Standing Committee on Finance (FINA)

Pre-budget consultations 2012

Hotel Association of Canada

Responses
1. Economic Recovery and Growth *Given the current climate of federal and global fiscal restraint, what specific federal measures do you feel are needed for a sustained economic recovery and enhanced economic growth in Canada?*
The Hotel Association of Canada is the National Association representing all the lodging industry across Canada. In 2012 we generated $16.4 billion in revenue and employed 284,000 people. Our industry generated $7 billion in tax revenue including $3.2 billion for the federal government. Travel and Tourism drive economic growth in every province and territory in Canada. The $78.8 billion tourism industry is key to Canada's economy. Unfortunately, as the global market for tourism is growing, Canada's share is shrinking. In 2001, Canada was the 7th most popular destination in the world with 20 million visitors coming to our country. By last year we had fallen to 18th position with 16 million visitors, a drop of 20 percent. Every other country in the top 20 in 2011 saw growth over the same period. Canada now trails not just the most popular destinations but also Turkey, Malaysia, Austria, Mexico, Ukraine and Thailand. Canada's decline is directly attributed to the decreasing ability to market competitively in an aggressive world market place. The Canadian Tourism Commission (CTC), which has responsibility for global marketing, simply cannot create awareness and demand with its existing $72 million budget let alone with a proposed budget of $58 million. The status quo is not an option. Canada will continue to lose market share at an accelerated pace by being under resourced against our competitors. Notably this includes Brand USA Inc., the new US Marketing campaign wherein they are investing $20 million just in Canada. Canada's tourism industry has become over-reliant on the domestic travel market. It now accounts for 81 percent of tourism revenues, compared to just 65 percent in 2000. There are signs the domestic tourism market is at risk with Canadian travellers heading to the US and other destinations in droves. Canada's travel deficit has reached an unprecedented $16.3 billion, up from only $2.1 billion in 2001. It is growing faster than the trade deficit of any other Canadian industry including manufacturing. In practical terms this results in investors, owners and developers less likely to invest in new development or renovations and refurbishments. Access to financing becomes increasingly challenging as capital starts to flee Canada in search of jurisdictions with stronger tourism programs that promise a greater return on invested capital. The HAC strongly supports a competitive, sustainable and results based model for the CTC which requires a base level of $126-$139 million annually to execute competitive marketing campaigns. The HAC preferred model is a reinvestment of GST revenues. Alternatively, the HAC supports a model based on an arrival levy for non-Canadians. CTC Funding Option 1: Reinvesting International Visitors' GST The preferred HAC option for funding Canada's tourism marketing in a competitive and sustainable way is through a portion of the GST collected on international visitors' spending in Canada. The concept would be to reinvest some of the GST from non-Canadian visitors to stimulate demand to grow the visitor economy further. This system would ensure that funding for tourism marketing comes from international visitors. In 2011, the government collected an estimated $463 million on the GST paid by foreign visitors on the $15 billion they spent on tourism in Canada. If a formula were set to lock in federal appropriations for tourism marketing at 30% of this amount, it would provide resourcing of $139 million per year. Canada is the only G8 country with a national value added tax (VAT) that does not provide a whole or partial rebate to the travelling public, and tourism is the only Canadian export sector that is not "zero-rated" for GST. Before 2007, the federal government – like all G8 countries with national VATs – allowed individual

visitors to Canada to rebate a portion of their GST expenditures. The government changed its policy based on concerns of efficiency and potential for abuse and replaced the measure with a smaller provision that is only for international tours and conventions (Foreign Convention Tour & Incentive Program). This GST reinvestment proposal would provide a net positive fiscal gain for the federal treasury as the increased tourism marketing would drive more international visitation, thereby growing revenues for the Canadian economy and in turn for the federal government. It is estimated that the increase in visitation would result in $1,143 million more in federal revenue from tourism. Subtracting the initial fiscal outlay of $695 million ($139 million x 5 years), results in a net positive gain of $448 million for the treasury. The additional marketing is also estimated to bring in 7.5 million new visitors and $8.6 billion more export revenue for the Canadian economy over five years. This would constitute a success-driven model for tourism marketing as resources would be tied to the level of international visitation in Canada. The $139 million per year from this funding formula would more than double Canada's marketing activity, bringing Canada on to the playing field with its major competitors. It would allow the CTC to maintain and enhance Canada's visibility in its top overseas markets (currently UK, Germany, France, China, Australia, Japan, South Korea, Mexico, Brazil and India), allow a strong re-entry into marketing Canada to the US leisure market (by far Canada's largest market), and potentially allow a domestic marketing program to encourage Canadians to travel within Canada instead of abroad. CTC Funding Option 2: International Visitor Arrival Levy The second option to fund Canada's tourism marketing in a competitive and sustainable way is a $15 arrival levy on non-Canadian visitors entering Canada by air, rail or boat (rubber tire traffic such as cars and buses could be excluded). This levy would generate $126 million per year, based on 2010 arrivals. As part of the myriad of taxes and fees that all countries charge on air transportation many countries apply general arrival/departure levies, with charges among Canada's competitors ranging from $41 to $291 (this is apart from specific levies like security fees). Canada applies no similar charges. The US, Mexico, South Korea, Australia and others directly fund their tourism promotion through these levies. For others, the levies go to general revenue and thereby indirectly support their tourism marketing. The result is that Canadians are paying these kinds of fees almost everywhere they go, with competitor destinations using this revenue to compete with Canada in our target markets as well as using it to attract more outbound Canadians. Canadians pay an estimated $526 million per year in these fees. This levy would shift the burden of funding for tourism marketing off of the Canadian taxpayer, with resources collected from (non-Canadian) international visitors only. The levy would not affect the majority of travellers in Canada as it would not apply to domestic travellers or Canadians travelling internationally. For example, it is estimated that the levy would apply to 13% of Air Canada's total flown passengers and 1.5% of Westjet's. Employing conservative assumptions throughout, the results show that the enhanced tourism marketing would generate 6.5 million additional visitors, $8.3 billion more tourism revenue for the economy and $1.1 billion more revenue for the federal treasury over five years. This would also free up the CTC's (2014) appropriation of $57.8 million. The HAC believes this $57.8 million could be redirected to the airlines to reduce the cost of tickets for consumers or to the airports to reduce airport rents again with the proviso to pass these savings on to consumers. The $126 million per year from this funding model would more than double Canada's marketing activity, bringing Canada onto a level playing field with its major competitors. It would allow the CTC to maintain and enhance Canada's visibility in its top overseas markets (currently UK, Germany, France, China, Australia, Japan, South Korea, Mexico, Brazil and India), allow a strong re-entry into marketing Canada to the US leisure market (by far Canada's largest market), and potentially allow a domestic marketing program to encourage Canadians to travel within Canada instead of abroad. Budget Recommendation The Government is asked to support a competitive, sustainable and results based model for the Canada Tourism Commission through a reinvestment of international visitors' GST or a Visitor Levy on non-Canadians. The Hotel Association of Canada would be pleased to discuss this with you and answer your questions before the House of Commons Standing

Committee on Finance.
2. Job Creation *As Canadian companies face pressures resulting from such factors as uncertainty about the U.S. economic recovery, a sovereign debt crisis in Europe, and competition from a number of developed and developing countries, what specific federal actions do you believe should be taken to promote job creation in Canada, including that which occurs as a result of enhanced internal and international trade?*
The tourism industry employs over 600,000 Canadians across the country – more than all the jobs created by the gas and oil industry. This private sector economic workhorse spans all regions of the country, four seasons and employs everyone from marketing and finance executives and entrepreneurs to part time jobs for young Canadians and semi-retired workers. While other sectors of the global economy are suffering, the world tourism market is exploding. In 2011, 940 million travelled internationally spending $1 trillion –an increase of 3.9% from the previous year that shows no signs of stopping. Tourism is especially well-positioned to take advantage of economic boom-times in emerging markets with the highest growth in outbound travellers coming from China, Brazil and India. Canada's share of this lucrative export sector, however, continues to erode. International spending in Canada was at $15 billion in 2011 up a mere one percent from the previous year. Canada's diminishing share of the international tourism market means tourism jobs at home are in peril. Canada needs a competitively funded national marketing organization to capitalize on the economic opportunities surfacing internationally. Other countries are investing aggressively in tourism marketing to take advantage of trade opportunities. Despite proven results from its marketing campaigns, the CTC simply cannot create awareness and demand – and with it, economic growth and jobs – with its proposed level of funding. Budget Recommendation: Revisit the funding model for the Canadian Tourism Commission with the objective of providing a competitive and stable base for effectively marketing Canada internationally. The Hotel Association of Canada would be pleased to discuss this with you and answer your questions before the House of Commons Standing Committee on Finance.
3. Demographic Change *What specific federal measures do you think should be implemented to help the country address the consequences of, and challenges associated with, the aging of the Canadian population and of skills shortages?*
The HAC commends the federal government on its commitment to ensuring the Temporary Foreign Worker Program is responsive to the needs of employers and workers alike. Initiatives like the new Accelerated Labour Market Opinion for skilled workers recognizes the acute labour challenges our country faces and the role government plays in facilitating economic growth. The Federal Skilled Workers (FSW) Program is not a solution for the labour shortage in the lodging industry. Foreign workers employed in the lodging industry do not qualify under the FSW Program. They are categorized as semi-skilled workers and the only route for them is through the Provincial Nominee Program. The HAC continues to support the Temporary Foreign Worker Program. The permanent solution however, is to have more temporary foreign workers graduate to permanent, full time staff under the Provincial Nominee Program. Budget Recommendation The Hotel Association of Canada is recommending the government double Provincial Nominee Certificates to accommodate the demand for semi-skilled occupations, alleviating our long term dependency on the Temporary Foreign Worker Program. The Hotel Association of Canada would be pleased to discuss this with you and answer your questions before the House of Commons Standing Committee on Finance.

4.	**Productivity** *With labour market challenges arising in part as a result of the aging of Canada's population and an ongoing focus on the actions needed for competitiveness, what specific federal initiatives are needed in order to increase productivity in Canada?*
5.	**Other Challenges** *With some Canadian individuals, businesses and communities facing particular challenges at this time, in your view, who is facing the most challenges, what are the challenges that are being faced and what specific federal actions are needed to address these challenges?*