THE CANADIAN CHAMBER OF COMMERCE
LA CHAMBRE DE COMMERCE DU CANADA

The Voice of Canadian Business™
CONNECT! BRANCHÉ!
*Le porte-parole des entreprises canadiennes*MD

Restoring Canadian Tourism

A Discussion Paper

Updated July 2013

Introduction

For six decades Canada has been one of the world's premier tourism locations. Today, the industry contributes $84.8 billion to the economy and drives private sector growth and jobs in all regions of the country.

It is also a sector that could contribute even more to the Canadian economy, given the right policy environment.

But while the global market for tourism is growing at an astonishing rate, Canada's share is shrinking. Just a decade ago, Canada was in the top 10 destinations in international arrivals but has slipped and is now in danger of falling out of the top 20.

Canada's decline is not because it has suddenly become less beautiful, engaging or safe—characteristics that have always drawn visitors here. Rather, Canada has failed to respond to changing realities. It has failed to respect the growing choices travellers have, and it has failed to fight for its future.

The tourism sector is intensely competitive and Canada is not successfully competing.

It is easy to blame Canada's tourism challenges on factors that are beyond its control, like the rise of the Canadian dollar, the U.S. recession and post-9/11 policies. However, the reality is Canada has failed to respond to these challenges by addressing factors that are within its control, such as its layers of regulations, fees and taxes, its cumbersome visitor visa system and its lack of investment in its national marketing initiatives.

Considering tourism is the largest service export in the country and is worth $17.3 billion a year in export revenue, it should benefit from the same tax and regulation support as other export industries. Canada must shift its perception of tourism as an easy source of revenue to an economic driver. The issues requiring immediate attention are: government support of a competitive marketing program, to chart a new course to ensure competitive air travel, investments to increase visa processing capacity and direct investment and support of cultural products.

Background: The Tourism Sector

In 2012, the Canadian tourism industry was worth $84.8 billion, comprising mostly small and medium enterprises. Every year, tourism's contribution to the GDP is worth more than agriculture, fisheries and forestry combined.

Tourism is also one of Canada's leading job creators. The industry directly employs more than 600,000 people across the country, a larger employment impact than oil and gas. Tourism is a significant contributor in every region of Canada and is often the most significant sector in regions with limited economic alternatives.

Tourism is an enormous earner for Canadians. Within the $84.8 billion the sector generates in economic activity, it contributed $21.4 billion in taxation revenues to governments (2011), nearly $10 billion of which was contributed to federal coffers. Within this global figure, the local impact of the conventions and meeting business can be highly significant. Although many municipalities run convention facilities which are only marginally profitable, they are the anchors for extensive and lucrative travel hosting in the municipality.

As tourism is the only export that is not zero-rated (i.e. exempt) for GST, international visitors contributed more ($30.85 per $100 spent) than domestic visitors did ($26.30).

The Problem we can't ignore: Canada Lags as the World Grows

Tourism continues to grow globally with international arrivals passing the one billion mark world-wide in 2012. Alarmingly, Canada's share of this export sector continues to erode, dropping from 20.1 million visitors in 2002 to 16.3 million in 2012. Canada's international arrivals barely grew (1.8%) in 2012 while global international arrivals grew 4% during the same period.[1] Canada is one of only five countries (Canada, Poland, Ireland, Tunisia, Brazil) to experience a drop in arrivals in the last 10 years and is one of only two (Canada -18%, Poland -22%) with a double-digit decline.

International Tourist Arrivals (Top 20 Countries—in millions)						
Rank	**2002**		**2008**		**2012**	
1	France	77	France	79.2	France	83
2	Spain	52.3	U.S.	57.9	U.S.	n/a
3	U.S.	43.6	Spain	57.2	China	57.7
4	Italy	39.8	China	53	Spain	57.7
5	China	36.8	Italy	42.7	Italy	46.4
6	U.K.	24.2	U.K.	30.1	Turkey	35.7
7	Canada	20.1	Ukraine	25.4	Germany	30.4
8	Mexico	19.7	Turkey	25	U.K.	29.3
9	Austria	18.6	Germany	24.9	Russian Fed.	25.7
10	Germany	18	Mexico	22.6	Malaysia	25.0
11	Hong Kong	16.6	Malaysia	22.1	Austria	24.2
12	Hungary	15.9	Austria	21.9	Hong Kong	23.8
13	Greece	14.2	Russian Fed.	21.6	Mexico	23.1
14	Poland	14	Hong Kong	17.3	Ukraine	23.0
15	Malaysia	13.3	Canada	17.1	Thailand	22.4
16	Turkey	12.8	Greece	15.9	Canada	16.3
17	Portugal	11.6	Saudi Arabia	14.8	Greece	15.5
18	Thailand	10.9	Thailand	14.6	Poland	14.8
19	Ukraine	10.5	Poland	13	Saudi Arabia	13.7
20	Netherlands	9.6	Egypt	12.3	Macao (China)	13.6

[1] UNWTO World Tourism Barometer 2012

Traditional and lucrative markets such as the U.S., the U.K., Germany and France have flattened.

The U.S. market is overwhelmingly the largest source market for Canadian tourism, generating close to 75% of all overnight trips in 2012. It is also the market that has suffered the most serious decline with a loss of 4.4 million American visitors per year since 2002. It is tempting to attribute this decline to the recession of 2008/09 and the strengthening of the Canadian dollar. But Canada's attractiveness to U.S. customers has been waning since 2001, long before those factors were significant.

On the surface, growth from countries like China (20% in 2012) and Brazil (7% in 2012) looks strong, but actual visitor numbers from these markets are less impressive. In real terms for 2012, there were only an additional 54,000 Chinese visitors and 6,600 Brazilian visitors.

But, perhaps more worrying, our rivals are outperforming us in attracting "new" visitors. For example, in the same time period, the U.S. saw a 47% growth in Chinese visitors and a 36% growth in visitors from Brazil.

The Bottom Line: Domestic vs. International Tourists

The international tourism market is incredibly lucrative, with total receipts passing $1 trillion in 2012.

Unfortunately, tourism revenues from non-residents in Canada are growing at a painfully slow rate. The industry is increasingly relying on domestic travellers; the domestic travel market now accounts for 81% of tourism expenditures, up from 65% in 2000.

An over-reliance on the domestic market is a dangerous and less lucrative position for the industry. International visitors are desirable as they stay longer and spend, on average, $1,183 more per trip They also produce larger profit margins, which help to encourage more investment in Canadian properties from international tourism companies.

To make matters worse, the domestic market itself may not be stable. Canadians love to travel and are increasingly spending their travel dollars outside the country, contributing to the country's $17.8 billion travel deficit. The travel deficit has ballooned by 736% in a decade, making it the country's second highest deficit after manufacturing.

Canada is now one of the world's fastest growing outbound source markets with an international travel rate similar to many emerging markets. Noting this, other countries are energetically targeting Canadians to lure them out of Canada. The U.S. is launching a particularly aggressive campaign for Canadian travellers. Its tourism marketing body, Brand USA, has dedicated up to 10% of its $200 million budget on the Canadian market—a double threat considering the limited resources allotted to the Canadian Tourism Commission. At a time when our competitors are increasing their investment in tourism marketing initiatives, the CTC's budget was counter-intuitively cut by 20% to $58.8 million this year.

Tourism as an Economic Driver of Trade and Investment

Canadian tourism's struggle with competitiveness and its inability to keep up with its international competitors has implications beyond just the tourism industry.

Losing our appeal to international travellers has a double impact on Canada. Beyond the loss of these more lucrative visitors, Canada is losing an opportunity to lever tourism into broader investments and business partnerships.

A South Korean study indicated leisure travel brought about growth in both trade and business travel.[2] As Canada aims to expand its export networks to partners such as China, India and Brazil, increased tourism from these countries will go a long way to solidifying these trade relationships.

Not only is Canada experiencing a net outflow (net loss) in dollars, the travel deficit also has a detrimental effect on domestic and foreign investment attraction in addition to product quality, particularly in the lodging sector. Hotel room rates are currently $129/night, about the same as they were before the recession, indicating slow growth. The hotel sector is a key barometer for the overall health of the tourism industry as it is a vital component of any tourism ecosystem.
Capital is portable, especially in a time of increasing free trade and integrated supply systems. With significantly higher growth occurring in tourism in other countries, capital is shifting away from Canada to other more favourable jurisdictions. Unless this trend is met with aggressive new policies in Canada, it will lead to a "rusting out" of the physical plant and attractions that support tourism demand, particularly in the accommodation sector.

Despite the gloomy outlook, small changes can easily turn the industry and its investors around. For example, using conservative estimates, a 1% growth in international visitors translates to $72 million more hotel revenue while a 3% growth translates into $216 million more in hotel revenues. Studies conducted by the Conference Board of Canada in 2008 and 2011 show that, while tourism has slipped relative to other sectors in the economy in recent years, it is still a strong performer. It has scored well on stability measures, being one of the sectors that saw the least bankruptcies as a result of the economic recession of 2007 to 2010. In 2011, the tourism sector provided the seventh best overall balance of strong and consistent performance, meaning it is still one of Canada's sectors with the most potential.

Causes of Decline

Canada's "brand" is consistently in the top three worldwide with high interest from travellers. Yet, despiteits stellar reputation, , tourism in Canada is still punching below its weight. According to the World Economic Forum, our travel and tourism competitiveness ranking has plummeted from fifth in 2009 to eighth in 2013.

Tellingly, we were ranked first for airport infrastructure but 124th (out of 140) for overall price competitiveness. So while we have excellent flight frequency, choice and availability, flying in Canada comes at an exorbitant rate. An outdated aviation policy that creates competitive barriers and an underfunded marketing strategy are preventing us from converting potential tourists to consumers.

[2] Keum (2011)

High Costs and High Hassle Factor

Tourism demand is highly elastic: the higher the cost, the lower the demand. Unfortunately, as tourism is disproportionately hit with taxes and fees compared to other export sectors, we put our sector under enormous pressure.

Tourism and travel is the only export sector not "zero-rated" for GST, an anomaly worth almost half a billion dollars a year. And Canada is the only G8 country without a value-added tax (VAT) rebate.

Further hindering our success as a tourist destination are the expensive and cumbersome visas required for visitors from our fastest growing markets: Brazil, China, India and Mexico.

While there has been progress on this front, including the announcement in the recent federal budget of $42 million over the next two years to increase visa capacity, Canada is still not competitive. Recognizing the economic importance of travel flows, the government should reinvest some of the $400 million it collects annually from visa administration fees and reinvest a portion in Canada's visa processing capacity.

Another type of taxation on our tourism exports is our excessive air travel costs. As more and more visitors are flying to Canada, the layers of taxes, fees and surcharges on the cost of a plane ticket serve as a roadblock on the 'path to purchase.' According to the WEF, Canada has the best air transport infrastructure in the world but is virtually dead last (136th out of 140) when it comes to ticket taxes and airport charges. A strange paradox thus arises when we consider that the WEF consistently ranks Canada first in the world when it comes to the quality of our air transport infrastructure, yet millions of Canadians are fleeing (and international tourists are not arriving) because of government taxes and policies.

Recent research has provided some examples of non-airline costs on passenger tickets representing more than 65% of the total cost. Uniquely in the developed world, Canada requires users to pay the entire cost of the aviation system, including security, airport infrastructure and air traffic control, on top of the actual charges the airlines levy.

Compare this aviation cost structure to the U.S., our closest competition: In the U.S., aviation is considered an economic spark plug and is supported as such, making it, on average, 30% cheaper to fly to the U.S. than Canada.

In fact, U.S. border airports from Washington to Maine are seeing substantial growth because of Canadians crossing the border for flights — Canadians make up fully one-third to two-thirds of those airports' total traffic. In total, the Canadian Airports Council estimates that almost 5 million Canadians drive to U.S. airports per year and that this cross-border leakage represents a loss of approximately 9,000 well-paying jobs in Canada, employment income loss of $511 million and tax revenue loss of $190 million.

Not Marketing Isn't Working

Canada is also lagging behind its competitors in terms of marketing investment.

While Canada cut its marketing budget by 20% to $58 million, forcing the Canadian Tourism Commission to abandon lucrative markets like the U.S., other countries are investing aggressively in marketing.

As aforementioned, the U.S. is aggressively marketing to Canadians, and countries such as Ireland, Mexico, Australia, New Zealand and India have all increased their tourism marketing budgets and subsequently their arrivals.

2011 Global Tourism Marketing Budgets			
Country	**Budget**	**Budget Growth**	**Growth in arrivals from key markets 2011-96**
Ireland	$211M	Up	14%
Mexico	$153M	Up	4%
Australia	$147M	Up	30%
Malaysia	$128M	Up	257%
S. Africa	$118M	Up	7.30%
France	$112M	Up	13%
Korea	$94M	Up	158%
NZ	$89M	Up	83%
Brazil	$84M	Up	100%
Switzerland	$80M	Up	23%
Canada	$72M	Down	-10%

The tourism industry needs a strong marketing campaign built on the Canada brand.

Provincial and municipal marketing programs play a key role in attracting visitors

While a number of Canadian destinations conduct their own marketing initiatives, national marketing campaigns are critical. Research has consistently demonstrated that travellers chose "Canada" first and then subsequently decide on province, region or specific destination. A lack of investment in national-level marketing cannot be replaced by local/provincial or private marketing initiatives.

The current Canadian funding levels will neither mitigate increasing threats to the industry nor will they help Canadian tourism enterprises take advantage of growing opportunities.

Supporting Attractions and Stimulating Investment

Insufficient marketing investment contributes to poor visitor numbers, which in turn puts negative pressure on investment decisions that refurbish our hospitality and attractions. Major investors in Canada have indicated plans to reduce their exposure to this sector.

Although the actual attractions are usually private businesses, virtually all of them need cooperation or help from government at some level. Governments can all play a role in supporting attractions, which are a critical incentive for foreign visits (and internal tourism). Sometimes the support is financial; in a recent announcement the province of Ontario committed $45 million to create the Ontario Music Fund, recognizing the significance of the music community in attracting visitors to, and within, the province.

Other times, the help comes from government agencies simply respecting the impact of their work on the tourism community and making adjustments to their normal practices accordingly. Many government agencies are *able* to support tourism, should they be alerted to the need.

Finally, there are examples of government agencies competing directly with private attractions, a practice that is extremely destructive, both to the specific business and also to the confidence of investors generally.

Recommendations

1. Canada's marketing efforts must be substantially increased. Our competitors (the U.S., Australia, Ireland, Mexico) are spending many times more and are winning the fight. Canada's marketing budget should be substantially increased to compete with rivals such as Australia, Ireland and Mexico. Even doubled or tripled, the Canadian marketing budget would represent only a small part of the revenues lost by the federal government as foreign visits declined throughout the last 13 years.

2. Canada has a serious cost competitiveness problem that must be better understood and addressed aggressively. We call on Ottawa to conduct a wide-ranging examination of the travel sector with special attention to the very high public costs borne by aviation customers. This examination should be established with the intention of reporting—within one year—on the key elements of Canada's cost structure and making recommendations for actions to attack the problem.

3. To ensure Canada capitalizes on the strong growth from countries like Brazil, China, India and Mexico, the government must ease access headaches. Visitor visas and the complicated application process are significant barriers to the tourism sector. The government should reinvest some of the $400 million it collects annually from visa administration fees and reinvest a portion in Canada's visa processing capacity.

4. Although many attractions are privately owned and operated, it is clear many government agencies and departments influence their success. Canada needs to implement the strategies of the federal government's tourism strategy, *Welcoming the World*, and ensure the environment is positive for investment in these critical tourism attractions. In some cases, this may be financial or regulatory support, in others cases, federal agencies and departments may need to include tourism support in their existing mandates. On the other hand, governments restrain their agencies and departments from competing with Canadian businesses, who otherwise find themselves paying taxes to finance their competitors. We recommend that government departments and crown corporations should undergo a review of roles and responsibilities to ensure that there is no unnecessary competition between government and private sector enterprises.

This report was made possible by the generous support of our sponsors

Diamond Sponsors

CAC
CANADIAN AIRPORTS COUNCIL
CONSEIL DES AÉROPORTS DU CANADA

NATIONAL AIRLINES COUNCIL OF CANADA
CONSEIL NATIONAL DES LIGNES AÉRIENNES DU CANADA

ROCKY MOUNTAINEER®

Platinum Sponsors

CONVENTION CENTRES OF CANADA
CENTRES DE CONGRÈS DU CANADA

HOTEL ASSOCIATION OF CANADA
ASSOCIATION DES HÔTELS DU CANADA

NAV CANADA

YVR VANCOUVER AIRPORT AUTHORITY

transat

Gold Sponsors

Greater Toronto Airport Authority
InterContinental Hotel Group
Ryerson University

Partner

Tourism Industry Association Canada

Ottawa
420-360 Albert Street
Ottawa, ON
K1R 7X7
613.238.4000
613.238.7643

Toronto
901-55 University Avenue
Toronto, ON
M5J 2H7
416.868.6415
416.868.0189

Montreal
709-1155 University Street
Montreal, QC
H3B 3A7
514.866.4334
514.866.7296

Calgary
PO Box 38057
Calgary, AB
T3K 5G9
403.271.0595
403.226.6930

THE CANADIAN CHAMBER OF COMMERCE
LA CHAMBRE DE COMMERCE DU CANADA

Chamber.ca