

Brief Submitted by the Association québécoise de l'industrie touristique

**Focussing on Fiscal Sustainability and Economic Growth –
A Key Role for the Tourism Industry**

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Focussing on fiscal sustainability and economic growth – A key role for the tourism industry

An industry to rely on

The tourism industry is a major creator of wealth. In 2012, tourism was responsible for 1.8% of Canada's GDP, more than agriculture, the fishery and forestry combined. Tourism alone generated close to \$82 billion in revenues. That same year, international tourism brought in \$17 billion in export revenues for Canada. And 180,000 Canadian tourism businesses are responsible for 1.7 million direct and indirect jobs, almost 10% of all jobs in Canada.

- **Tourism is produced and consumed here in Canada.
These jobs can't be moved off-shore.**

As well, the tourism industry is a good source of government revenues:

- **Every \$100 spent on tourism contributes \$28 to all three orders of government.**

Tourism clearly has a positive economic impact. Now more than ever, tourism represents a global economic opportunity; the industry is experiencing strong growth. In 2012, international tourism generated US\$1,075 billion in revenues, up 4% from the previous year. This means that the tourism industry is the 4th largest export industry, and the World Tourism Organization projects steady annual growth between 3% and 4% until 2030. Growth in a strong Canadian tourism industry is perfectly consistent with the Canadian government's priority of helping to create jobs, stimulating economic growth and securing long-term prosperity.

While global revenues continue to grow, Canada's market share is steadily shrinking. Canada has a high travel deficit, close to \$18 billion, a figure that has increased 736% in 10 years. Trips to international destinations increased by 3.8% in 2012, while Canadian destinations rose by only 1.7%. Canadian destinations are losing ground internationally and are increasingly dependent on the domestic market.

- **Greater dependence on the domestic market = 65% in 2000 / 81% in 2011**

A troubling but recoverable situation

The tourism industry has identified Product, Access and Marketing as the three essential ingredients for a successful tourism destination. In Canada, we have an enviable product and infrastructure, and the country enjoys an impeccable reputation. In 2013, Canada was declared the country with the world's best reputation for the third consecutive year (Country RepTrak annual report, Reputation Institute).

While we should capitalize on this, what is really holding us back is lack of promotion and high air transportation costs, making the country less attractive.

Between 2002 and 2012, Canada cut its destination promotion budget by 41.5%. In 2014, the budget will be only \$58 million. Over the past 10 years, Canada as an international destination has tumbled from 7th to 16th place.

- **Only 5 of the planet's top 50 destinations have seen a drop in the number of foreign tourists. Canada is on this list!**

Having competitive transportation costs is one of a destination's key success factors for attracting international and domestic visitors.

In this respect, Canada is simply not making the grade. Canada's airport facilities are world-class, but our airline industry's cost structure drives down our ranking to 124th out of 140 in terms of cost competitiveness.

The current Canadian structure places the air transportation burden on the consumer, which does enormous harm to the tourism industry and the economy. Not only does this structure greatly reduce the attractiveness of Canadian destinations in the highly lucrative international market, but it also drives away precious local dollars. Canadians are shunning domestic airports in favour of those in American border cities, where flights cost an average \$160 less. Almost two thirds of the travellers at these airports are Canadian: an estimated 5 million Canadians fly out of American border airports.

- **Tickets from Canadian cities cost 30% more than from American cities**

Recommendations

Growth for the industry, and consequently for the economy, depends on increased international visitors. The AQIT presents two crucial recommendations to allow Canada to regain its strategic position in foreign markets.

“Reconquer the U.S.”

To have a quick impact, we recommend “reconquering the U.S.” by developing an additional marketing campaign co-funded equally by private and public sources and led by the Canadian Tourism Commission.

Over the last ten years, overnight or longer trips to Canada by Americans fell 36%, dropping from 16.2 million in 2002 to 11.9 million in 2012. There are a variety of explanations for this, particularly the requirement for Americans to present a passport at the Canadian border, the economic crisis, and virtually no promotion of Canadian destinations as the result of a series of cuts to the Commission's budget. The U.S. remains our most important local market and represents a potential windfall for Canada since Americans are travelling more.

- Aimed at a specific segment of the U.S. market so as to generate immediate benefits, the “Reconquer the U.S.” campaign will make use of twin cities to increase the number of direct visits from key U.S. regions.
- The campaign will be spread over three years, with federal investment of \$35 million per year. The tourism industry will match this investment for an annual total of \$70 million, which will generate \$205 million in revenue for the federal government, or six times its investment.

“Easier Access”

In order to boost exports by attracting more international visitors, we recommend developing policies to make Canada more globally competitive.

Investment in the aviation sector (taxes, rent, infrastructure) needs to be seen as an economic development tool, given this sector's essential role in the tourism industry.

- Establish a fair tax system that promotes growth in travel and international tourism by agreeing to forego revenue (taxes and rent) to instead focus on volume and tax and quasi-tax spinoffs.
- Cut visa red tape; this is a key way to promote tourism growth and, consequently, economic development and job creation.
- Establish a level playing field with the U.S. to help make overseas and cross-border tourism competitive.

In summary

➤ **International tourism is on the rise**

From 3% to 4% each year until 2030. In the last two quarters alone, there has been a 5% increase in international trips globally; this projection will almost certainly be exceeded.

➤ **Canada has an enormous travel deficit**

-\$17.64 billion, up 736% in ten years. However, Canada's reputation (#1) and excellent product and infrastructure mean that Canada as a destination has the potential to generate a lot more economic benefits.

➤ **Canada depends too heavily on its domestic market**

International travellers spend an average \$1,459 per stay in Canada. Domestic travellers spend less than \$300. Canada's domestic market accounts for 81% of tourism revenues, up 25% in ten years. It is vitally important to increase the ratio of international travellers.

➤ **There needs to be investment in promotion and efforts to make air access more competitive**

Several destinations are boosting their marketing investments to tap into growing international tourism. Ireland, Mexico and New Zealand, with their (increasing) respective budgets of \$211M, \$153M and \$89M (2011), have seen a considerable increase in the number of visitors between 1996 and 2011 (83% in the case of New Zealand).

➤ **Tourism pays off for governments**

In Quebec, \$1 of public money invested in tourism returns \$5 in tax and quasi-tax revenues.

Summary of AQIT recommendations

Recommendation 1

Develop an additional marketing campaign targeting a specific segment of the American market.

- Campaign publicly and privately co-funded and led by the Canadian Tourism Commission
- Objective to quickly recoup investments
- Over three years
- Annual government investment of \$35M
- Annual industry investment of \$35M
- Federal revenues of \$205M over three years.

Recommendation 2

Review the air transportation cost structure

- Fair tax structure
- Cut visa red tape
- Level playing field with the U.S.
- Increase number of air agreements

**The tourism industry is a revenue generator
It's time to leverage its full potential**

About our organization

*The Association québécoise de l'industrie touristique (AQIT) brings together and coordinates
Quebec's tourism businesses and organizations.
Its mission is to promote and advocate for the industry in order to foster its economic development.*

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