

Quebec City, Thursday, August 4, 2011

The Honourable James H. Flaherty
Minister of Finance

Subject: **Federal pre-budget consultations**

Brief of the Association québécoise de l'industrie touristique (AQIT)

Created in 2001, the Association québécoise de l'industrie touristique (AQIT) brings together and consults with tourism agencies and businesses. Its mission is to promote and defend their interests to foster the economic development of the tourism industry in Quebec.

The AQIT is recognized by governments, socio-economic partners and the general public as the main tourism advocate for economic and public affairs in Quebec.

For the 2012 federal budget, three priorities to boost the competitiveness of Canada as a tourist destination in foreign markets have been identified by industry:

1. *Funding for the Canadian Tourism Commission*
2. *Air travel cost structure*
3. *Funding for festival and event programming*

Economic impact of tourism

In Quebec in 2010, the Quebec tourism industry generated \$10.9 billion in revenue, ranking fifth in the export sector. Quebec's 30,000 tourism businesses create 400,000 direct and indirect jobs.

The AQIT is also a member of the Tourism Industry Association of Canada. Nationwide, tourism is a \$74 billion industry, directly supporting 617,300 jobs. In 2010, the Quebec sector alone generated \$9.4 billion in federal tax revenues (including incidental taxes).

Tourism is a growing industry across the country. International tourism currently generates over \$1US billion in export revenue, placing it fourth worldwide.

International visitors stimulate long-term growth and competitiveness in the Canadian tourism industry. In 2010, 15.9 million international visitors generated \$ 14.8 billion in export revenues for Canada. This represents an increase of 5.2% over 2009 and reflects the vitality of the growth in foreign markets, not including Mexico, because of visa restrictions imposed in 2009.

Tourism Industry Priorities for the 2012 Budget

1. Funding for the Canadian Tourism Commission

The Canadian Tourism Commission (CTC) is responsible for promoting Canada internationally. It competes for the international tourism market, which is worth \$3 billion a day.

Over the past decade, the CTC's core funding fell to \$72 million in 2011-2012. This represents a decrease of 27% compared to 2001 funding levels. In comparison, the new United States Corporation for Travel Promotion has an estimated \$200-million operating budget. Many other countries invest more heavily in their organizations to promote national tourism, leaving Canada in 20th place worldwide in national tourism office funding.

In this very competitive market, Canada cannot expect to be successful based solely on its natural and cultural attractions. Competitive marketing and destination targeting are critical to the economic potential of international tourism.

Recommendations

The AQIT supports the position of the National Roundtable on Tourism and Travel (NRTT) and recommends that the federal government re-evaluate the funding model for the Canadian Tourism Commission with the objective of providing a stable and competitive base to effectively promote Canada on the international stage.

The AQIT recommends that the federal government support one or more of the Canadian Tourism Commission's strategic priorities.

Opportunity	Description	Recommended Investment (\$)
Approved Destination Status for China	Investment to improve direct-to-consumer marketing in light of the 2010 agreement on Canada's Approved Destination Status for China	5 million
Return to direct-to-consumer promotion in Japan	Investment enabling the CTC to reintroduce the Japanese market in order to take advantage of a direct-to-consumer channel	2 million
International promotion initiative	Form partnerships with a broad comprehensive platform in order to promote Canada as a tourist destination	6 million

Second-tier European markets	Use the CTC's new management model to break into second-tier European markets	5 million
Promotional programs to support air travel to the Canadian North	Support tourism demand programs for Canada's northern territories	2 million
TOTAL		20 million

2. Air travel cost structure

According to a recent Canadian survey of travel plans, in 2010, 21% of Canadian pleasure travellers drove to the United States in order to take advantage of cheaper air fares to destinations in the United States or abroad. This "flight" indicates that millions of Canadian travellers realize that the higher price of an airplane ticket in Canada makes it worth their while to drive to the United States and leave from an American airport such as Buffalo, Detroit, Plattsburgh or Bellingham.

This trend is the result of the taxes and fees piled on by the airline industry, which discourage competition and increase the cost of air travel both within Canada and to destinations abroad. Airports' ground rent, air safety costs, airport improvement costs, NAV CAN fees, payments to municipalities and aviation fuel taxes are all costs that are incorporated into the final price of an airplane ticket.

The Government of Canada's infrastructure funding and user-pay policies add more than \$160 to the cost of travel outside the country, whereas in the United States, the air industry operates in a much more interdependent environment. Based on the competitiveness of our aviation cost structure relative to other countries, Canada is ranked 125th by the World Economic Forum.

Canada is a destination reached primarily by air. For that reason, it is essential that our pricing be competitive so that we attract visitors. The cost of a flight to Canada must be comparable to or lower than the cost of flying to competing destinations. If millions of Canadians are prepared to waste time and be inconvenienced because they have to go to the United States to catch a flight, imagine potential travellers from abroad. They will avoid Canada altogether.

Recommendation

The AQIT recommends that the federal government undertake a comprehensive review of the cost structure in the Canadian air industry with a view to designing a regulatory and fee regime that enables the travel and tourism sector to compete in world markets.

3. Support for festival and event programming

Because they develop sophisticated “must see or do” programming for informed travellers, major international festivals and events are important economic catalysts in a new economic world. Investment in this sector creates significant benefits in all sectors, including accommodation, transportation, hospitality and services.

A recent study commissioned by the Canadian Festivals Coalition estimated that 15 of the biggest festival and events in Canada attract 12,600,000 participants annually, adding as much as \$650 million to the GDP and creating 15,600 jobs in a full year across the country.

Canada’s major festivals and events are among the best in the world, and Canada’s competitive edge can be increased by improving strategic partnerships with the government.

Recommendation

The AQIT recommends that a permanent funding program for major festivals and events be created and that it be managed by Industry Canada. As a pilot project, the Marquee Tourism Events Program (MTEP) gave festival and event managers and government employees a better understanding of their respective organizational cultures and provided an opportunity for them to develop economic performance criteria.

A new program combining federal funds with private-sector resources would be a catalyst for growth in this sector and produce significant economic benefits for all Canadians.

The proposed funding program would include the following features:

- investment of \$30 million a year in major international festivals and events in Canada, allocated on the basis of economic criteria that would be determined by merit and would not be subject to quotas and regional limits;
- \$20 million a year to emerging festivals and events based economic criteria determined by merit and subject to quotas and regional limits;
- collaboration with the sector in order to develop application, eligibility and payment practices based on the achievements and challenges that come out of the MTEP and are representative of the organizational realities of the sector;
- multiyear project funding in order to maximize product development opportunities and return on investment.

The MTEP has been a smashing success. It was developed during a period of economic uncertainty and was supposed to be delivered quickly in order to give proper impetus. We believe that a new program adapted to the business model used by the festivals and events sector will yield even better results.

The ideal implementation scenario would be to:

- announce a program in the 2011-2012 budget;
- put an application process in place starting in September 2012;
- announce the recipients in January 2013 and make payments on April 1, 2013.

With this timetable, candidates will be able to plan events more effectively and in a more creative way and to develop lasting partnerships that will help increase the number of visitors to Canada and boost tourism revenue.

“Given the right impetus, the tourism industry can produce even more economic benefits and generate even more wealth in Canada and at the same time improve Canadians’ quality of life.”

[signed]

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