enhancing travel experiences. Travellers, whether for leisure or business, typically do not travel within or to Canada simply to spend all their time within their accommodations. They travel to experience what their chosen destination has to offer, be it a festival, concert, theatre, museums, etc.

The **CAPF** provides financial assistance to organizations that professionally present arts festivals or performing arts series (arts presenters) and organizations that offer support to arts presenters. Because of this Program, Canadians have access to a variety of professional artistic experiences in their communities. Each year, the **CAPF** supports approximately 680 professional arts festivals and performing arts series, as well as other activities related to art presentation, in more than 270 cities or communities across Canada.

The **BCAHP** helps celebrate communities, its past and its present. It increases opportunities for local artists, artisans, heritage performers or specialists and First Nations, Inuit, and Métis cultural carriers to be involved in their community. It also allows local groups to commemorate their local history and heritage. The aims of the Program are to ensure citizens have the opportunity to get involved in their community through the arts and heritage; partners within the local community support the festivals and local commemorative projects; citizens have access to arts and local heritage; and artists, artisans, heritage performers or specialists and cultural carriers have the opportunity to get involved in the community.

While the 2019-2020 Federal Budget committed to a two-year increase in resources to these programs, we note that the programs had not seen an increase in more than ten years and that demand for resources exceeds the availability of funds by 40%. This increased funding was subsequently extended until 2023/24.

With a view to enhancing these programs to be able to continue supporting more festivals and events and foster a new cultural and economic resurgence, we recommend that:

> **Recommendation 7: The Government make the current temporary funding levels permanent and increase the annual resources to each program by an additional $15 million; and create a new "complementary" program that will support festivals and events by virtue of their contribution to tourism and the economy, particularly festivals and events that are not "cultural" and are not supported by Canadian Heritage, and allocating $25 million per year to this program.**

Indigenous Tourism

Over the past seven years, the Indigenous tourism industry saw unprecedented growth, resulting in new job creation and an increased contribution to GDP.
In 2019, Indigenous tourism employed 39,000 employees and brought in an estimated $1.9 billion in direct GDP. However, by 2020 Canada's Indigenous tourism sector experienced a 65.9% decline in direct GDP (down to $555 million) and a 59.4% decline in employment (down to 14,624 jobs), due to COVID and the global tourism industry grinding to a halt.

Indigenous communities that rely heavily on tourism have been disproportionately impacted by the pandemic.

In January 2022, the Indigenous Toursim Association of Canada (ITAC) released its Building Back Better strategy, a comprehensive three-year plan to fully recover the Indigenous tourism sector by 2025, with the aim of re-achieving $1.9 billion in direct GDP contributions, 1,900 Indigenous tourism businesses, and 40,000 Indigenous tourism employees. To fully execute on this strategy, ITAC estimates that it would require $65 million over three-years.

TIAC supports dedicated measure to help recover the Indigenous tourism sector, in light of its economic importance to Canada and especially its significance providing Canadian and foreign travellers with the opportunity to appreciate and witness first-hand genuine Indigenous cultural experiences. As such, we recommend that:

> **Recommendation 8: The Government allocate the necessary resources to help the Indigenous tourism sector recover from the impact of the pandemic and ensure such resources are made available equitably to Indigenous communities across Canada.**

Transportation

Canada's Air Sector

Aviation impacts every sector of the economy, every region of the country, in every community large and small.

The pandemic has had a devastating impact on the financial strength of the overall aviation community. Airports, airlines and government service providers have been faced with a tremendous drop in revenue. While aviation will play a critical role in Canada's on-going economic recovery, without government support, Canada is at a disadvantage as recovery gets under way in global aviation.

The impact of the pandemic has led to substantive increases in fees and charges. For example, NAV CANADA, our national air traffic control service provider, increased navigational charges to airlines by 29.5% in September 2020. At the time the increase was announced, it was noted that the rate change will cover approximately one-third of the anticipated budget deficit in the coming years.

The NAV CANADA situation is not dissimilar to the challenges facing airport authorities. With their revenue dropping drastically and facing various debt covenant obligations, airports have been forced to significantly increase their per passenger Airport Improvement Fee (AIF) charges, as well as their aeronautical fees charged directly to air carriers.

This upward pressure on infrastructure costs has the knock-on effect of increasing the cost of air travel in Canada for consumers, and undermines the future competitiveness of the sector. Even before COVID, numerous studies by Parliamentary Committees, think tanks, and government advisory panels had called for significant changes to the National Airlines Council of Canada existing model of funding aviation infrastructure in Canada, and the need to substantively review the existing user-pay model.

While it is standard practice for countries to impose some form of user charge on passengers and airlines for the provision of aviation services and infrastructure, Canada has long been an outlier in the world by taking the user-pay principle to the extreme.

Other countries have recognized the degree to which aviation can serve as an economic catalyst, and as such use government funds to help offset infrastructure and service costs in order to lower the cost to consumers, help stimulate market demand, and generate the additional economic activity and tax revenue that comes from increased travel, commerce, tourism, and flights.

The economics are clear: a cost competitive Canadian aviation sector creates jobs and stimulates trade, travel and tourism in every region of the country for the benefit of all Canadians. We believe that Canadians and communities in every region

of the country should have access to affordable air travel, and that Canada should have an efficient operating and cost framework for commercial aviation. We therefore recommend that:

Recommendation 9: The Government work with industry stakeholders to develop a fulsome aviation recovery plan to address the increase in the cost of aviation infrastructure, and its negative impact on consumers, communities, and the overall competitiveness of the Canadian economy.

Canada's major airlines have a strong commitment to reducing carbon emissions from air travel. Over the past several years carriers have invested billions of dollars in new, more fuel-efficient aircraft, and adopted procedures to continuously improve operating efficiency and reduce fuel consumption. They have also participated in domestic and international initiatives to reduce aviation's carbon footprint including the International Civil Aviation Organization's Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), the Greenhouse Gas Pollution Pricing Act (GGPPA), and the Clean Fuel Standard (CFS).

However, the most impactful policy development in support of reducing aviation's carbon footprint is the development of Sustainable Aviation Fuels (SAFs). SAFs are functionally equivalent to petroleum jet fuel, but made from various feedstock including agricultural and municipal waste. SAFs have been shown to reduce aviation carbon emissions by as much as 80 percent and are the key way to generate significant carbon emission reductions in commercial aviation over the medium term.

Unfortunately, these low carbon fuels are not currently commercially available in Canada and have limited availability internationally. That said, various governments (e.g., US, EU, UK) are increasingly implementing aggressive policies to support the production of SAF. Canada must follow suit.

The primary barriers to low carbon aviation fuel production and use are three-fold. First, low carbon aviation fuel is currently more expensive to produce than renewable diesel and therefore requires a higher selling price to justify the additional processing expense. Second, integrating low carbon aviation fuel into airport fuel systems requires additional logistics and operational procedures. Third, there is not yet effective government policy in place to sufficiently address the economic barriers to the production, integration, and use of low carbon aviation fuel.

There are also fiscal barriers to the use of SAF. For one, the SAF portion of blended aviation fuel is currently subject to the carbon tax, a measure seemingly at odds with the federal government's own climate change agenda. We propose to exempt the SAF portion of blended aviation fuel from the carbon tax not only to improve the economic rationale for aviation decarbonization, but also afford SAF the same treatment as other renewable fuels in the gasoline, diesel, and natural gas fuel pools. Other proposals to incentivize the use of a SAF include an exemption from the federal excise tax, and refundable tax credits for airlines and aviation fuel suppliers.

To mitigate the carbon impact of air travel and rebuild the economy in a sustainable way, we recommend that the federal government:

> **Recommendation 10: Expand Canada's production of SAF by developing a renewable aviation fuel strategy so Canada becomes a world leader in producing aviation SAF from sustainable Canadian feedstocks; signaling intent to expand Canada's SAF production capacity through comprehensive, long term targeted measures that will attract capital investment; leveraging industry funds via loan guarantees and capital grant programs; and, allowing accelerated capital cost allowance for new production facilities. And, incentivizing the use of SAF through blending inducements including by exempting SAF from the federal carbon tax when blended with aviation fuel; exempting SAF from the federal excise tax on aviation jet fuel; and exploring refundable tax credits accessible by airlines and aviation fuel suppliers.**

Canada's airports are crucial transportation hubs that drive economic development in communities across the country. But the pandemic has created critical operational and revenue pressure which is expected to have a long-term impact on the

recovery of both airports and the many businesses that make up the aviation sector ecosystem. Further government policy changes are required in order to fuel the recovery.

Prior to the pandemic, Canada's airport sector saw over 160 million passengers, employed more than 200,000 people, generated more than $19 billion in GDP, and paid more than $400 million in ground rent to the federal government. Starting in March 2020, this sector experienced declines of between 85 and 100 per cent in passenger volumes. The situation became more critical at the end of 2020 and early 2021 as air travel restrictions increased. As a result, the Canadian Airport Council's December 2020 outlook dimmed, projecting that airports' revenue losses would increase by $1 billion, reaching $5.5 billion for 2020 and 2021. Additionally, Canada's airports were projected to take on roughly $2.8 billion in additional debt in 2020 and 2021.

The pandemic also exposed a fundamental vulnerability in the otherwise very effective "user pay" structure of Canada's airport model. The uniquely Canadian structure has delivered well for the last thirty years — allowing the country's airports to invest over $30 billion towards ensuring modern infrastructure that is safe and secure — but it only works when there are users.

Throughout the pandemic, airports stayed open to support essential services like transit of cargo (including vaccines), the movement of healthcare, government and other essential and emergency personnel, while offering the same functionality and high level of safety and security regardless of whether there are passengers or not. This meant costs could not be reduced in line with revenue losses or passenger declines.

For months, the number of commercial air services was tightly constrained and the economic benefits that Canadian airports historically provided to their surrounding communities virtually disappeared. While Canada's overall air connectivity – direct and indirect – was growing steadily across regions before the pandemic, many cities have been left with much reduced domestic services — and for some airports all air services were suspended indefinitely.

Thankfully, climbing vaccination rates in Canada and around the world have created a dynamic environment where air travel policies and protocols are progressively changing as weeks go by. Despite that encouraging movement, airports' recovery will remain challenging as restrictions will continue in a variety of forms in order to protect global public health.

Federal pandemic measures delivered welcome rent relief for some airports — including the waving of 2020 rent for all airports. The measures fell short in providing fully effective assistance, however, given the multi-year recovery that's projected for the sector.

Throughout the peak of the pandemic, Canada's airports took dramatic steps to preserve cash. This allowed them to focus funds on operating costs and employing staff. For heavily regulated businesses such as airports, which rely on passengers for about 90 percent of revenue but with highly fixed costs that can only be cut by 10-20 percent, taking on debt to operate through the pandemic was critical to survival.

Looking ahead — with $2.8 billion in additional debt being taken on by airports — travelers and users will be facing higher costs, and a less competitive aviation sector in Canada. Given rent is charged on gross revenue an airport earns, the inevitable increases in rates and charges required to pay down the extra debt and interest will increase the amount rent airports will have to pay the federal government in future years.

A complete moratorium on ground lease rent for five years would allow Canada's 22 privately operated airports to navigate the long- and short-term impacts of the

pandemic, support the federal government's push to accelerate Canada's economic recovery, and help reinstate levels of service. Through the recovery period, as airports are generating revenues once again, further relief from ground rents would help preserve cash to support investments in infrastructure, to control costs for airport users and travelers, and to help employee retention.

To help airports, including those that do not pay rent, interest-free loans (or comparable operational support) would also help with needed liquidity. This would help maintain safe operations and jobs, and stabilize and preserve borrowing capacity to allow these airports to adapt as passenger volumes rise.

The Fall Economic Statement included supplementary funding to the Airports Capital Assistance Program (ACAP) of $186 million over two years starting in 2021-22. This increase was welcome. It also expanded program eligibility to NAS airports with fewer than one million passengers in 2019, and adjusted the cost sharing ratio to reflect the financial challenges facing smaller airports.

Adjustments to ACAP are imperative. Given program funding is frozen at $38 million for 20 years, though, the CAC estimated (before the pandemic) that ACAP would need $95 million more annually to keep pace with inflation and regulatory requirements. Even with the two-year top-up, the funding is only meeting the most acute needs.

With little remaining time in 2021 to make up for the losses of 2020, ACAP could be an essential tool to ensure airports can keep up with their safety and security investment requirements and for delivering long-term investment in regional economic development and prosperity. As such, ACAP should be recapitalized and made permanent to ensure it is leveraged to its maximum effect.

For similar reasons, we also recommend recapitalizing the recent Airport Critical Infrastructure Program (ACIP), which currently has an envelope of $489.6 million for disbursement over five years. Despite the program's structure — which is intended to encourage cost-sharing for the construction of safety, security, and transit-related infrastructure improvements — the extremely high demand means its effectiveness is limited. For context: Our aggregate numbers show Canada's larger airports — for whom the program was intended to support — will need $1.8 billion for relevant projects that are underway or planned. Recapitalizing this program will allow airports to make very necessary investments to meet their regulatory requirements for effective safety and to ensure mass transit connectivity.

As outlined, the pandemic has forced airports — of all sizes — to borrow money to finance operations.

While all airports are in the same position, the impact of this increased debt is more pronounced for smaller airports, since they have fewer opportunities to diversify their revenue streams (e.g., parking and other concessions). With various travel restrictions expected to persist, the debt burden airports are accumulating is growing significantly, making it very difficult for small airports to offer competitively priced services on regional routes. This squeeze puts those offerings, which are important for maintaining connectivity across our country's vast distances, at risk.

As a result, there is a pronounced need for government programs that help airports and air carriers ensure regional air routes across the country do not disappear — in particular the Regional Air Transportation Initiative (RATI). Expanding access to the previously mentioned Airports Capital Assistance Program (ACAP) is also extremely important.

The entire industry welcomes RATI's use of direct grants. However, with only $206 million over two years for distribution by the six RDAs, this funding will essentially be sprinkled across the country and not generate the full impact required. To remedy this, we propose the program be recapitalized and extended for five more years to ensure it will have a meaningful impact and achieve its aim to assist the sector recover with regional connections intact.

Beyond the refinements to capital programs outlined above, there are a range of further decisions the federal government could take that would make a positive, tangible impact on the ability of Canada's airports to recover.

First: Modernize the Customs Act to permit International Airports to offer Arrivals Duty Free for inbound international travelers. This would support Canada's tourism strategy and allow visitors to purchase made-in-Canada products on arrivals – similar to many other countries around the world – and allow airports to capitalize on this new revenue stream to support recovery, and to deliver new tax revenues to government.

Second: Revitalize the Canada Foreign Trade Zone (FTZ) policy and program to allow businesses to leverage tax advantages by introducing legislation, and associated changes to regulations that include:

- The immediate removal of value-added restrictions (Section 273.1(7) of the Excise Tax Act) to eliminate the competitive disadvantage of Canadian FTZPs vis-à-vis their U.S. counterparts;
- The integration of the proposed new FTZ framework with advanced logistics and border security policies such as the US Customs Trade Partnership Against Terrorism (CTPAT) and Partners in Protection (PIP) programs; and
- The implementation of cohesive administrative and well-defined licensing processes for grantees, operators, and users of designated Free Trade Zones.

Third: Continue the digitalization of travel by advancing progress on Canada's Electronic Travel Authorization (eTA) 2.0.

Given that evolving landscape — and the ongoing need for public policy help — the recommendations that follow are designed to take a longer-term, strategic view of the sector's needs:

Recommendation 11: Provide a moratorium on ground lease rents for at least five years or until the airport sector business recovers, and offer more options for interest free loans and operational support programs in order to cover operating costs and allow for continued investment in critical airport infrastructure.

Recommendation 12: Make permanent the elevated Airports Capital Assistance Program funding and expanded eligibility criteria — to ensure sustainable recovery at Canada's smaller airports and ensure the protection of regional routes — and expand, refine and increase the funding for national transportation infrastructure programs to help Canada's airports meet safety, security and transit requirements.

Recommendation 13: Promote recovery of Canadian airports of all sizes by taking decisive policy steps — including modernizing the Customs Act to permit International Airports to offer Arrivals Duty Free for inbound international travelers, advancing Electronic Travel Authorization (eTA) 2.0 and revitalizing the Canada Foreign Trade Zone (FTZ) policy and program to allow businesses to leverage tax advantages.

Motor Coach

On February 10, 2021 the Government announced new public transit investments to build strong communities, fight climate change, and create new jobs across Canada. $14.9 billion has been allocated for public transit projects over the next eight years, which includes permanent funding of $3 billion per year for Canadian communities beginning in 2026-27. This funding will provide cities and communities the predictable transit funding to plan for the future, will help fight climate change, and rebuild a more sustainable and resilient economy.

These investments will:

- Help Canadians move around easier and create new jobs by building major public transit projects, providing dedicated planning funding to accelerate future major projects, and supporting the expansion of large urban transit systems that many Canadians depend on every day;

- Reduce pollution and create jobs for Canadians by enhancing public transit systems and switching them to cleaner electrical power, including supporting the use of zero-emission vehicles and related infrastructure, complementing the work of the Canada Infrastructure Bank;

- Support healthy lifestyles in our communities and meet the growing demand for active transportation projects, including by building walkways and paths for cycling, walking, scooters, e-bikes, and wheelchairs;

- Help Canadians living in rural and remote areas travel to and from work more easily and access essential services, by working with rural, remote, and Indigenous communities to identify and create transit solutions that meet their needs;

- Support our cities and communities by making a permanent and stable federal commitment to funding public transit, and facilitate partnerships between all orders of government, Indigenous communities, transit agencies, and other organizations.

Motor Coach Canada is advocating to earmark 5% of this funding and future permanent funding to directly support private motor coach operators that offer intercity and inter-provincial transit runs. These private-sector, transit service providers currently do not receive provincial support through federal/provincial transportation transfers, they do not benefit from GST/HST fuel rebates but yet play a vital role in connecting communities and provinces. They are often the only mode of transportation into tourist destinations and by their vary nature are the most environmentally responsible mode of road transportation. Therefore, we recommend that:

Recommendation 14: The Government earmark 5% of this funding and any future permanent funding to support private motor coach operators that offer intercity and inter-provincial transit runs.

Business Meetings Sector

The business meetings, events, exhibitions, conventions, and incentive travel (MC&IT) sector represented a significant proportion of overall tourism industry activity. Pre-COVID it was worth $41 billion in total spending, $9.4 billion of which came from international sources. In other words, international business events taking place in Canada accounted for close to 10% of all tourism industry spending.

The sector overall contributed $24.3 billion to Canada's GDP and sustained 229,000 direct jobs.

As a result of the pandemic and border closures, however, the MC&IT sector effectively ground to a halt. The number of business events in Canada fell from 3,421 in 2019 to just 451 in 2020. And the majority of those that did occur in 2020 took place in the first quarter before the pandemic struck.

A recent survey conducted by the Canadian Association of Exposition Management found that:

- 77% of CAEM members have experienced a revenue loss of over 70% compared to pre-pandemic levels, with 49% of these members reporting a revenue loss of more than 90%;

- 25% of CAEM members reported that if economic shutdowns continue into 2022, they will be forced to consider closing their business;

- 76% of members state the negative financial impacts from the pandemic will continue to be felt for over 12 months, with 30% of those saying the impact will extend 24 months or more.

With a view to helping rebuild this sector, we recommend that:

Recommendation 15: The Government allocate additional funding and support to launch a public awareness campaign to change the narrative about safety and meetings and to stress that our borders are open; and,

Recommendation 16: The annual budget of Destinations Canada be increased and that a greater share of its budget be earmarked specifically to brand and promote the business events sector in Canada.

Labour Shortage in Tourism

As previously noted, the recovery of the tourism industry in Canada largely hinges on addressing the significant labour shortages that currently exist. This issue is complex, and one that will require a concerted effort and close collaboration between private- and public-sector partners across all levels of government to effectively deal with. It will require the articulation of a well-thought-out strategy that will likely span several years to fully implement. Such a strategy will also require considerable financial resources to deliver.

We note that in January 2022, as a result of Omicron, employment in the tourism industry dropped by 200,000, 80% of which were in the hospitality sector.

Tourism industry leaders have already begun discussing the best approach and laying the groundwork for developing a Tourism Labour Strategy.

Tourism HR Canada will launch a process to establish the Tourism Workforce Recovery and Growth Advisory Committee (TWRGAC). This initiative will bring together both subject matter and industrial/sectoral experts to begin the important task of further exploring the breadth, scope and root-cause of the labour shortages in various tourism industry sectors. The TWRGAC will also work to develop a number of proposals and action plans aimed at redressing the various underpinning issues, the end goal of which is ultimately to begin shoring up the supply of labour optimally to meet demand across various tourism sectors.

While a cost estimate related to the execution and implementation of the Tourism Labour Strategy can not be undertaken at this time given the embryonic stage of this broad initiative, we nonetheless know that some financial resources will be required over the coming year, and likely for a number of years to come. Given the priority the tourism industry ascribes to this issue and its critical importance to helping rebuild the travel economy, we nonetheless make the following recommendation that:

Recommendation 17: The Government consider allocating considerable financial resources in the 2022/23 Federal Budget for the further development and implementation of the industry-led Tourism Labour Strategy.

The above said, as tourism operators now begin preparing to meet expected higher travel demand into spring and summer travel seasons, we have already identified immigration-related measures, as a starting point, to help quickly accelerate access to workers. In this regard, we recommend that:

Recommendation 18: The Government temporarily exempt tourism and hospitality from LMIA requirements under the Temporary Foreign Workers program; expedite the processing of such applications; and implement a Trusted Employer Process.

The recommendation noted above, if implemented, would only help meet a tiny fraction of the tourism industry's current total workforce demand. Moreover, Canada's current immigration policies are not particularly well aligned to help meet needs of our industry. As such, we recommend that:

Recommendation 19: The Government announced a series of pilot programs targeting most understaffed tourism positions, as a short-term measure, and commit to developing a dedicated Tourism & Hospitality Immigration Program with a pathway to permanent residency, in the longer-term.

The Travel Narrative, Barriers and Branding

Key to kick-starting the recovery of Canada's travel economy rests on several factors that have a direct bearing on travellers' perception. These include updating the current narrative used by government around travel, eliminating barriers to travel, and correcting the current perception both international and domestic travellers now have about travelling to and from Canada.

In many countries around the world, Canada is now perceived as closed for tourism business and/or too complicated to travel to with all its requirements. A Destination Canada survey on American's perceptions of travelling to Canada[5] from last July found that:

- 56% of US residents believe there are COVID-19 related barriers to traveling to Canada;
- Only 21% of US residents think the majority of restrictions have been lifted in Canada; and,
- Only 27% believe the majority of Canadians have been vaccinated.

The federal government's recent announcement to remove the Travel Advisory to avoid non-essential travel outside Canada is a step in the right direction. When in place such Advisories essentially send the message to the world that the Canadian government would prefer people not travel to Canada because it is unsafe if they do.

We would point out that federally regulated industries, including air, cruise and rail have strict vaccination and testing requirements for their staff, and have all implemented, adhere to and enforce vigorous health/safety and cleaning protocols to ensure the health and wellbeing of all travellers and staff.

All the requirements we have had (or still have) in place, and the constant changes and confusion, have now had the effect of negatively impacting on Canada's once highly regarded reputation as a premier destination for both leisure and business travellers. Repairing this reputational damage will take considerable effort and resources.

For these reasons, and to enable the tourism industry to more effectively plan for its recovery from the pandemic, we recommend that:

Recommendation 20: The Government establish a plan with a clear timeline for removing all restrictions, including the removal of testing requirements, for fully vaccinated travellers; and,

5 Americans Perceptions of Travelling to Canada - July 2021 (destinationcanada.com)

Recommendation 21: The Government work with tourism industry leaders on the development and execution of a concerted and comprehensive marketing strategy geared to rebuild consumer confidence and brand Canada both internationally and nationally as a premiere destination for both business and leisure travel.