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**FRONTIER DUTY FREE ASSOCIATION
ASSOCIATION FRONTIERE HORS TAXES**

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Friday, February 19th 2015

Standing Committee on Finance
Sixth Floor, 131 Queen Street
House of Commons
Ottawa ON K1A 0A6
Canada

Re: Written Submission for the 2016 Federal Budget – Road TRIP

Dear Members of the Standing Committee on Finance,

As part of the 2016 pre-budget consultations hosted by your Committee, the Frontier Duty Free Association (FDFA) proudly presents a written submission on our proposed Road Travel Rebate Incentive Program (Road TRIP).

You will find that Road TRIP is a much needed program, and should be included in the upcoming federal budget. This program will increase tourist arrivals to Canada, and also strengthen the Canadian economy. Road TRIP will encourage more tourists to cross at land borders, visit and shop in border communities and keep money spent at duty free stores in Canada, buying Canadian-made products.

Several business and tourism sector associations have declared support for Road TRIP, knowing that this program will be a direct stimulus to the Canadian economy. Some of these associations include:

- Canadian Chamber of Commerce (unanimous support at 2015 AGM)
- Retail Council of Canada
- Tourism Industry Association of Canada
- Canadian Federation of Independent Business
- Canadian Vintners Association
- Windsor-Essex Regional Chamber of Commerce
- Abbotsford Chamber of Commerce
- Niagara Falls Chamber of Commerce

Further, several mayors across Canada recognized the positive impact that Road TRIP will have on their local economy and stated support for the proposal, including:

- Mayor Mike Bradley of Sarnia
- Mayor James Diodati of Niagara Falls

- Mayor Drew Dilkens of Windsor
- Mayor Sue McKortoff of Osoyoos
- Mayor Wayne Redekop of Fort Erie
- Mayor John Tory of Toronto

We would greatly appreciate your support to have this proposal included in your submission to the Finance Minister for the upcoming budget. Should you have any questions please contact myself at 613-233-1946 or LKarson@fdfa.ca.

Sincerely,

A handwritten signature in black ink, appearing to read "Laurie Karson". The signature is fluid and cursive, with a large initial "L" and "K".

Laurie Karson,
Executive Director
Frontier Duty Free Association
613-868-6369

About Road TRIP

- A proposed 3-year pilot program under which the Federal government would rebate the 5% GST on goods purchased by American visitors. The rebate would be paid out when the goods are exported (taken home) from Canada.
- A powerful incentive that would reduce travel costs for tourists from the United States (US) and help ensure that Canada is a top-of-mind destination for Americans.
- A mechanism for creating meaningful economic benefits for Canada, particularly in border communities that consistently struggle with limited options for economic development.

Objectives

- Stimulate Canada's tourism sector, which operates in a highly competitive and price-sensitive environment.
- Create incentive for US tourists to spend more in Canada, including in challenged border communities.

Impacts

- Make Canadian retailers more competitive with their US counterparts, including online businesses.
- Increase retail activity, investment and employment in border communities that are hard hit by U.S. competitors who benefit from lower sales taxes and less regulation.

**Road TRIP was ENDORSED UNANIMOUSLY at the
CANADIAN CHAMBER OF COMMERCE AGM in OCTOBER 2015**

How will Road TRIP work?

A Traveller Incentive Rebate would be provided to American tourists at Canadian land border Duty Free shops. Visitors would be encouraged to "TAKE 5" (a 5% tax rebate) on items purchased during their visit to Canada.

Why Duty Free Shops?

- Land border crossings are the only locations where the export of goods can be immediately verified.
- Rebates would be given directly to visitors during their visit to Canada; the immediacy of the rebate is critical for influencing travel and purchase decisions.
- It is expected that up to 60% of customers will spend their rebate in a Canadian Duty Free shop.
- Canadian companies would benefit significantly, since Duty Free shops are vital sales channels for Canadian-made products, such as: Wine/ice wine, spirits, beer, confections (e.g. maple syrup), arts/crafts, and souvenirs.

Why Road TRIP now?

Decline in Tourism to Canada

- Border security measures, fees for mandatory ID, lower US sales taxes on retail and internal purchases, gas prices, and an unattractive US exchange rate all make it challenging for Canada to attract US visitors.

- Canada's border-region retailers have experienced a steady decline in their market share, at least partially due to large differences in the sales tax rates between Canada and the US (e.g. 5% versus 15%).
- Since 2002, the annual number of US visitors to Canada has declined by 50% (the number of same day visitors has declined 64% and overnight trips are down 28%) and Duty Free sales have dropped 40%.
- From 2008-2013, the number of cross-border trips by road declined by 14% and spending by visitors declined 32.7%.

Precedent

- Until April 2007, US tourists were able to receive a rebate for the Goods and Services Tax/Harmonized Sales Tax that they paid on all purchases made in Canada, under a Federal Visitor Rebate Program.
- Visitor Rebate Programs (VRPs) have been standard in the international tourism sector since the 1980s. 30 of the 34 OECD countries (including all of the European Union, Australia, Korea, and Mexico) offer a VRP – Canada is the only country to have a VRP cancelled.

Economics of Road TRIP

Econometric Research Limited* (ERL) conducted a study to analyze the potential economic impacts of Road TRIP. The study found that, with the implementation of the proposed program, there would be an increase in incremental tourism and tourism-related expenditures. That new economic activity would galvanize positive economic spin-off effects in the Canadian economy. Based on the study, it is projected that Road TRIP would:

- Produce between 340,000 and 610,000 new US tourism visits to Canada;
- Increase GDP by \$50 - 90 million;
- Support/create 782 - 1,407 new full time jobs; and
- Increase Canadian wages by \$31-55 million.

Federal Fiscal Accounts

In 2007, under Canada's former Visitor Rebate Program, a total of 1 million rebate claims were processed out of a tourism base of 30 million people. The percentage of eligible tourists that actually claimed the rebate was:

- 3.3% of all visitors, or a total of 1 million people out of a tourism base of 30 million visitors; and
- 3.9% of US visitors, or a total of just over 1 million people out of a tourism base of 25.6 million visitors.

Since Road TRIP is designed to target American tourists only, the value of the total projected rebate claims is **less than \$5.3 million**. That low rebate amount is the result of a smaller tourism base than the one that existed in 2007, and because the rebate would only be applied to retail purchases.

The Federal revenue reallocated due to claims for the Road TRIP rebate would be offset by the projected tax revenues gained through new economic activity from increases in U.S. tourism visits to Canada. In fact, Road TRIP would generate a significant amount of positive economic impacts for the Federal government revenue stream, including:

- \$87.1 million in Federal revenue generated under the high results scenario, and \$48.4 million under the median results scenario; and
- Increasing Federal tax revenues by \$7-12 million.

Source: *The Economic Impacts of the Proposed Road Travel Rebate Incentive Program for American Tourist* by Econometric Research Limited, December 2015.

Econometric Research Limited (ERL) was founded by Doctor A. A. Kubursi in 1972. This organization of economists and engineers has been involved in many study projects for government ministries, international organizations, and private sector clients.

Dr. Atif Kubursi is Emeritus Professor of economics and teaches in the Arts and Science Programme at McMaster University. He taught at Purdue University, and was a senior academic visitor at Cambridge University in UK and a Fellow of the Middle East Policy Institute at Harvard. Dr. Kubursi served as the Acting Executive Secretary, and Undersecretary General, of the United Nations Economic and Social Commission for Western Asia, and Senior Development Officer at UNIDO in Vienna.