

LOOKING TO 2020

THE FUTURE OF TRAVEL AND TOURISM IN CANADA

Whitepaper



NATIONAL TRAVEL AND TOURISM COALITION

October 2010



CANADIAN AIRPORTS COUNCIL
CONSEIL DES AÉROPORTS DU CANADA



HOTEL ASSOCIATION OF CANADA
ASSOCIATION DES HÔTELS DU CANADA



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



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THE NATIONAL TRAVEL AND TOURISM COALITION

The National Travel and Tourism Coalition (NTTC) is comprised of industry associations within the travel and tourism sector in Canada and North America. The senior officers of the respective associations are:

William Restall
Chairman, Board of Directors
Canadian Airports Council

Tony Pollard
President
Hotel Association of Canada

Doug Lavin
Regional Vice President, North America
International Air Transport Association

George Petsikas
President
National Airlines Council of Canada

David Goldstein
President and CEO
Tourism Industry Association of Canada

Vision

The NTTC's vision is that by 2020 Canada is again ranked among the top 10 world travel destinations as measured by international arrivals.

Mission

As one of Canada's most important and strategic economic sectors, the NTTC's mission is to promote innovative public policy that enhances the global competitiveness of Canada's travel and tourism industry and ensures its future positioning as one of the leading players in the worldwide travel and tourism market.

INTRODUCTION

The National Travel and Tourism Coalition (NTTC) seeks to engage government in the development of a new and comprehensive national strategy for the growth of the travel and tourism industry in Canada in order to realize its vision of returning Canada to one of the top 10 ranked world travel destinations as measured by international arrivals.

This document provides a description of the opportunity in front of Canada if the NTTC's vision is realized, together with a set of realistic policy recommendations that will set the stage for economic growth and export development in the short to medium terms.

A companion document titled *The Strategic Impact of the Canadian Aviation Based Travel and Tourism Industry on Canada's Economy* provides a comprehensive overview of the economic and social importance of travel and tourism to Canada and a detailed assessment of international, aviation based, travel and tourism impacts on the economy, jobs and revenues to governments.

Travel & Tourism Factoids

Every dollar spent by tourists generates nearly \$0.28 for all three levels of government.

There are over 180,000 active Canadian businesses involved in tourism.

There are 8,447 lodging establishments, with more than 450,000 rooms available for visitors.

Canada's 16 major convention centres offer more than 2 million square feet of function space. There are over 7,000 events each year.

**Four pillars support
our policy recommendations:**

1

A fair taxation regime

*that assists the growth of international
travel and tourism*

2

A level playing field with the United States

*in competition for overseas and trans-border
travel and tourism*

3

Policies that enhance global competitiveness

of Canada's travel and tourism industry

4

***Access to a sufficiently large and skilled
labour force:***

for Canada's travel and tourism industry

EXECUTIVE SUMMARY

Since 2002 Canada has dropped from 8th place to 15th among the world's most visited tourism destinations.

The National Travel and Tourism Coalition's vision is that Canada regain its top 10 ranking in the international travel and tourism stakes by 2020.

In 2009, Canada received just over 15.7 million overnight visitors who spent \$14.2 billion, or \$903 per visitor.

If the National Travel and Tourism Coalition's vision were realised, in 2009 Canada would have welcomed 5.7 million more visitors spending \$5.2 billion and generating 46,900 more jobs for Canadians.

To realise our vision we need:

1. A fair tax regime that does not hinder the economic development of the industry
2. A level playing field with our largest tourism competitor, the United States
3. Policies that enhance the global competitiveness of Canada's travel and tourism industry
4. Access to a sufficiently large and skilled labour force

The scope and scale of the challenges facing Canada's travel and tourism industry require major policy reforms. Piecemeal, ad hoc or incremental reforms will do little to arrest Canada's decline in the global rankings for international visitation.

Here is a summary of our specific recommendations in five broad categories:

Global Cost Competitiveness

- Eliminate; airport rents, municipal taxes imposed on airports and payments in lieu of taxes
- Dedicate the proceeds of the excise tax on aviation fuel to aviation infrastructure
- Significantly reduce or eliminate the Air Travelers Security Charge (ATSC) through greatly expanded government funding for aviation security and passenger screening services
- Modify the Foreign Convention and Tour Incentive program through:
 - Improvements to the current tour operator scheme
 - Re-introduction of an individual rebate scheme

Travel and Tourism Infrastructure

- Create a travel and tourism Infrastructure bank capable of providing low cost financing to airports, airlines, and major travel and tourism infrastructure development projects
- Improve the connectivity of airports with the surrounding communities and expand interconnections between air travel and other modes of transportation

- Develop a coordinated travel and tourism growth or facilitation strategy that identifies the key priorities within each region
- Ensure that Canada's travel and tourism infrastructure investment policy is consistent with similar such policies in major competitor countries
- Allow airports to provide airport passenger pre-screening if they wish to do so
- Benchmark CATSA throughput rates and productivity levels with similar security screening providers around the world and implement regular best practices review

Forward Looking Tourism Strategy

- Increase funding for the Canadian Tourism Commission:
Strive for internationally competitive levels of financial support
Ensure stability and predictability of funding to the CTC over longer periods of time
- Ensure federal departmental policy decisions consider impacts to tourism and take all necessary steps to mitigate these impacts
- Provide small and medium sized tourism establishments access to financing through the development of a travel and tourism infrastructure bank that can provide financial intermediation

Labour Shortages

- Increase the available supply of labour in Canada
 - Encourage the participation of under-represented groups in the labour market such as youth and new Canadians
 - Streamline and improve the Temporary Foreign Worker (TFW) program including Labour Market Opinions (LMOs)
 - Continue to fund the work of the Canadian Tourism Human Resource Council (CTHRC)
 - Ensure that skills training for the hospitality industry is sufficiently available
-

Smart Security and Border Controls

- Increase financial and human resources of the Canadian Border Services Agency in order to minimize the impact of their operations on visitors' travel experience
- Aggressively implement smart border control technologies and trusted traveler programs
- Implement changes at the Canadian Air Transport Security Authority (CATSA) that would allow for improved transparency and communication with key stakeholders such as airports and airlines

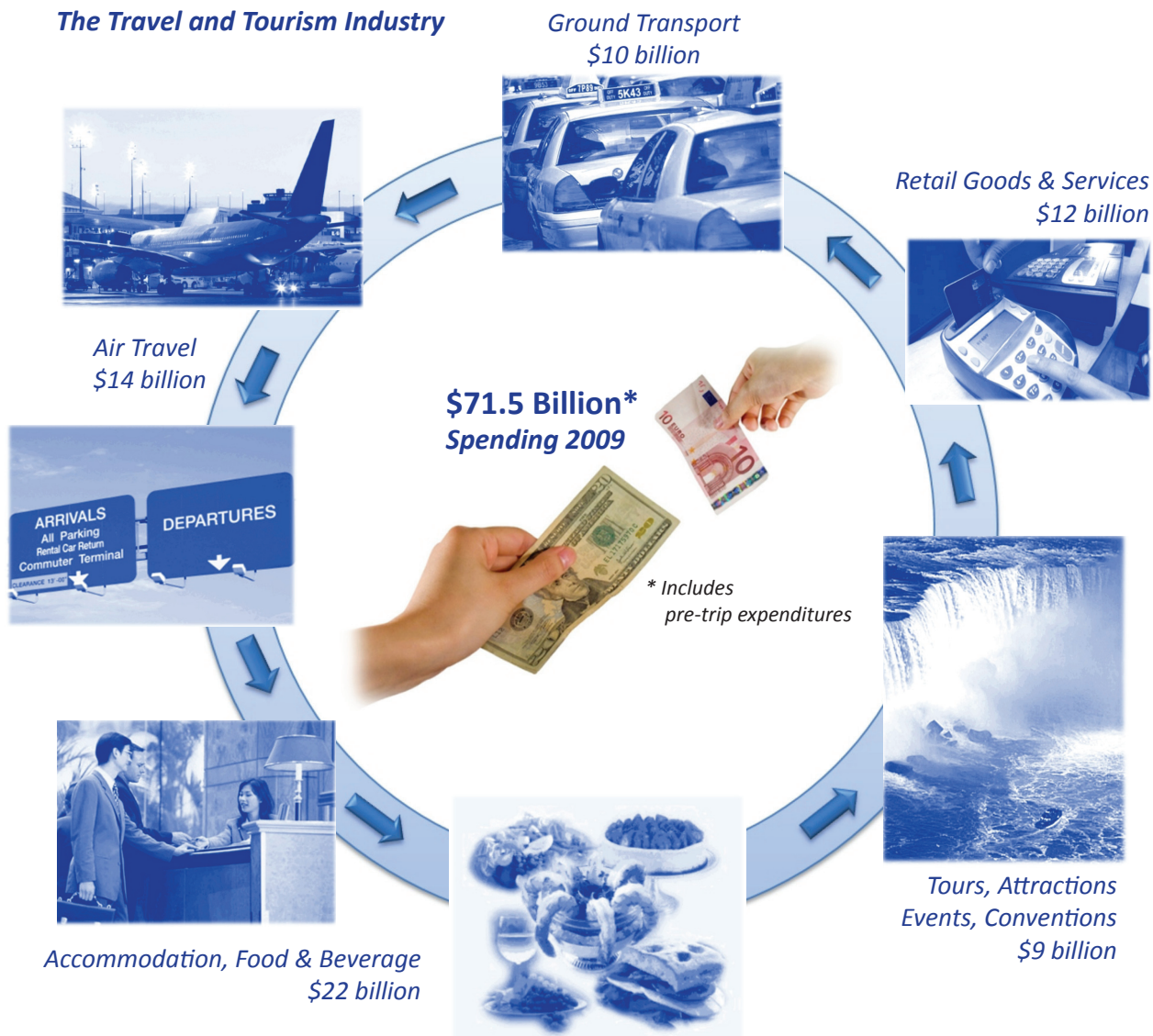
CANADA'S TRAVEL AND TOURISM INDUSTRY

The industry provides transportation, accommodation, food and beverage and a vast array of goods and services to international visitors and Canadians touring in Canada totaling \$71.5 billion in spending in 2009.

Leisure travel accounts for 85% of this spending and business travel 15%.

Travel and tourism GDP was \$29 billion in 2009 on a par with automobile manufacturing and with forestry and agriculture combined.

In total there were over 180,000 Canadian businesses involved in tourism employing 650,000 people directly; 3.5% of the total Canadian labour force.

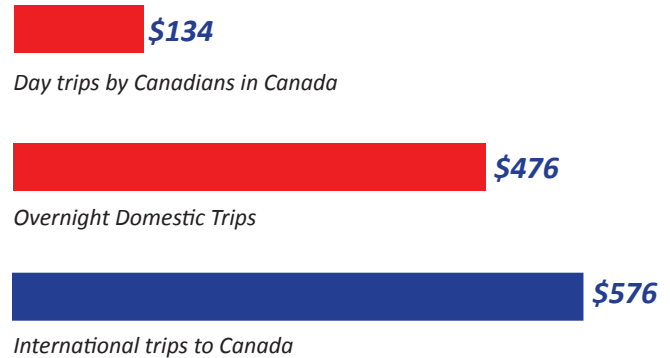


Source data: Statistics Canada National Tourism Indicators, Q4 2009

The industry caters to leisure and business travelers from the U.S. and overseas and to Canadians traveling in Canada.

International travel includes all trips by U.S. and overseas visitors by all modes. It is the most lucrative part of the market, followed by overnight travel and tourism by Canadians. Same day domestic travel and tourism has a much lower return for the industry.

Demand per Trip Comparisons

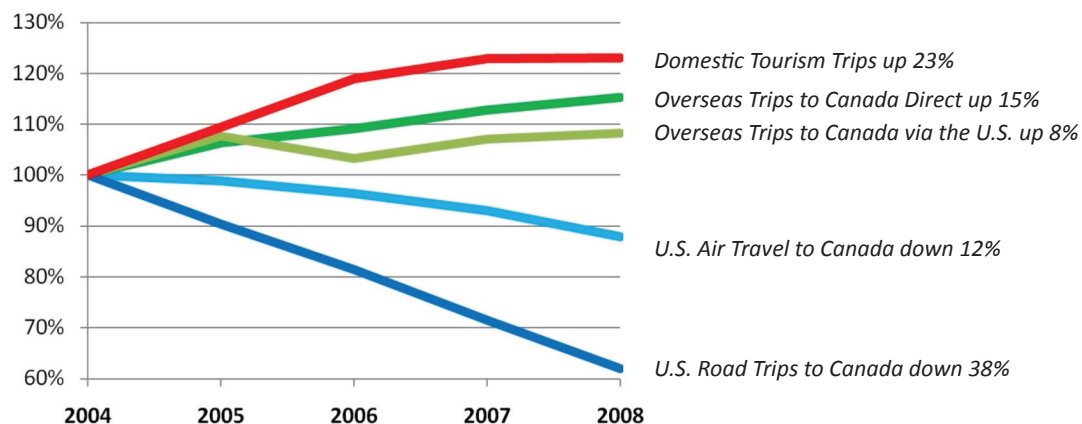


Changing Market Demands

The composition of Canada's travel and tourism market demand has changed markedly since 2004.

Between 2004 and 2008 domestic tourism trips increased by 23%, but all of this increase was in lower value day trips.

Domestic Tourism Up - U.S. Trips Down

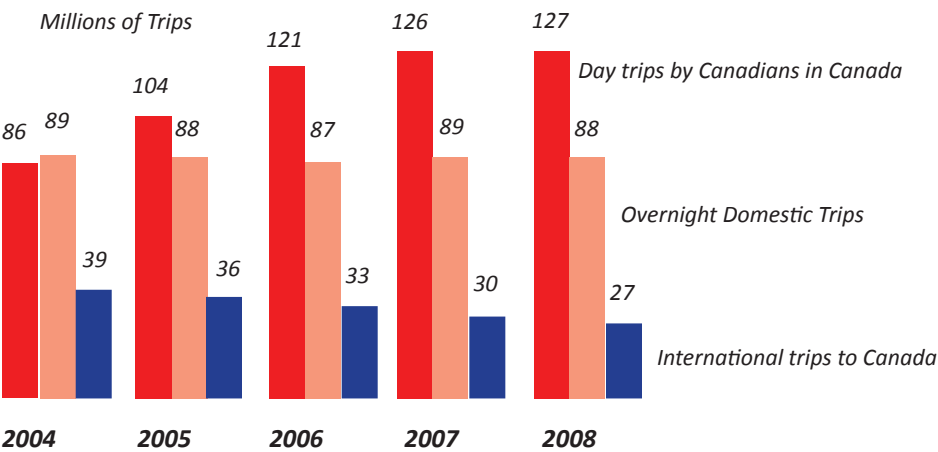


Source data: Statistics Canada international travel survey and travel survey of residents of Canada

CANADA'S TRAVEL AND TOURISM INDUSTRY

By 2008 day trips by Canadians in Canada had increased to 127 million, while overnight trips remained below 90 million and international trips declined to 27 million.

Domestic and International Trips from 2004 to 2008



The net effect has been a “sea change” in travel and tourism demand: from higher value international and overnight travel to lower value domestic day trips.

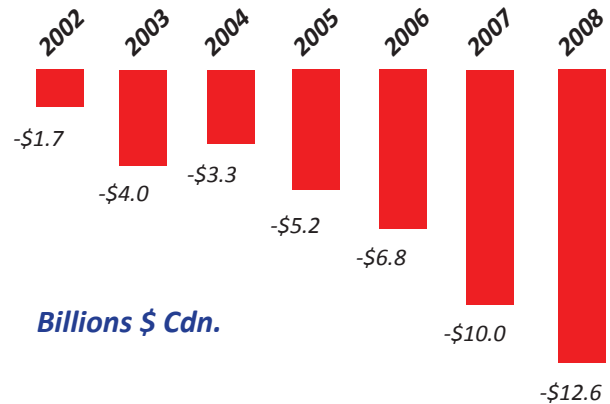
Source data: Statistics Canada international travel survey and the travel survey of residents of Canada

Canada's Growing Tourism and Travel Deficit

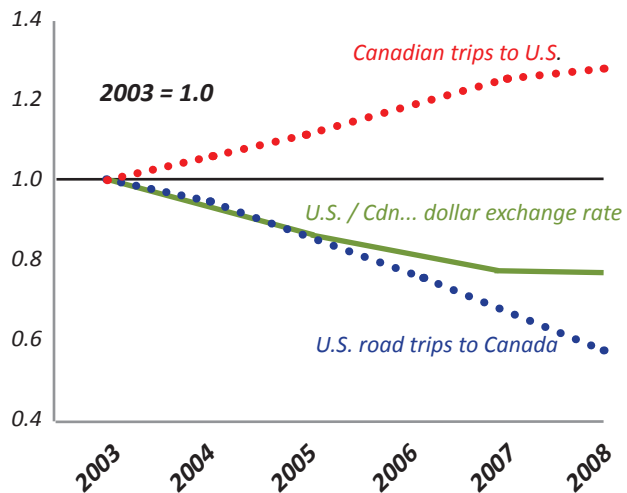
Additionally, the drop in U.S. tourism has coincided with a declining value of the U.S. dollar which has in turn motivated more Canadians to travel to the US.

This has created a significant "tourism deficit" in Canada's international trade and also provided an additional competitive advantage for U.S. airport gateways in attracting international traffic.

Canada's Tourism Spending Deficit



Cross Border Travel



Decreasing U.S. and overseas travel to Canada coupled with increasing travel by Canadians to the U.S. and overseas destinations resulted in a \$12.6 billion travel and tourism trade deficit in 2008.

Canada's Global Ranking for International Visitation

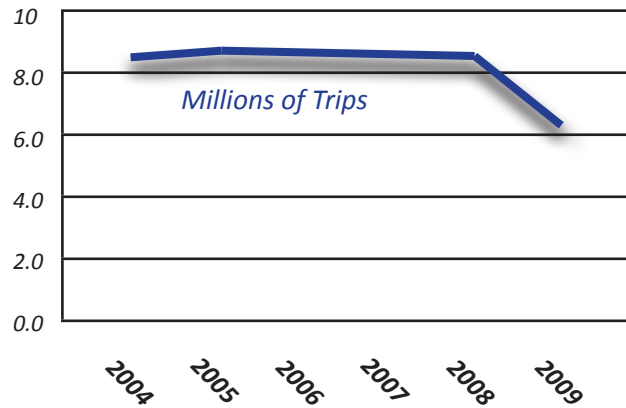


The growing Canada / U.S. tourism deficit is also reflected in Canada's global competitive position reported by the U.N. World Tourism Organization (UNWTO) and measured by numbers of international arrivals.

Since 2002 Canada's ranking has dropped from 8th to 15th largely as a result of decreasing travel by U.S. residents to Canada.

Conversely, an increasing number of trips by Canadians to the U.S. has allowed the U.S. to maintain its position among the top 6 travel and tourism destinations in the world.

International Air Travel to Canada has not Grown in Many Years



Overseas and U.S. air travel to Canada did little to offset the loss of U.S. road travel to Canada. International air travel volume stayed at around 8.6 million trips until 2009 when the number of air travel trips to Canada dropped by 27%; largely as a result of a global economic slowdown.

Price is a Major Factor

Perhaps the most important factor in Canada's decline in the international travel and tourism stakes is price.

The 2009 World Economic Forum Travel and Tourism Competitiveness report ranked Canada's travel and tourism industry 106th among competing nations for price competitiveness; taxes and government-mandated fees and charges on air fares being an important contributing factor.

CANADIANS USING U.S. AIRPORTS

Not only is the U.S. a much cheaper North American destination for international tourists, it is also cheaper for many Canadians to travel overseas from a proximate U.S. airport. In 2009 millions of Canadians traveled by road to board international flights from Buffalo, Detroit, Burlington, Plattsburgh and Bellingham. This "leakage" results in lost revenue for Canadian airports and airlines.

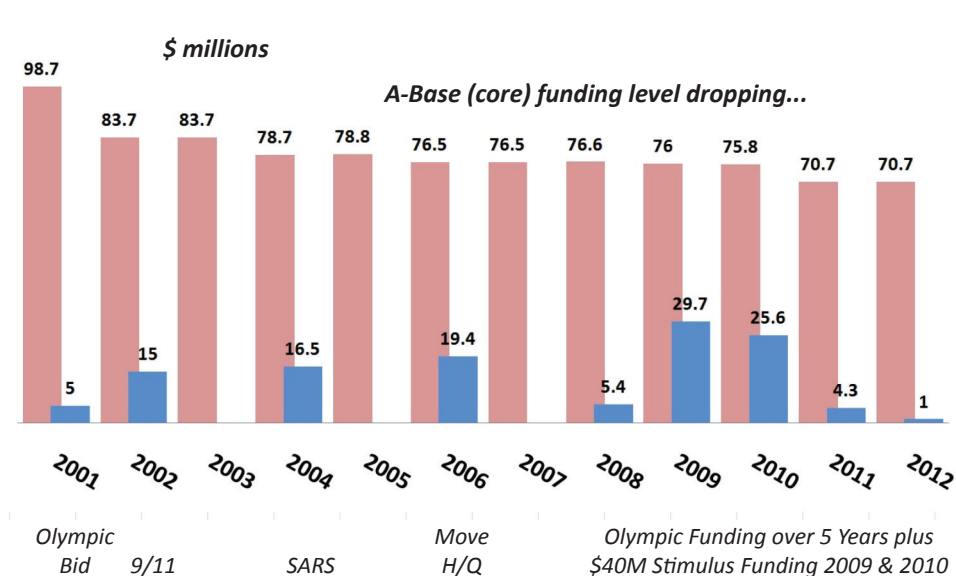
COMPETING GLOBALLY

Canada's Does Not Spend Enough on Marketing Itself Abroad

The Canadian Tourism Commission (CTC) leads Canada's marketing efforts in: Australia, Brazil, China, France, Germany, India, Japan, Mexico, South Korea, the United Kingdom, the United States as well as in Canada. Essentially it is responsible for marketing the "Canadian brand" abroad.

Although there have been periodic capital infusions to the CTC to capitalize on the 2010 Olympics and address specific issues such as SARS and more recently economic stimulus funding to address a world-wide recession, CTC core funding has declined year by year for most of the last decade.

Canadian Tourism Commission Funding

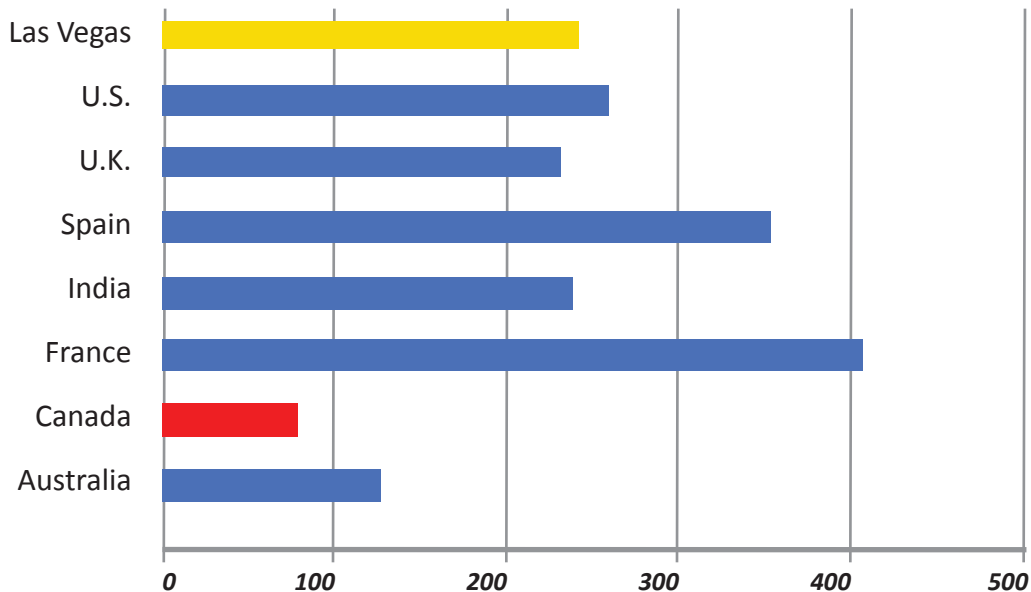


This pattern erodes the CTC's core capacity to market the Canadian brand and to take significant promotional initiatives to develop new and emerging markets. This inability to promote Canada in new markets comes at a critical juncture as the growing middle classes in Brazil, Russia, India, China and South Korea expand global tourism business.

Source: CTC Internal Data

Canada's Marketing Budget Compared...

In FY 2008/2009, core funding for the CTC was \$76 million. An additional \$20 million was the result of a 2 year, \$40 million increase in funding allocated to the CTC as part of Canada's economic action plan. Contributions from CTC partners brought the total budget for

Canada's Core Marketing Budget Compared to Other Jurisdictions

2009 to \$114 million. By way of comparison, Tourism Australia, which has a tourism market of nearly the same size as Canada's had total government revenues of \$123 million with other revenues increasing the total to \$146 million* and the new travel promotion initiative in the United States is expected to generate some \$250 million.

** Canadian Tourism Commission 2009 Annual Report & Tourism Australia Annual Report (2008/2009).*

Investment in Tourism Infrastructure

The changing markets for Canada's travel and tourism sector (from higher value international trips to more frequent, but lower value, day trips by Canadians) mean that travel and tourism businesses have to work harder to earn the same revenue.

It also means that margins are squeezed and businesses are unable to attract the necessary capital for enhancements to their product or new products that would improve competitiveness. This has resulted in the impression that some of Canada's tourism product infrastructure is "tired" or "worn."

Source: TIAC: 2009 average annual exchange rate. Where applicable, only core annual funding has been included

COMPETING GLOBALLY

Investment in People

Additionally, labour shortages are an important issue affecting all facets of the tourism industry; from front line workers in hotels and restaurants, to skilled workers in travel trades, and senior managers industry-wide. While the economic downturn created a reduction in demand for staff in 2009 and 2010, Canada's tourism sector expects labour shortages to return in 2012. These shortages are expected to increase in severity over the next 15 years. The largest increase in potential labour demand is anticipated to occur in the food and beverage services industry which, it is estimated, could support nearly 1.16 million jobs nation-wide by 2025.

GST / HST Rebates for Foreign Visitors to Canada

The Foreign Convention and Tour Incentive Program (FCTIP) was created in 2007 to provide GST/HST rebates to foreign tour operators (FTO) and meeting organizers who bring volume (group) business to Canada, and was a replacement for the former GST Visitor Rebate Program.

However, administrative complexity, risk and uncertainty, infringement of privacy, and the time consuming nature of the rebate process

are the reasons why FTOs are reluctant to submit claims and are in many cases passing on the GST/HST to their customers.

This has rendered Canada less competitive in price point terms and has acted as a curb on the sales of Canada as a destination by package wholesalers and foreign travel agents.

Canada's principal competitor, the U.S., does not have a national sales or value added tax.

Moreover, the introduction of the FCTIP saw the elimination of the individual rebate scheme which issued refunds of the GST paid by non-Canadians who spent C\$200 or more on eligible goods for personal use and short-term accommodation. Ending the Visitor Rebate Program also effectively abrogated the principle that tourism was an export industry – notwithstanding that the foreign currency is earned here – thereby causing economic distortions and allocation inefficiencies in the marketplace.

Exchange Rates

Exchange rates are an important factor for international leisure travelers in choosing their destinations and have dampened U.S. visitation to Canada.

“The Hassle Factor”

Current airport security policy is based largely on the idea that the government must devote the same amount and extent of airport security resources to every passenger. The increased unpleasantness of processes relating to air travel coupled with the global recession has contributed to a decline in commercial air travel to Canada by Americans and overseas residents during the last two years. The general term for this phenomenon is the “hassle factor”.

Surveys of potential visitors from Canada’s key tourism markets in the U.S. and overseas (published by the Canadian Tourism Commission), show that “delays and border hassles” are significant deterrents to visiting Canada.

Additionally those potential overseas visitors who opt for the U.S. as their primary North American tourism destination on the basis of price are less likely to “brave” crossing the border twice to visit Canada as part of a “two nation vacation”.

The implementation of the Western Hemisphere Travel Initiative which ramped up documentation requirements on returning U.S. nationals and some foreigners has likely been a factor in curbing the willingness to travel.

COMPETING WITH THE U.S.

Canada competes with the U.S. for overseas tourism and for trans-border travel and tourism. But Canadian government policies add upwards of \$160 to the cost of an overseas trip to Canada compared to the U.S.

Moreover, with the widespread use of the internet and travel web sites, it is much easier to compare prices between competing destinations which amplifies this effect.

The U.S. Enjoys a Number of Important Structural Cost Advantages in Competition with Canada

Canada			United States	
	Overseas	Trans-Border		
Ground Rents	\$25.74	\$17.06	No Ground Rents	
Air Travelers Security Charge	\$33.59	\$22.26	Subsidized by U.S. Government	
Airspace Control - NavCan	\$37.40	\$22.38	Subsidized by U.S. Government	
Payments to Municipalities	\$8.56	\$5.67	A Number of U.S. Airports Levy Local Taxes	
Airport Improvement Fees	\$59.87	\$39.67	Federal Infrastructure Grants & Tax Exempt Bonds	
Total U.S. Advantages	\$165.16	\$107.04		

This price differential is important because leisure travel (vacations, holidays, sporting and cultural events and visiting family and friends) accounts for 85% of demand. Moreover, leisure air travel is price elastic*, meaning that if the price goes up, revenues drop because fewer people will buy at the higher price.

Mid-range to long-haul international leisure travel is especially sensitive to this effect because leisure travelers are “price shoppers.”

Studies conducted by the Greater Vancouver Gateway Council showed that U.S. gateways enjoy a 15% cost advantage over Canadian gateways from a combination of lower municipal taxes, no tax on private capital and authority to levy taxes on property owners.

These are structural disadvantages that were “masked” by a low valued Canadian dollar until around 2003.

**Department of Finance; Air Travel Demand Elasticities: Concepts, Issues and Measurement - 2008*

Sources: Data from the annual reports of Canada’s airports and air lines and Canada’s Public accounts

Recent announcements by U.S. President Obama indicate that these advantages will soon be enhanced through government investments in the “Next Generation Air Traffic Control System” and airport infrastructure, as well as a Federal Infrastructure Bank to leverage investment from private as well as state and municipal sources.

Airport Improvement Fees (AIFs) are included in this list of U.S. structural advantages because the Canadian dependency on AIFs is reflective of the very different approaches to airport ownership and financing between the two countries. In Canada, airports are obliged to raise capital for improvements from airlines and passengers on a “user pay” basis. In the U.S., airport / port authorities have taxing and borrowing powers like municipalities and can issue tax exempt bonds to finance infrastructure investments.

U.S. Structural Cost Advantages

Airport Ground Rents

In Canada, many airport authorities are required to pay rents as part of their long-term lease arrangements of the airport lands with the Government of Canada. In total this amounted to \$257 million in 2009. U.S. airports do not pay rent.

Rent paid to the Government of Canada goes to general revenues and is not directly reinvested in the aviation industry, although the Airports Capital Assistance Program provided a total of \$26 million in 2009 to assist eligible smaller airports in funding safety-related capital projects. Clearly, airport rent drains revenues from the industry and provides a significant advantage to U.S. competitors.

Additionally, Canadian airports are required to pay rent based on the revenues they generate (participation rent). As airports receive no funding for infrastructure from governments, a number of airport authorities have instituted Airport Improvement Fees (AIFs) as a mechanism to finance expansions or improvements. Under the current rental scheme, these fees are treated as revenues, and so implementation of an AIF for capital improvements results in an increase in rent which magnifies the U.S. competitive advantage.

Air Travelers Security Charge

The ATSC has been paid by travelers on flights leaving Canada since 2001. With the rising security costs and the introduction of new technologies, a 52% increase in the ATSC was introduced on April 1, 2010.

COMPETING WITH THE U.S.

While many countries implemented new post 9/11 security measures, Canada is the only one seeking to recover almost all of the associated costs through a passenger fee.

The events of 9/11 show that aviation security is a public good, with the benefits accruing to travelers and the public at large. The United States government recognizes this public good through funding of 63% of security costs; only 30% is passed on to air travelers. The difference in charges between the U.S. and Canada is illustrated by this example: passengers pay a \$5 security charge on a return flight from Boston to Paris but a \$28 charge on a return flight from Montreal to Paris.

Furthermore, the U.S. government has been investing directly in new technologies for screening passengers under the American Recovery and Reinvestment Act., authorized in 2009. This act provided \$3 billion to the Department of Homeland Security, of which \$576 million has been awarded to local airports and transportation authorities for aviation security infrastructure and technologies. This is in addition to a fiscal year 2010 enacted budget that includes an additional \$129 million for checkpoint screening operations and \$1 billion for checked baggage explosive detection systems.

Air Traffic Management Services

NAV Canada charges air carriers for the use of its air traffic control services. Commercial carriers pass these costs on to passengers in the ticket prices. In 2009, NAV Canada posted gross revenues of \$1.25 billion.

Unlike many other countries, almost 100% of air navigation services infrastructure in Canada is paid for and supported by the aviation industry and its passengers through these charges. A portion of the revenues that NAV Canada recovers from the airlines is used to cover the costs of the air navigation control infrastructure when it was privatized, with the capital and interest costs totalling \$120 million per year. For example; the NAV Canada fee for a flight between Ottawa and Vancouver in 2010 was just over \$3,000, or \$14.77 per passenger*.

In the United States, the Federal Aviation Authority is responsible for providing air traffic control services. The FAA is funded by the Airport and Airway Trust Fund (AATF) for about three-quarters of its total budget, with the remaining one-quarter provided by the federal government. In turn, the AATF is funded by aviation based fees and taxes which are dedicated directly to the industry, includ-

* NAV Canada fee calculator bases on a flight between Ottawa and Vancouver using a Boeing 767-200, with 207 seats; accessed September 24, 2010.

ing: the aviation fuel excise tax, a domestic segment tax of \$3.70 per segment and federal ticket tax of 7.5%. The end result is that travellers in Canada pay an explicit charge for air navigation services, whereas in the U.S. these services are covered by aviation based taxes and fees which are reinvested in the industry. In Canada, many of the taxes and fees collected from the aviation industry, such as aviation fuel excise taxes and GST, are diverted into general revenues rather than being put back into the industry.

Payments to Municipalities

Airports in Canada that pay ground rents must also make payments to municipalities in lieu of property taxes. An analysis of the annual reports of these airports showed that in 2009 these payments amounted to \$109 million. Smaller airports in Canada that do not pay federal ground rents are required to pay municipal taxes.

U.S. Port and Airport Authorities do not pay municipal taxes. That is because airports like Hartsfield-Jackson Atlanta International Airport (the largest in the world in terms of passengers) are operated as departments of municipalities. Several U.S. airport authorities levy property taxes on local residents.

Infrastructure Financing

The U.S. government enters into granting arrangements with local and state governments to improve, develop or build transportation infrastructure. The Inter modal Surface Transportation Efficiency Act of 1991(\$155 billion) was followed in 1998 by the Transportation Equity Act for the 21st Century (\$175 billion) and more recently by the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users 2005 (\$286.4 billion). Although these programs focus on surface transportation and inter modality, they have been extremely advantageous for U.S. gateways in competing for international business and are instructive of the scale and scope of the U.S. support for its transportation system.

U.S. airport / port authorities have taxing and borrowing powers akin to municipalities and can issue tax exempt bonds to finance infrastructure investments:

General Obligation bonds used for financing general port infrastructure which are repaid from the levy of ad-valorem taxes on property owners within the district.

Revenue Bonds which are repaid directly from the future streams of revenues generated by rents from air terminal facilities.

COMPETING WITH THE U.S.

Industrial Development Revenue Bonds which may be issued within strict guidelines and subject to federal restrictions. These do not generate revenue, but are a means of financing the development or operation of industry in the district. Payment for these bonds is by the industry affected and no taxes or port authority funds are involved.

Aviation Fuel Excise Tax

Although aviation excise taxes were not included in the core list of capital recovery cost advantages enjoyed by the U.S., federal aviation fuel excise taxes amounted to some \$40 million in 2009, or four times the rate per litre of fuel charged in the U.S., and do provide an additional competitive barrier for Canada's travel and tourism industry. Canadian aviation fuel tax revenues are treated as general revenues and are not reinvested in aviation in the same way that a portion of the gasoline taxes collected by federal and provincial governments are dedicated towards infrastructure development and road repairs.

In contrast, U.S. aviation fuel taxes are paid to an Airport and Airway Trust Fund, which is re-invested by funding the operations of the Federal Aviation Administration (FAA).

GOVERNMENT ROLES

Policies and Priorities of Governments Towards Transportation

The “bottom line” for Canada’s travel and tourism industry is that the U.S. views transportation as essential for trade and economic development, while Canada views transportation as a source of tax revenues.

United States



TRANSPORTATION IS SEEN AS ESSENTIAL TO TRADE COMPETITIVENESS, THEREFORE IT IS IN THE NATIONAL INTEREST TO IMPROVE IT



Canada

TRANSPORTATION IS A SOURCE OF TAX REVENUES

Even if it is accepted that this collection of Government of Canada portfolio spending was primarily to support tourism, an analysis of the Tourism Satellite Account data shows that the Government of Canada collected an estimated \$4.4 billion from the travel and tourism industry in 2007 through a combination of consumption taxes, rents and fees, corporate income tax and fuel taxes on all modes. This compares to the 2007 Statistics Canada figure of \$9.3 billion which includes contributions to social insurance attributable to tourism and direct revenues from tourism not included in the \$4.4 billion figure.

Revenues / Expenditures

This is exemplified by the Government of Canada’s view of its spending on fiduciary responsibilities such as; national security, maintenance of heritage assets and national parks, sponsorships of cultural and sporting events and spending on public infrastructure.

In total this amounted to some \$1.5 billion in 2007 and all of this spending was viewed as spending for tourism. \$102 million was also spent on the Canadian Tourism Commission for a grand total of \$1.6 billion.

Overall then the Government of Canada gets back between \$2.75 and \$5.80 for every \$1.00 it claims to invest in national tourism development. Federal taxes and charges account for approximately 48% of taxation and fees collected by three levels of government in Canada.

Governments’ Revenues from Tourism

	2004	2005	2006	2007
Federal	8,088	8,774	8,983	9,350
Provincial	7,847	8,416	8,761	9,145
Municipal	989	1,051	1,102	1,158

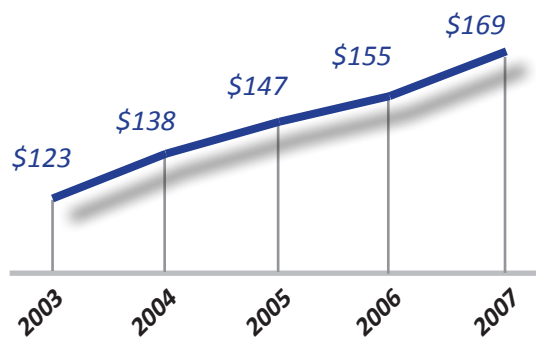
Source: Statistics Canada Government Revenue Attributable to Tourism

GOVERNMENT ROLES

Governments' "Take" per Trip

The "take" per international trip to Canada by the three levels of government attributable to tourism exports has increased from \$123 in 2003 to \$169 in 2007, while numbers of visitors have declined from 39 million in 2003 to 30 million in 2007 and total demand dropped from \$19.0 billion to \$15.7 billion.

Increasing "Take" per Trip by Governments



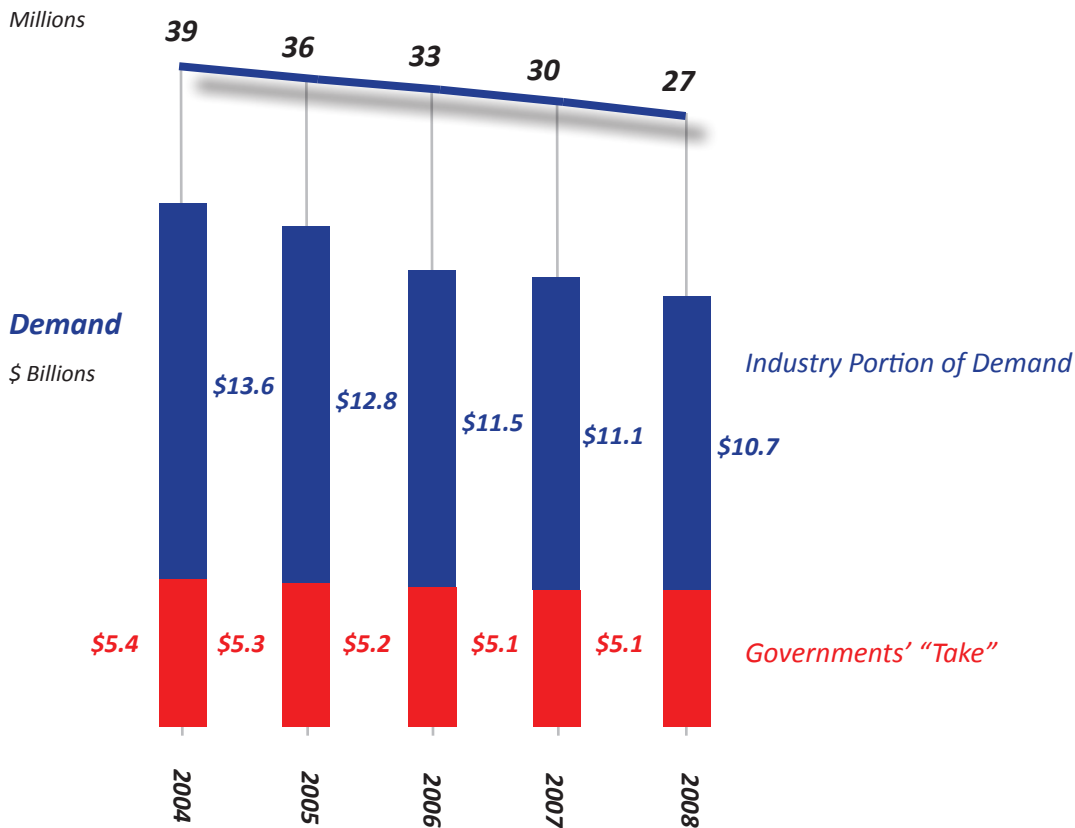
The decline in trips continued into 2008 and 2009. The concept of price elasticity (explained earlier) indicates a causal relationship between increasing "take" from travel and tourism by governments and declining demand.

Declining Numbers of International Trips

	# International Trips
2003	38,900,000
2004	38,800,000
2005	36,200,000
2006	33,400,000
2007	30,400,000
2008	27,400,000
2009	24,700,000

Governments' take from international tourism has stayed at about \$5.1 billion per year, while demand dropped by \$3 billion, so industry's portion has dropped 21%

International Trips



Essentially governments' increasing appetite for international tourism dollars has driven away tourists and squeezed the industry.

Economic Impacts of the NTTC’s Vision

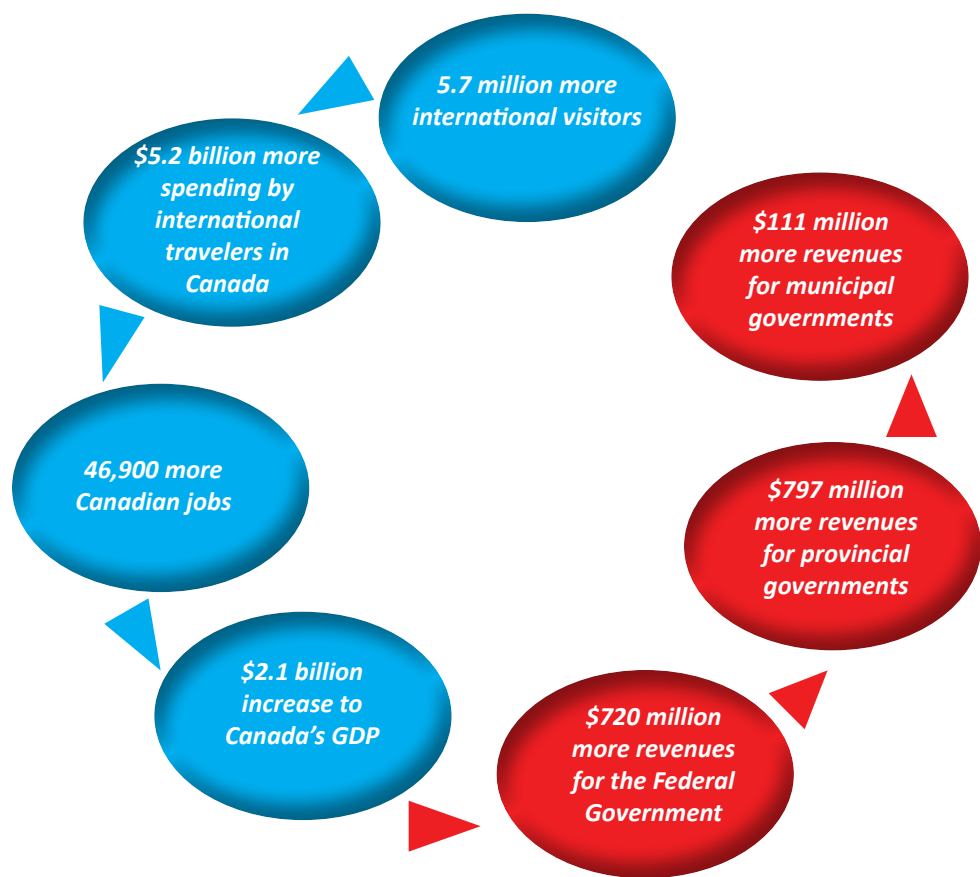
The National Travel and Tourism Coalition’s vision is that Canada regain its top 10 ranking in the international travel and tourism stakes by 2020.

In 2009, Canada received just over 15.7 million overnight visitors who spent \$14.2 billion, or \$903 per visitor.

The 10th place country received 21.5 million overnight visitors in 2009, that is 5.7 million or 36% more overnight visitors than Canada.

If the NTTC’s vision were realized in 2009, Canada would have seen an additional 5.7 million international visitors and benefited from \$5.2 billion in additional travel and tourism spending, generating 46,900 more jobs.

Economic Impacts if Canada were to have regained 10th spot in 2009



Policy Pillars to Realize the Vision

1

A fair taxation regime

*that assists the growth of international
travel and tourism*

2

A level playing field with the United States

*in competition for overseas and trans-border
travel and tourism*

3

Policies that enhance global competitiveness

of Canada's travel and tourism industry

4

***Access to a sufficiently large and skilled
labour force:***

for Canada's travel and tourism industry

POLICY RECOMMENDATIONS

Policies Recommended

The NTTC has developed a set of recommendations, based on the policy pillars described previously, in five categories:

- 1. Global Cost Competitiveness***
- 2. Travel and Tourism Infrastructure***
- 3. Forward Looking Tourism Strategy***
- 4. Smart Security and Border Controls***
- 5. Labour***

Policy Objectives

These recommendations are designed to assist the tourism industry as a whole by:

- Stimulating demand through a reduction in the cost of air travel to Canada***
- Enabling the Canadian tourism product to be marketed to its full potential***
- Facilitating travel to and within Canada***
- Ensuring that there are a sufficient number of appropriately trained people to work in the industry***

Implementation of these policy recommendations will also help reduce the “leakage” of Canadian residents travelling from U.S. airports.

Focus on Aviation Based Tourism

Many of these policy recommendations are aimed at aviation based travel and tourism. This is because air travelers spend more. The average U.S. overnight visitor who came to Canada via air spent \$861 per person per trip, or \$184 per person night, whereas the typical automobile traveler from the U.S. spent \$385 per trip, or \$98 per night.

For overseas travelers, the average spending was \$1,404 per person per trip, however longer trip lengths mean that the average spending was \$84 per night.

Key Considerations

It is important to note that these five categories are not mutually exclusive; achieving progress in one category may help achieve the objectives of another.

Cost competitiveness is vital to attracting visitors in order to ensure that the cost of travel to Canada is comparable to, or less than, other competing destinations. However, price is only important if potential visitors are aware of Canada and include it in their cost comparisons. This means that effective and sustained international marketing of Canada is needed.

Travel and tourism infrastructure in Canada must be upgraded, enhanced or expanded. This requires capital. The majority of tourism businesses are small and medium sized enterprises that do not meet the requirements of lenders in Canada. Recommendations are made in this paper to address this issue through an infrastructure bank based on the European model

The travel experience relating to security and border control, as well as the inter modal connections from and to Canada's airport gateways must be improved.

It is also necessary to ensure that there are a sufficient number of appropriately skilled people, who are able and willing to work in the Canadian tourism industry and provide a world-class travel experience to Canada's international visitors and tourists.

POLICY RECOMMENDATIONS

Global Cost Competitiveness

Canada faces a structural cost disadvantage vis-à-vis the U.S. and the increasing “take” by governments is pricing Canada out of international travel and tourism markets.

Policy Recommendations

- GC1

Eliminate airport rents and payments in lieu of taxes
- GC2

Dedicate excise tax of aviation fuel to aviation infrastructure
- GC3

Modify the Foreign Convention and Tour Incentive program
- GC4

Make improvements to the current tour operator scheme
- GC5

Re-introduce an individual rebate scheme
- GC6

Significantly reduce or eliminate the ATSC through expanded state funding of aviation security and screening services

The current federal policies towards air travel in Canada are not sustainable. As shown earlier under the heading “Competing with the U.S.” Canada is loaded with a cost burden of around \$160 more per international trip and \$100 more per trans-border trip as compared to the U.S. As these fees have climbed, the competitive position of the Canadian air-based travel and tourism industry has eroded to the extent that millions of Canadian travelers are willing to endure the time and hassle of traveling to U.S. border airports for their flights rather than utilizing their local Canadian airport. External analysis also points to Canada’s relatively poor performance with regards to taxation of the industry. The World Economic Forum’s annual Travel and Tourism Competitiveness Report shows that while Canada is very strong in many areas, ranking fifth overall and having the world’s best airport infrastructure (funded, it should be noted, without government assistance); Canadian cost competitiveness ranks very poorly (106th). The report’s detailed sub-indicators regarding the cost environment gave Canada the following ranks:

- Ticket taxes and airport charges (96th)
- Extent and effect of taxation (87th)
- Fuel price level (56th), and
- Hotel price index (60th).

GC1 - Airport Rents and Taxes

In Canada, many airports are required to pay the federal government ground rents as part of their long-term leases. These rents are considerable, amounting to \$257 million in 2009. U.S. airports do not pay any rent other than token amounts at a few facilities. Moreover, the rent that is paid in Canada goes to general revenues, and other than a small amount of funding for regional airport safety projects (under the auspices of the Airport Capital Assistance Program), it is not specifically reinvested in the aviation industry. It thus represents an outflow, or drain, of revenue from the industry. In fact, Canada is unusual in the world in charging airport rents; it is a practice adopted elsewhere only by Ecuador and Peru.

The manner in which airport rents are levied is also unfair. As an example, one of the principal funding mechanisms for airport capital improvements is the Airport Improvement Fee (AIF) levied on travelers. Under the current rental scheme, these fees are treated as revenues by the federal government; consequently implementing an AIF for improving the facilities at the airport results in an increase in the rent that airports are required to pay to the government. Thus the AIF that is levied must be sufficiently high to cover both the cost of funding the capital improvement and the additional airport rent charge.

In contrast, U.S. airports have access to tax exempt bond issues, state aviation fuel taxes that are re-invested in the industry, as well as some general infrastructure funding from all three levels of government. The U.S. airports that are operated as departments of municipal or state governments are prohibited by federal law from diverting airport revenues to other municipal or state uses in order to ensure that airport revenues are retained by the airport.

In addition to the federal rent charges, Canadian airports also make payments to municipal governments. Canada's major airports are located on federal lands and are thus exempt from paying property taxes. To contribute to the municipal costs in servicing airports, many of Canada's airports make Payments in Lieu of Taxes, or PILTs. Smaller airports that do not pay airport rents are required to pay municipal taxes directly. U.S. airports are not required to pay municipal taxes.

Over successive budgets, the federal government has made considerable efforts to point out that the overall corporate tax rate will be the lowest in the G7 by 2012 (see for example Budget 2010). It is in this spirit of making Canada a leader in global competitiveness that the federal government should immediately eliminate airport rents, and should work with the provinces to eliminate payments to municipalities in the form of PILTs or taxes.

POLICY RECOMMENDATIONS

GC2 - Aviation Fuel Excise Tax

Airlines also pay a federal excise tax on aviation fuel purchased and uplifted at Canadian airports. In 2009, these taxes totalled nearly \$40 million. Canadian aviation fuel tax revenues are directed towards the government's general consolidated revenue accounts. These monies are not reinvested back into the aviation industry. In contrast, U.S. fuel taxes are paid to the Airport and Airway Trust Fund; they are not transferred to other sectors. Even within Canada, a portion of the gasoline taxes collected by federal and provincial governments are directed towards infrastructure development and road repairs. At a minimum, changes should be made to ensure that excise taxes collected are kept within the industry by re-investing in infrastructure projects.

GC3 -Expand the Foreign Convention and Tour Incentive Program

Fixing Canada's GST/HST rebate system for foreign travelers is another important component for increasing Canada's cost competitiveness in the global tourism market. The Foreign Convention and Tour Incentive Program (FCTIP) was created in 2007 to provide GST/HST rebates to foreign tour operators and meeting organizers who bring group business to Canada. The new program was designed to be a replacement for the GST Visitor Rebate program, which provided GST rebates valued at around \$80 million in its last year of operation.

Due largely to the manner in which the FCTIP is implemented, the program is not working as the incentive scheme it is intended to be, with many overseas tour operators choosing not to apply for the rebate and simply pricing in the GST/HST to their end consumers. The primary reasons given by foreign tour operators for this are the administrative complexity of the program, the time consuming nature of the rebate process, and the perceived risk and uncertainty of actually getting the rebate. Moreover, the introduction of the FCTIP coincided with the elimination of the individual rebate scheme which issued refunds of the GST paid by non-Canadians who spent C\$200 or more on eligible goods for personal use and short-term accommodation.

GC4 - Improve Current Tour Operator Scheme

Improvements to the FCTIP should be made by taking the onus of applying for the rebate from the foreign tour operator and placing it on receptive Canadian tour operators and domestic accommodation establishments. The Canadian establishments should be permitted to credit eligible foreign operators with the GST/HST and then use the existing input tax credit system to claim these funds back. This would have the effect of allowing Canadian establishments to quote prices to the foreign operators and meeting & convention organizers net of taxes. A pre-approved list of qualified foreign tour operators could be vetted by the Canada

Revenue Agency to ensure that rebates are only provided to non-residents.

GC5 - Reintroduce Individual Rebates

Additionally, the government should consider the creation of a privatized individual traveler GST/HST rebate program. The program could be set up to be run by the industry, subject to certification and regular audit by the appropriate federal agencies, to minimize the administrative costs to Canadian taxpayers. The individual program would be used by non-residents on eligible short-term accommodation and goods purchased for personal use. Measures can be taken to ensure that the rebate processing system be secure from fraud, transparent and simple to use. For example, the system can be set up to allow rebates in person only at points of exit from the country with neither third party rebaters nor mail-in claims being permitted.

GC6 - Other Fees and Charges

Other changes that can improve the cost competitiveness of Canadian airports include the provision of infrastructure funding at competitive rates through the use of alternative funding mechanisms, as discussed in the section on Tourism Infrastructure Development. Additionally, the Air Travelers Security Charge (ATSC) should be eliminated or substantially reduced through the expansion of government

funding for aviation security and by changing the way in which security services are delivered in Canada (see the section on Smart Security and Border Controls).

POLICY RECOMMENDATIONS

Travel and Tourism Infrastructure

The combination of U.S. federal investments in infrastructure and tax exempt bond financing for U.S. airport gateways must be met with innovative Canadian approaches to financing in order to reduce the U.S. cost advantage with regard to financing capital projects.

Examples of the kind of infrastructure investments that need to be made include increasing the connectivity of Canada’s gateway airports. These are essentially islands of efficient infrastructure embedded in increasingly congested urban road and transportation systems lacking efficient inter modal connections.

The number of federal, provincial, and local agencies and regulators involved in the tourism infrastructure development process is in itself a challenge. A systematic and coordinated approach to infrastructure planning and investment is essential for Canada to compete.

Policy Recommendations

TTI1

Create a travel and tourism infrastructure bank capable of providing low cost financing to airports, airlines, and major tourism infrastructure projects

Investments in major infrastructure works facilitate travel around Canada and make the overall travel experience more enjoyable. For business travelers, good infrastructure reduces time costs and boosts productivity. For leisure travelers, the ability to move around a region with less effort increases the amount of time travelers have to spend on leisure activities and helps spread the economic benefits of increased visitation to more communities.

TTI2

Improve the connectivity of airports with the surrounding communities and expand interconnections between airports and other modes of transportation

Investments in infrastructure also contribute to Canada’s economic competitiveness. For example, investment in satellite-based air traffic control systems reduces delays for passengers, increases fuel efficiency for carriers, and cuts airport noise.

TTI3

Develop a coordinated development strategy that identifies the key priorities within each region

TTI4

Ensure that Canada’s travel and tourism infrastructure investment policy is in line with international best practices

Investing in infrastructure in Canada is presently more difficult and more costly than in

the U.S. As previously noted, the U.S. government enters into direct investment arrangements with local and state governments to improve, develop and build transportation infrastructure. This cooperative approach has the added benefit of ensuring shared priorities among three levels of government.

Additionally, U.S. airport / port authorities have taxing and borrowing powers similar to those of municipalities and can issue tax exempt bonds to finance infrastructure investments.

TT1 - Travel and Tourism Infrastructure Bank

A solution to the challenge of financing both public and private tourism infrastructure may be the establishment of a Canadian travel and tourism infrastructure bank. An excellent example of how such a bank could operate is the European Investment Bank (EIB). The EIB is the European Union's long term lending institution and provides loans for infrastructure projects in Europe. For larger projects, the bank provides direct funding up to an established funding limit, thereby acting as a catalyst in encouraging other banks, financial institutions and the private sector to participate in an investment. These loans are amortized over long periods of time, have flexible interest rate options, and can include grace periods for capital repayment during the construction

phase of the project. The EIB itself is not funded by the government; rather it operates on a broadly self-financing basis, raising resources through bond-issues and other debt instruments.

Airport financing is one area in which such a bank could be involved. Although many of Canada's larger airports already have access to capital markets and are able to issue corporate bonds; the support of an infrastructure bank would allow an additional degree of securitization, thereby reducing the borrowing costs. Smaller airports that do not have the same access to capital markets could benefit from the ability to finance improvements over longer terms at affordable rates.

As envisaged by the NTTC, a travel and tourism infrastructure bank would finance a broad range of major projects like transportation systems and convention centres. Importantly the bank could also serve the capital projects of small and medium sized tourism enterprises.

The creation of such a bank would allow the Canadian travel and tourism industry to compete more effectively with the U.S.

It is interesting to note that the Export Development Canada (EDC) provides support to the construction of foreign airports by Canadian firms in the form of credit backstop guarantees. Such support is not available in Canada.

POLICY RECOMMENDATIONS

With regard to operations, an arms-length travel and tourism infrastructure bank would move the federal government away from spending on infrastructure using “earmarks” and formula-based grants. The NTTC proposes that such a bank would base its investment decisions on clear analytical measures of performance, quality and impact, selecting those that generate the greatest return for Canadians.

As suggested, programs from a travel and tourism infrastructure bank could be extended to small and medium sized tourism enterprises (SMEs). Many tourism SMEs have difficulty in obtaining financing for capital improvements. The method by which a travel and tourism infrastructure bank could support SMEs is elaborated in the next section; “A Forward Looking Tourism Strategy.”

TTI 2 - Improve Connectivity & Intermodality of Canada's Airports

International airports are gateways for passengers and goods entering and leaving Canada. In Europe and across the U.S., major airport hubs are connected to city centres and other modes of transportation, such as light rail systems. Such systems and connections provide travelers with a transportation service that is safe, accessible, and convenient. Light rail links have other benefits; they reduce road congestion in addition to speeding the movements of passengers and freight.

Consequently, airport gateways in Canada should be developed into “multi-modal” hubs with links to train stations, coach terminals and even sea ports where applicable. Vancouver International Airport exemplifies this approach, where the combination of a unified gateway strategy, Olympic spending and good planning created the necessary impetus to develop a rapid transit link to the downtown core. Other programs at the airport have facilitated travel for cruise passengers arriving at or departing from Port Vancouver.

TTI 3 - Travel and Tourism Infrastructure Development Strategy

Coordinated infrastructure policy between the federal government and provincial governments can increase travel and tourism growth, productivity, employment and economic activity. Infrastructure policy that focuses on the network of infrastructure that comprises a tourism destination, rather than on individual structures and projects, can maximize economic and social benefits. Prioritized lists of potential travel and tourism infrastructure investments in each of Canada's tourism regions would be a logical step in that direction.

TTI4 - International Best Practices

Canada should regularly review and update its infrastructure investment policies and priorities in light of evolving international best practices. Moreover, it should ensure that they are consistent with similar policies in major competitor countries.

Forward Looking Tourism Strategy

Canada is consistently out-spent by other competing destinations in the international tourism marketplace. The Canadian Tourism Commission's core funding is shrinking, which reduces the CTC's ability to engage in stable long term marketing and promotional efforts in key and emerging foreign markets. Furthermore many tourism enterprises in Canada lack access to capital for product development and renewal.

Policy Recommendations

FLS1

Increase the core funding for the Canadian Tourism Commission

- *Ensure that it meets international benchmarks for required levels of support*
- *Ensure predictable, stable funding over longer periods of time*
- *Recognize that Canada needs to be present in emerging market economies*

FLS2

Ensure small and medium sized tourism establishments can have access to capital

FLS3

Ensure policy decisions consider impacts to tourism and take all necessary steps to mitigate these impacts

FLS1 - Tourism Marketing

Canada confronts increasingly stiff international competition in the pursuit of visitors from new and established source markets around the world. Tourism is one of the fastest growing economic sectors globally, with annual growth outpacing the world economy. As an export category, tourism is now worth \$3 billion a day globally. Consequently, rival jurisdictions are aggressively packaging and marketing their destinations and attractions, and Canada must keep pace in order to remain as one of the top tourism destinations in the world.

International marketing is prohibitively expensive for all but the largest of travel and tourism businesses. Moreover, individual businesses are unable to capture the returns from investing in generic promotion and marketing, thus without assistance, they would under-invest in marketing a country's tourism product. The mandate of the Canadian Tourism Commission (CTC) is to address these challenges through the promotion of Canada to established and emerging economies throughout the world.

Canada needs to pursue a broadly diversified portfolio of source markets with focus on emerging markets. If these markets are ignored, it follows that travelers from those countries will not be coming to Canada in significant numbers. As an example, in December 2009, Canada was granted Approved

POLICY RECOMMENDATIONS

Destination Status (ADS) by China, meaning that Chinese residents are now able to travel to Canada in the leisure group format. China is the world's fastest growing outbound travel economy; however, the CTC has not significantly increased the financial allocation for marketing to China. The CTC needs to make an immediate and greatly increased investment in marketing to China, especially if it is to engage in direct-to-consumer marketing and brand awareness building.

At the same time, Canada should also maintain its marketing efforts in high yielding international markets. For example, visitors from Australia and Japan had the highest average spending per person per night in 2008, which was nearly twice the average spending of Chinese visitors.

The level of support for marketing Canada abroad needs to be increased in order to compete effectively in the international marketplace. As an example, in FY 2008/2009, total government funding for the CTC was \$105 million, of which \$20 million was the result of a 2 year, \$40 million increase in funding allocated to the CTC as part of Canada's economic action plan. Contributions from CTC partners brought the total budget for 2009 to \$114 million. By way of comparison, Tourism Australia, which has a tourism market of nearly the same size as Canada's had total government revenues of \$123 million with other revenues

increasing the total to \$146 million*. The new travel promotion initiative in the United States is expected to reach \$250 million (see chart below). Moreover, many developed countries dedicate a higher percentage of their government budgets to tourism promotion than Canada including: Austria, Switzerland, Portugal, Spain, Greece, and Hong Kong**.

In the short term, the government should continue to make funding available to the CTC in support of brand building and direct-to-consumer advertising in emerging markets (China, India and Brazil). At the same time, existing high yield markets must not be ignored. Over the longer term, a more robust and stable funding regime for the CTC needs to be developed, taking into account the growth of new competitor destinations and the enhanced support being provided to national tourism organizations by rival governments.

FLS2 - SME Access to Travel and Tourism Infrastructure Bank

In addition to creating a cost competitive environment for accessing Canada and marketing the country effectively abroad, it is vital to have a world class tourism product to offer.

* Canadian Tourism Commission 2009 Annual Report & Tourism Australia Annual Report (2008/2009). Bank of Canada 2009 Can/Aus. exchange rates.

** World Tourism Organization Travel and Tourism Competitiveness Index, "Capturing the Visitor Economy, a Framework for Success", p. 72.

A challenge for the industry is that the majority of tourism operators in Canada are Small and Medium sized Establishments (SMEs), and as a result many face difficulties in accessing funding through either retained earnings or commercial loans to make capital improvements to their properties.

Again looking to the European Investment Bank as a model; the proposed Canadian travel and tourism infrastructure bank could be set up to finance both large public sector investments as well as supporting SMEs. For the smaller customers, the EIB provides loan facilities to banks and financial institutions, thereby helping provide finance to customers with eligible spending plans or projects of a smaller scale. The final lending decision remains with the bank or financial institution; however the involvement of the EIB provides additional securitization of the loan. The program in Canada could be similar, with the infrastructure bank providing a degree of security to lenders by insuring the loan. Costs associated with the program could be recovered through charging a small insurance premium, somewhat akin to the current Canadian Mortgage and Housing Corporation program for low equity mortgages.

es are expected to have a negative impact on tourism, efforts must be made to mitigate the damage done. A prime example of a poorly instigated policy change was the imposition of visas for Mexican visitors to Canada in the summer of 2009. While the government did acknowledge that the visa requirement would result in a significant decline in tourism from Mexico, more could have been done to mitigate the damage to the industry. Initiatives such as preparing a marketing / communications plan in advance of the change, increasing consular resources on the ground, and ensuring that the visa application was available in Spanish could have helped to reduce the impact of the visa requirement on what was one of Canada's fastest growing tourism markets.

FLS3 - Policy through the Tourism Lens

Tourism impacts need to be considered when making major policy changes, and if the chang-

POLICY RECOMMENDATIONS

Smart Security and Border Control

The current staffing levels of Canadian Border Service Agency agents at airports are sub-optimal, resulting in longer wait times for visitors to Canada. While it is vital to provide a secure environment and maintain the integrity of the Canadian border, these functions must be done in a way to minimize the intrusiveness to the travelling public. Additionally, the current funding model of airline passenger pre-screening services in Canada does not recognize that security is a public good.

Policy Recommendations

SSC1

Increase the allocation of resources within CBSA and minimize the impact of CBSA operations on visitors' travel experiences

SSC2

Rapidly implement smart border technologies and trusted traveler programs

SSC3

Implement governance changes at CATSA to improve transparency and communications with key stakeholders

SSC4

Allow airports the option to provide passenger pre-screening

SSC5

Ensure CATSA throughput rates and productivity levels are in line with international best practices

SSC1 and 2 - Border Security

The Canadian Border Services Agency (CBSA) is mandated with managing the entry of goods and people to Canada. However, carrying out these duties takes time and can often result in considerable delays for international visitors when they first arrive in Canada. The fundamental challenge for many airports remains increasing the number of CBSA officers available at peak times in order to process arrivals and reduce wait-times. While the Government of Canada's new Air Services Policy Framework increased staffing and operating hours for several Canadian communities, more resources are still needed in order to provide visitors to Canada with a positive and seamless experience.

On top of increasing the funding of CBSA services for Canadian airports, other changes can be made to improve the level of service. For example, both the CBSA and the U.S. Customs and Border Patrol Agency should push for a wider circulation and critical mass of trusted traveler documents among residents of Canada and the United States. Initiatives should include improving passport ownership rates, especially in the U.S.; developing a greater reliance on technology for the processing of low risk, frequent travelers through the use of machine readable chip-enabled, RFID-equipped ID documents; greater use of automated kiosks, and increasing the use of biometrics for

traveler identification. Other system reforms could also improve on the efficiency of screening, such as investing in technology that allows CBSA agents to process passengers without having their luggage, meaning that they would not have to be re-screened for connecting flights.

SSC3, 4 and 5 - Aviation Security

The Canadian Air Transport Security Authority (CATSA) is a crown agency established in 2002 mandated with providing security screening of the air transportation system. Safe and secure travel is a critical component of national security and a top priority for the aviation based travel and tourism industry as well as the country as a whole. Concerns about CATSA revolve around two main issues:

- Allowing airports to provide pre-screening security services if they wish to do so
- Funding of security screening services.

Some airport authorities are interested in being responsible for providing their own pre-screening services rather than using the services provided by CATSA. The change is somewhat akin to communities in Canada making the choice between providing their own policing services or contracting the Royal Canadian Mounted Police to provide the service. Airport control over screening services

would allow them to more efficiently deploy resources where and when they are needed the most. Airports would not be required to provide the services themselves and airports could choose to have CATSA provide pre-screening if they wished. Airport provided pre-screening services would be regulated to meet federal guidelines and would be subject to audit and inspection. Implementing the change would allow airports to take a more holistic approach to security across their entire operations. The model of having airports provide airline passenger pre-screening has been successfully implemented in other airports around the world.

Cost competitiveness is of vital importance to the Canadian air based travel and tourism industry. In this regard, the Air Travelers Security Charge (ATSC) diminishes Canada's international price competitiveness and puts the aviation industry at a disadvantage vis-à-vis other modes of transportation. The ATSC has been paid by travelers on domestic, trans-border and international flights leaving Canada since 2001. With rising costs and the introduction of new technologies, a 52% increase in the ATSC was introduced on April 1, 2010.

The events of 9/11 illustrate the fact that aviation security is a public good, with the benefits accruing to both the traveling public and the general public. In recognition of this, the United States government covers 63% of its

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security costs and passes the remainder on to consumers of commercial air services. For the sake of comparison, passengers pay a \$5 security charge on a return flight from Boston to Paris but a \$26 charge on a return flight from Montreal to Paris. The federal government should recognize the 'public good' nature of aviation security and fund a substantial part of the cost of pre-screening passengers and air-cargo.

Labour Shortages

Labour shortages are a key issue affecting all facets of the tourism industry, from front line workers in hotels and restaurants, to skilled workers in travel trades, to senior managers throughout the industry. The necessary programs and actions must be implemented to ensure that the skilled labour supply is sufficient to meet the needs of the industry going forward.

Policy Recommendations

LS1 *Increase the available supply of labour:*

- *Encourage the participation of under-represented groups in the labour market such as youth, aboriginal people and new Canadians*
- *Streamline and improve the Temporary Foreign Worker (TFW) program including Labour Market Opinions (LMOs).*
- *Specifically, use industry submitted wages as the reference rate under the TFW.*

LS2 *Ensure that regional wage rates are used (along with meaningful regional definitions)*

LS3 *Continue funding the work of the Canadian Tourism Human Resource Council (CTHRC)*

LS4 *Availability / expansion of skills training industry for the hospitality industry*

LS 1 to 4 - Improving the Canadian Tourism Industry Labour Supply

While the economic downturn reduced labour market pressures in 2009 and 2010, Canada's tourism sector is expecting to see labour shortages return in 2012. These shortages will increase in severity over the next 15 years. Labour shortages are projected to be wide-spread, affecting both smaller and larger communities alike. The largest increase in potential labour demand will occur in the food and beverage services industry, which could support nearly 1.16 million jobs by 2025.

Part of the solution in addressing the shortages is to increase labour market participation rates for under-represented groups in the Canadian economy. Many jobs within the tourism industry are entry level jobs, and as a result, the sector employs a disproportionately high proportion of new Canadians and youth. In this regard, the CTHRC believes 30,000 jobs to be a conservative estimate of the impact that accelerating new immigrants' rate of entry into the workforce would have on the tourism sector by 2025.

Tourism employers would like to attract more temporary foreign workers to fill existing vacancies, but are limited by the program's structure and application process. Specifically, the current program is not well suited to the tourism industry, which has many part-time

POLICY RECOMMENDATIONS

and seasonal jobs. Additionally, occupational classifications and contract specifications are inflexible; and that the overall process is too lengthy and burdensome.

Policy changes that could improve the labour market situation include:

- Increase the resources for Canada's missions abroad to process both immigration applicants and temporary workers.
- Extend the Expedited Labour Market Opinion project (currently a pilot in BC and Alberta) across the rest of Canada so that all employers can benefit from a faster consideration of need.
- The Federal Government should review its immigration policies and procedures to ensure that the travel, tourism and hospitality industries have sufficient employees, particularly at the entry level.
- Expand the Employer Application Seminar Program to assist employers in expediting their applications to the Temporary Foreign Worker Program.
- Accelerate the processing of C & D occupational classifications to ensure Canada has the unskilled workers needed for many occupations not currently sought by Canadian workers.

- Funding the Canadian Tourism Human Resource Council.

Established in 1993, the Canadian Tourism Human Resource Council (CTHRC) addresses labour market issues and promotes professionalism in the Canadian tourism sector. The CTHRC brings together tourism businesses, labour unions, associations, educators, and governments to coordinate human resource development activities in support of a globally competitive and sustainable Canadian tourism sector.

The Council provides monitoring and advice regarding human resource trends within the industry and has developed several innovative training and certification programs. These programs benefit SMEs benefit through support for occupational standards, certification programs, workplace training, and programs to improve human resource management. Continuing federal support of the program will lever contributions from private sector organizations and other levels of government and is critical to a comprehensive approach to human resource development for tourism.

Enhancing Skills

Tourism is a service industry and visitor experiences depend a great deal on interactions with those working in tourism enterprises

across the country. The knowledge, skills and attitudes of staff are an important source of competitive advantage – it is the people on the front lines who help to create uniquely Canadian experiences. While adoption of labour-saving technology in some parts of tourism value chains makes sense, tourism businesses consider visitors' personal interactions with Canadians to be of paramount importance to creating outstanding experiences.

Human resource investments are also needed to reflect new tourism business models and markets. The promotion of skills training and career development acts to reduce employee turnover, promote a skilled labour force, and improves the quality of service delivered to tourism's end consumers, namely the domestic or foreign visitor. To this end, it is imperative to maintain the funding of skills development programs aimed at the travel and tourism industry, as well as providing the necessary training support for tourism employees as they move from being front line workers to managers.

CONCLUSION

The policy recommendations in this Whitepaper are designed to level the playing the field for Canada with U.S. and other international travel destinations. They would also improve the cost competitiveness of Canada as a destination and increase awareness of the Canadian brand in the international marketplace.

The scope and scale of the challenges facing Canada's travel and tourism industry require major policy reforms. Piecemeal, ad hoc or incremental reforms will do little to arrest Canada's decline in the global rankings for international visitation.

In this sense, the Canadian federal government is at a cross roads with regard to tourism; it can choose to see the industry as an easy source of revenue or it can choose to invest in an industry that stretches from coast to coast and has the potential to generate jobs in small and large communities alike.

In conclusion, the National Travel and Tourism Coalition (NTTC) believes it is imperative that the Government of Canada choose to be part of a durable and comprehensive set of solutions to the economic challenges of the aviation-based travel and tourism sector.

SUMMARY OF TRAVEL AND TOURISM POLICY RECOMMENDATIONS

- ▶ Eliminate; airport rents, municipal taxes imposed on airports and payments in lieu of taxes
 - ▶ Dedicate the proceeds of the excise taxes on aviation fuel to aviation infrastructure
 - ▶ Modify the Foreign Convention and Tour Incentive program through:
 - *Improvements to the current tour operator scheme*
 - *Re-introduction of an individual traveler rebate scheme*
 - ▶ Significantly reduce or eliminate the ATSC through expanded government funding of aviation security and screening services
 - ▶ Create a Tourism Infrastructure Bank capable of providing low cost financing to airports, airlines, and major tourism infrastructure development projects
 - ▶ Improve the connectivity of airports with the surrounding communities and expand interconnections between airports and other modes of transportation
 - ▶ Develop a coordinated tourism development strategy that identifies the key priorities within each region
 - ▶ Increase funding for the Canadian Tourism Commission:
 - *Ensure an internationally competitive level of support*
 - *Ensure stability and adequacy of funding over a longer period of time*
 - ▶ Ensure federal departmental policy decisions consider impacts to tourism and take all necessary steps to mitigate these impacts
 - ▶ Provide small and medium sized tourism establishments access to financing through the development of a travel and tourism infrastructure bank that can provide financial intermediation
 - ▶ Increase financial and human resources to CBSA in order to minimize the impact of their operations on visitors' travel experiences:
 - *Aggressively implement smart border technologies and trusted traveler programs*
 - ▶ Implement governance changes at CATSA that would improve transparency and communication with key stakeholders such as airports and airlines:
 - *Allow airports to provide airport passenger pre-screening if they wish to do so*
 - *Benchmark CATSA throughput rates and productivity levels with similar security screening services around the world and implement regular best practices review*
 - ▶ Increase the available supply of labour in Canada, including:
 - *Encourage the participation of under-represented groups in the labour market such as youth and new Canadians*
 - *Streamline and improve the Temporary Foreign Worker (TFW) program including Labour Market Opinions (LMOs)*
 - ▶ Continue funding the work of the Canadian Tourism Human Resource Council (CTHRC)
 - ▶ Ensure availability of adequate skills training for the hospitality industry
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LOOKING TO 2020

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Whitepaper



NATIONAL TRAVEL AND TOURISM COALITION

October 2010

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