

TOURISM GROWTH OPPORTUNITIES

BACKGROUND

Tourism is a large, high-growth industry that significantly impacts our national economy. However, Canada is failing to make the most of growing global opportunities and is falling behind international competitors. Since 2000:

- Worldwide tourism receipts have more than doubled
- Canada has experienced a 17% decline in international tourists
- Canada has fallen from the 8th most visited country to 16th

In an extremely competitive global tourism market, it is imperative that Canada maintains a strong national tourism product in order to capitalise on the forecasted continued growth in global tourism.

There are many opportunities for Canada to deliver a more competitive national tourism product, to grow international visitation, and to increase the impact that tourism has on the national economy.

Canada's tourism industry is united in the belief that there are three major priorities:

- **Improving air access**
- **Increasing Canadian Tourism Commission marketing investment**
- **Loosening visa requirements in key markets**

These issues have been of significant concern to the industry for many years. The growing opportunity within global tourism, combined with Canada's falling competitive performance, has only increased the importance of capitalising on these opportunities.

At a Tourism Roundtable meeting in 2013 (which included representatives from travel & tourism businesses and associations) agreement was reached to commission a study to objectively assess and scientifically quantify the impact that capitalising on each opportunity would have on the Canadian economy. The ultimate goal of the study is to provide government with the necessary information to embrace these opportunities and support the tourism industry.

ASSESSING THE OPPORTUNITIES

Following the Tourism Roundtable meeting, Deloitte was commissioned to undertake a study exploring each of the opportunities in detail and to conduct economic modelling of the impact of addressing each. Deloitte was selected due to its reputation as a well-respected, independent organisation with a wealth of knowledge and experience in the Canadian tourism industry.

The project is funded by more than 20 stakeholders that represent the full gamut of the Canadian tourism industry, including industry businesses and organisations from British Columbia to Newfoundland. As more organisations learn of the study, interest in investing grows. The industry-wide support for the project further emphasizes the importance of these opportunities across the Canadian tourism industry.

The project itself is a three-stage process, and includes:

- A review of secondary research
- In-depth interviews with key industry stakeholders
- Economic modelling of the opportunities.

1. Secondary Research Review

The objective of this stage is to review the vast amounts of information that have been published on these issues, and collate the findings in one central location. The research review has included analysis of information contained within 60 individual reports. These reports were collected from a broad range of sources, including Deloitte's own research, members of the Tourism Roundtable, and tourism industry business and organisations from across Canada.

2. Stakeholder Interviews

There are two key objectives to the stakeholder interviews. The first is to build upon the knowledge gained from the secondary research review by talking to leaders in the Canadian and global tourism industry. The second objective is to develop scenarios to test in the economic model.

3. Economic Modelling

The objective of the final stage is to quantify the potential economic value the opportunities present. This modelling will provide hard, fact-based evidence of the economic benefits of each opportunity.

PRELIMINARY FINDINGS

Deloitte’s research has provided a wealth of information on the value of tourism, and the critical importance of air access, CTC funding and visa requirements. The following is a brief summary of highlights from Deloitte’s interim report, based on their review of the secondary research. A full report of Deloitte’s findings will be published upon completion of the project.

Importance of Tourism

1. Tourism remains critically important to Canada’s national economy

\$78 billion revenue	\$22 billion government revenue	600,000 Jobs
Tourism GDP = Agriculture + Forestry + Fisheries		

2. Tourism provides significant indirect benefits to the Canadian economy

Deloitte analysis shows that a \$100 million increase in direct revenue for the following industries generates:

	Indirect Spending	New job creation
Tourism	\$69 million	1,373 new jobs
Automotive	\$51 million	353 new jobs
Mining	\$50 million	438 new jobs
Oil & Gas	\$41 million	326 new jobs

Simply put, tourism spending generates four times as many jobs as the same amount of spending in the oil and gas industry.

3. Tourism fosters trade

1% increase
in international arrivals
 
\$817 million increase
in Canadian exports

Had Canada’s 2011 international arrivals grown at the same rate as the U.S., Deloitte concluded that Canadian exports would have risen by \$4.1 billion over the same period.

Air Access

The current cost of air travel to and within Canada is significantly higher when compared to global tourism competitors and the U.S. in particular. Many studies highlight air traveller sensitivity to price, with travel behaviour directly impacted by price changes. Despite growing international demand, arrivals to Canada are limited by restrictions on flight capacity, frequency and network of destinations, as well as price. The lack of price competitiveness of air travel is a significant competitive disadvantage for Canada when attracting international tourists. It also hampers domestic travel and encourages outbound travel from U.S. border airports.

There are two key factors that inhibit Canada’s air access: air policy and structural costs. Both are of concern to the tourism industry, and addressing either would contribute to growing tourism in Canada; however, the issue of air policy is of greater priority to industry as it is believed to present the greatest potential upside.

Air Policy

Air policy relates to the agreements reached between nations that regulate commercial aspects of air service between countries including frequency, capacity, ownership, pricing and all other aspects of the air service.

Canada’s air policy is considered restrictive relative to other major global tourism nations

World Trade Organisation’s Air Liberalisation Index	United States	16 th best
	United Kingdom	26 th best
	Canada	83rd best

Canada has fewer agreements, with more restrictions, than the US

	Canada	United States
Total number of agreements	98	138
Number of open, non-restrictive agreements	16	110
Share of agreements considered open and non-restrictive	16%	80%

The positive impact of more open air agreements on traffic and routes is well documented

While more open air agreements drive down airfares, they also increase frequency and passenger traffic.

Agreement	Impact on Air Travel
Canada – US (1995)	Number of trips by air rose 40% in the first 5 years following the agreement
Australia – New Zealand (2000)	Number of passengers increased from 3.3 million in 2000 to 4.6 million in 2004
EU Single Aviation Market (1992)	Air travel in Europe tripled over the 1980 and 2000 period

Canada’s approach to establishing air agreements is less transparent than other nations

In addition to more restrictive terms within air agreements, the Canadian approach to establishing agreements is also less transparent than other nations.

Canada	United States
Only airlines are permitted as observers to negotiations	Airlines and airports are permitted as observers to negotiations
Entire agreements or specific terms may be kept confidential	No confidential agreements

Implementation ensures agreements remain restrictive

The research review has also revealed concerns that, while Canada has stated a desire to negotiate more open air agreements, the implementation of the policy has ensured the agreements remain restrictive. For example, only permitting an airline to operate three flights per week ensures that it cannot operate profitably, thereby artificially imposing restrictions that prevent that airline from entering the Canadian market.

No clear policy reasons for Canada’s restrictive and regulated air policy

The review of the secondary research has established no clear policy reason as to why Canada has such restrictive and regulated air policy. There is, however, strong evidence that Canada’s air policy is negatively impacting the Canadian tourism industry.

Structural Costs

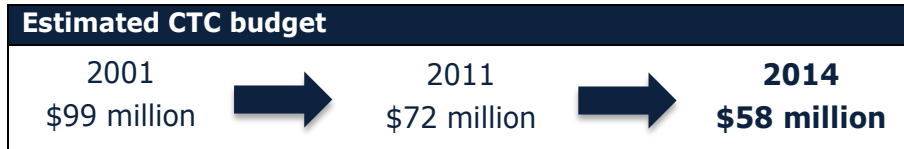
Airlines operating from a Canadian airport charge a **base fare that is approximately 43% higher** than an airline operating from a U.S. border airport – mainly driven by airport rent and navigational fees.

Canadian airfares also include **fees and taxes that are approximately 35% higher** than U.S. airfares – mainly driven by international fees and sales taxes.

Structural costs put Canadian airports at a price disadvantage, especially when compared to their cross-border counterparts.

Canadian Tourism Commission (CTC) Funding

Canada’s investment into international tourism marketing has been decreasing. As a result, the CTC has had to cut programs, including marketing in the lucrative US market.



Of particular concern is that, over the same period, many international competitors have grown their marketing budgets.

The CTC’s budget is significantly smaller than many global competitors

	2011 Budget
Ireland	\$211M
USA	\$200M
Mexico	\$153M
Australia	\$147M
Malaysia	\$128M
South Africa	\$118M
France	\$112M
Korea	\$94M
New Zealand	\$89M
Canada	\$72M

There is strong evidence of the benefits of a well-funded national marketing organisation

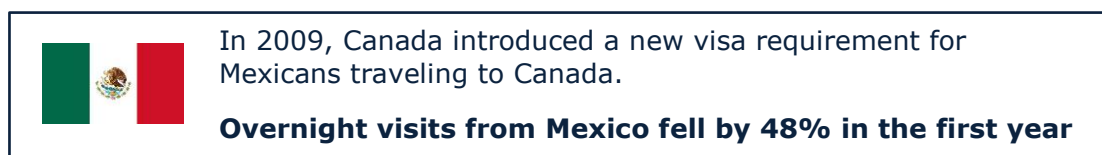
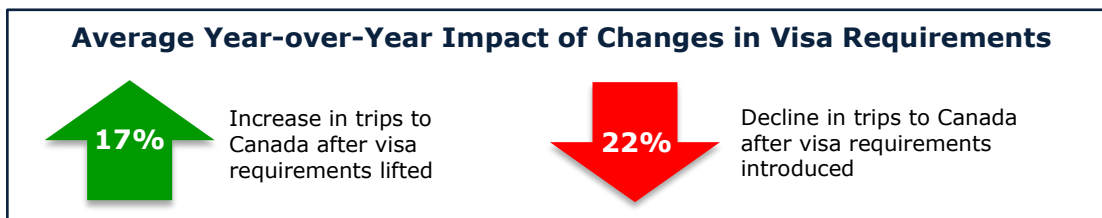
Officially commencing operations in 2011, Brand USA’s mandate it to promote the U.S. as a premier travel destination to world-wide travellers. Since the launch of Brand USA’s marketing efforts, Canadian intent to travel to the US has grown by 22%.

A diminishing marketing budget, at a time when competitors are increasing their marketing budgets, poses a significant threat to Canadian tourism.

Visa Requirements

The tourism industry acknowledges that visas can play an important role in maintaining security and regulating immigration. At the same time, the visa process for tourists is often considered onerous and deters many groups from travelling to Canada at all. In addition, processing delays for travel visas to Canada have increased over the past decade, and tourist visa processing times in Canada are significantly longer than processing times in Australia and the US.

There is a strong, direct link between visa restrictions and visitation to Canada



The Canadian visa process is often slower and more onerous than competitors

	Canada	United States
Visa application form and photo ID required for most countries	Yes	Yes
Interview required	Yes (if necessary)	Yes (age restrictions on interview)
Interview wait time	Not Available	4-10 days
Application fee	\$70-150 CAD	\$160 USD
Documents required	Minimum 10 documents required	Minimum 5 documents required
Visa Processing Time (Online)	58 days	6-12 days
Number of visitor visas issued in 2012	1 million	9 million
Number of visa exempt countries	51	43

The issue of visa requirements only grows in importance as the Canadian tourism industry endeavours to grow visitation from emerging tourism markets such as Mexico, Brazil, India and China. These markets are widely acknowledged as huge growth opportunities for international tourism, however Canada's ability to realise the opportunity is limited by visa restrictions.

PROJECT COMPLETION

The secondary research review has been sufficiently completed to permit the study to progress to the stakeholder interview stage. These interviews will be used to further explore the opportunities in detail, comparing Canada's travel policies and funding with international competitors, while at the same time developing the scenarios to test in the economic modelling.

Upon completion of all three stages, Deloitte will produce a final report that explores the issues and the potential upside of capitalising on the opportunities presented by:

- Improving air access
- Increasing Canadian Tourism Commission marketing funding
- Reducing visa restrictions

The report is expected to be available in early fall.

NEXT STEPS

The completed Deloitte study will enable the Federal Government to make proactive, evidence-based decisions to grow Canada's tourism and travel economy, benefitting industry and government.

While the economic modelling will be important for quantifying the potential of these opportunities, the findings to date have clearly established that for Canada to remain competitive in the global tourism marketplace, and to take advantage of the continued growth in international travel, we need to:

- Negotiate more open and non-restrictive air agreements **(policy consideration)**
- Increase Canadian Tourism Commission funding to promote Canada **(budget consideration)**
- Lift visa restrictions and/or improve the visa application process **(policy consideration)**

By choosing to take advantage of these opportunities, the Federal Government can support the entire Canadian tourism and travel industry, delivering economic benefits across the nation.