2013 GATEWAY TO GROWTH

Canadian Tourism Industry Annual Report

TIAC AITC
Tourism Industry Association of Canada | Association de l'industrie touristique du Canada

HLT ADVISORY

Canadian Tourism Commission | Commission canadienne du tourisme

VISA

FOREWORD FROM TIAC

The Tourism Industry Association of Canada (TIAC), in conjunction with the Canadian Tourism Commission, presents this series of research reports to increase awareness of the complexity of the global travel and tourism sector and to identify practical measures that will increase competitiveness and produce real and sustainable economic development, jobs and prosperity for Canadians.

Travel and tourism is among the highest performing sectors of the global economy, experiencing average growth of 4% and generating over $1trillion in annual revenue. While travel and tourism is Canada's largest export service sector, it is not keeping pace with its competitors.

Progress has been made through recent government actions and investments to open new markets, improve visa facilitation and air access agreements (Brazil & China). However, in 2012, Canada's inbound overnight growth was only 1.7% - just less than half the international average. This under-performance – due, in many cases to fixable policy barriers – is contributing to an innovation and investment deficit that, if unaddressed, will further erode future competitiveness.

TIAC has laid out a practical plan for Canada to match the annual global growth rate of 4% comprised of:

» a competitively resourced national marketing agency that balances key markets including the US;

» a review of Canada's aviation cost and access barriers;

» a modernized traveller documentation process.

Annual growth of 4% will increase annual international visitation to Canada by about 650,000 and generate significant economic benefits across several economic sectors in every region of the country TIAC and like-minded organizations will be seeking the continued momentum required to address the remaining public policy issues currently impeding growth.

A MESSAGE FROM TIAC & HLT ADVISORY

In this, our second annual report on the state of the Canadian travel and tourism industry, the Tourism Industry Association of Canada in collaboration with The Canadian Tourism Commission, HLT Advisory and Visa Canada, are endeavouring to tell the story behind the numbers and illustrate the intrinsic importance of our dynamic sector within the broader Canadian economy.

Travel and tourism is a complex, diverse and lucrative industry. It is also, due to its unique nature, one of the least understood industrial sectors from a public policy perspective. Unlike traditional industries that produce tangible goods in factories utilizing various distribution systems to reach markets around the world, travel and tourism generates export revenue by temporarily importing foreign travellers to purchase "experiences," goods and services.

Travel and tourism is among the highest performing sectors of the global economy, experiencing average growth of 4% and generating over $1trillion of annual revenue. Canada is a highly sought after international destination and is poised to be globally competitive, be it for a few fixable policy issues currently impeding growth.

Canadians love to travel, both domestically and abroad. The Canadian travel industry has benefited from strong and sustained travel by Canadians within Canada offsetting a steady decline in international visitation. Travel and tourism's added value to the Canadian economy however, is best realized through incremental increases in international visitation to Canada. Such increases will drive real economic development through investment in a broad range of travel product such as hotels ,attractions, recreational real estate and other support industries.

We hope that this report helps to contextualize the unique characteristics of Canada's travel and tourism sector and illustrates the tremendous opportunities offered by this sector to produce real and sustainable economic development, jobs and prosperity for Canadians.

David Goldstein
President & CEO
Tourism Industry Association of Canada

Lyle Hall
Managing Director
HLT Advisory

A MESSAGE FROM VISA CANADA

Visa Canada is pleased to contribute to the Special Annual Report on Canada's tourism industry.

Tourism is an important contributor to Canada's economic growth and electronic payments are a key pillar of the success of this sector in Canada and globally. The retail, hospitality and related businesses that comprise Canada's tourism industry do an outstanding job of introducing our regions, cities and country to visitors from across Canada and around the world.

As the world's largest retail electronic payment network, Visa takes pride in partnering with the tourism industry. Visa's trusted and reliable network enhances the travel experience of visitors in Canada: they can count on unsurpassed merchant acceptance, protection against fraudulent transactions with Visa's Zero Liability Policy, and there is no need to worry about exchanging or carrying local currency. By providing Canadian and international visitors with a familiar, convenient and secure method of payment, Visa allows merchants and tourism providers from coast to coast to access the purchasing power of travellers.

Beyond generating revenue for merchants, Visa transactions provide information that can help improve how the industry attracts and serves its customers. Spending patterns by international travellers coming to Canada, as well as spending by Canadians travelling abroad, provides critical data to Canadian retailers, businesses and tourism partners, enabling them to design programs and promotional efforts that help the industry grow and flourish.

As members of the Tourism Industry Association of Canada, Visa looks forward to its continued partnership with tourism industry merchants, partners and stakeholders in their efforts to reach a growing base of travellers both internationally and domestically. By encouraging travel by international and domestic visitors we can help promote the growth of Canada's tourism industry, foster the success of the many individuals and communities who count on tourism for their livelihoods, and introduce many more people to our beautiful country.

Sincerely,

James J. Allhusen
County Manager
Visa Canada

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INTRODUCTION

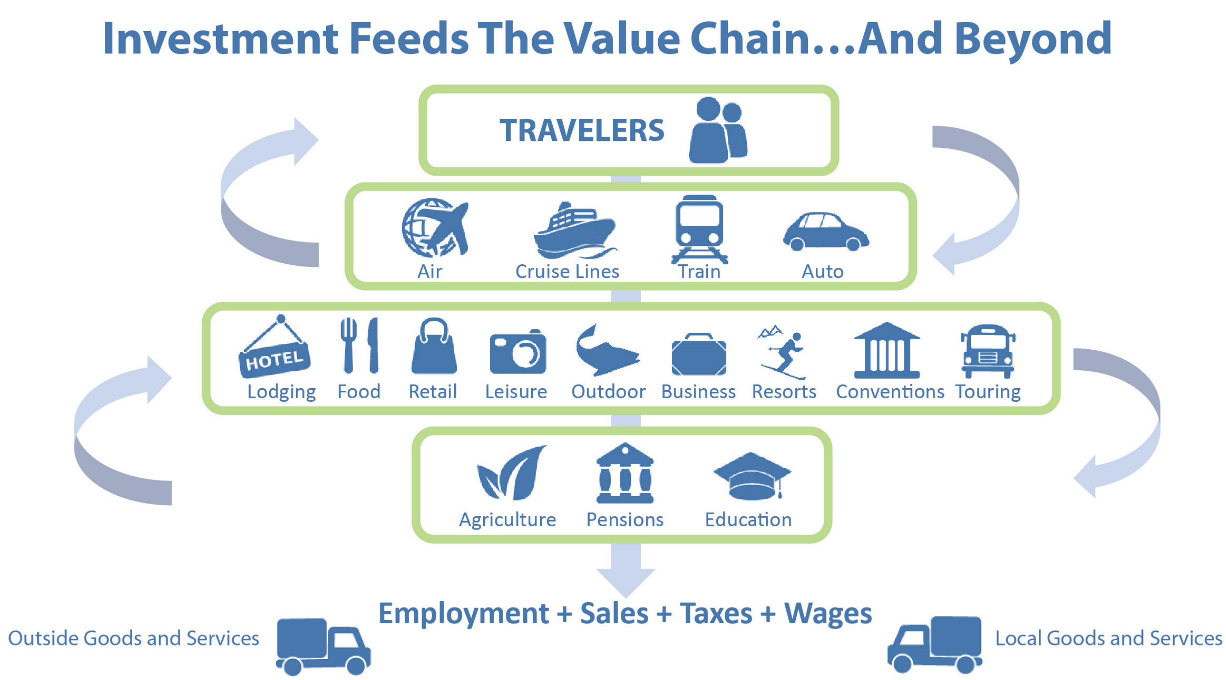
This second annual review of the Canadian travel and tourism industry, and its position within an international marketplace, is designed to provide insights, identify challenges and test solutions to ensure a healthy, vibrant and prosperous sector.

SECTOR AT A GLANCE

Travel and tourism is one of Canada's most resilient trade sectors. To some, tourism-as-export may be counterintuitive. However, unlike shipping exports to another country for consumption, the exports – experiences, meals, attractions – that constitute travel and tourism are consumed in Canada with foreign dollars. International tourists in Canada currently generate $17.4 billion a year in international receipts.

Travel and tourism is a vast and diverse sector comprised of transportation, accommodation, food and beverage, as well as recreation, entertainment and travel services. In Canada, travel and tourism is an $81.7 billion industry, employing about 609,500 people and over 157,000 businesses in every region of the country. The Conference Board of Canada has just reaffirmed that travel and tourism's contribution to the country's GDP is bigger than agriculture, fishing and hunting combined.

Travel and tourism is unique in that it is a "sector of sectors" consisting of a balance between large multinationals and SMEs. Unlike many sectors where the value chain is driven from top down, travel and tourism's value chain is more symbiotic.



Since 2001, international incidents have drastically changed the operational and policy reality of global travel. However, Canada has not kept pace with global practices thereby creating a greater reliance on domestic travel, which has grown from 65% to 81% of total demand.

An over-reliance on the domestic market is a precarious position for the industry. The sustainability of current domestic travel levels are uncertain due to demographic and competition from well-funded competitors such as Brand USA. Canadians are among the most active travellers in the world. Our "wanderlust" to seek out new experiences is contributing to the country's $17.6 billion travel deficit.

International visitors provide incremental growth to the economy and generate greater yield (longer stays and higher spend). On average, visitors from Canada's top 10 international markets spend $1,547 per trip compared to $260 for domestic visitors. Moreover, travel and tourism has been definitively linked through international and Canadian studies[1] to the advancement of other export industries.

A recent Conference Board of Canada study has broken down the performance of the Canadian travel and tourism sector relative to other economic sectors in order to understand it in a larger context. The report found that in essence, the travel and tourism sector made progress in providing relatively greater benefits to the economy, while at the same time slipped in its performance in generating financial benefits to businesses operating within the sector.

The report also found that travel and tourism was one of the most resilient sectors during the recent economic down turn, with disproportionately fewer bankruptcies. This resiliency is substantiated by a recent survey by Nanos Research which reported an overall optimistic outlook on the part of the industry couched by major concerns over key public policy issues such the high cost of aviation and the lack of an adequate marketing budget for the CTC.

INTERNATIONAL TRAVEL AND TOURISM: A STRONG YEAR

By many measures, 2012 was a year of firsts in international travel. According to the United Nations World Tourism Organization (UNWTO), in 2012:

- International overnight tourist arrivals exceeded one billion for the first time (maintaining an incremental annual grown of 4%).
- Tourism receipts for 2012 also grew by 4% reaching $1.075 trillion.
- China became the number one travel and tourism source market in the world.
- The overall average international arrivals increase of 4% consisted of a 7% increase in the Asia Pacific region, 6% in Africa, 4% in the Americas and 3% in Europe. The Middle East saw a decline of 5%, while Canada saw a 1.7% increase.
- On a percentage growth basis, the strongest regional markets for the coming year are to be found in the emerging economies of Asia and Africa.

The UNWTO's long-term forecast projects 1.8 billion overnight arrivals by 2030.

1 Kiyong Keum, "International tourism and trade flows: a causality analysis using panel data," and Deloitte, "Passport to Growth: How International arrivals stimulate Canadian Exports."

A CANADIAN PERSPECTIVE

Travel is of vital important to the Canadian economy driving job creation, private and public sector investment, social, cultural and community development while generating significant government revenues and pride of place.

While domestic travel—Canadians traveling within Canada—remains robust, Canada's position within an increasingly complex and competitive marketplace remains a challenge. Today's competitive realities include new destinations, more package alternatives and more aggressive marketing approaches from private sector interests and various levels of public sector (national and sub-national marketing organizations).

CANADIAN CHALLENGES

In 2011, the Tourism Industry Association of Canada (TIAC) published Gateway to Growth: Our Global Competitiveness Requires a New Roadmap (M.A.P.). This document set out the underlying rationale for why public and private-sector interests would benefit from a strong visitor industry and identified three key areas of focus:

- » Marketing, specifically competitive and stable funding levels
- » Access, including onerous fees and taxes associated with air travel (within and into Canada) as well as burdensome visa policies
- » Product, including the need for both public- and private sector investment in tourist attractions, infrastructure (including core infrastructure such as accommodation as well as indirect infrastructure such as transportation networks) and animation (e.g., events, festivals)

The overarching focus however, is alignment. Alignment within government (there are 15 departments and agencies whose policy and programs impact travel and tourism) and between governments where federal, provincial and municipal/regional governments play a role in managing, marketing and overseeing travel and tourism.

This report provides a snapshot of 2012, identifies current issues and challenges and offers suggestions for improvement.

FACTS AND FIGURES

No matter the measuring stick, travel and tourism is big business in Canada as well as being a meaningful contributor to the economy of every Canadian province. And, because of its unique structure, the tourism system makes a meaningful contribution to the performance levels of many related sectors and industries (e.g., retail, arts and culture).

WHO'S TRAVELLING WITHIN/TO CANADA AND WHAT DO THEY SPEND?

Canadians traveling within Canada continue to account for the vast majority of visitor activity. According to 2011 figures from Statistics Canada (the most recent year measured), 93% of trips were domestic.

Table 1: International Visitors vs. Canadian Spending 2012

	Amount Spent (%)	Amount Spent (Billions)
Canadian Travellers	81%	$65.8
International Travellers	19%	$15.9*

Source: Statistics Canada, Tourism Demand in Canada
*International traveller spending relates only to leisure and business travellers (i.e., excludes students, air crew and others).

Canada has grown increasingly reliant on domestic travel over the past decade with spending by Canadians now accounting for 81% of total spending compared to about two-thirds in 2000. By comparison, the proportion of domestic visitation and spending in the Canadian travel and tourism industry is much larger than the domestic proportion of the British, French and Spanish travel and tourism industries (while slightly below the US and still significantly trailing the domestic Japanese market).

Increasing international visitors will diversify the source market and make the Canadian travel and tourism industry less volatile, encouraging more investment. As such,the focus on higher-yield visitors—those who travel further, stay longer and usually spend more—has been a consistent theme of the Canada's national travel and tourism marketer, the Canadian Tourism Commission (CTC).

Table 2: Spending by Domestic and International Travellers, 2011*

Person-Trips and Spending While on a Trip in Canada by Domestic and International Travellers in Canada in 2011		
	Person-Trip	Spending Per Person-Trip
Domestic Same-Day	211,720,000	$87
Domestic Overnight	107,977,000	$260
US Visitors Same-Day	8,946,000	$52
US Visitors Overnight	11,597,000	$529
Overseas Same-Day	416,000	$29
Overseas Overnight	4,106,000	$1,429
Same-Day	221,083,000	$86
Overnight	123,680,000	$324
Total	344,763,000	$171
Domestic	319,697,000	$146
Export	25,066,000	$498

Source: Statistics Canada, ITS and TSRC 2011
* TSRC for 2012 is not available

WHO BENEFITS FROM TRAVEL AND TOURISM?

The $81.7 billion in travel and tourism spending in 2012 creates significant broad-based economic activity, including:

- » Gross Domestic Product (GDP) of $32.0 billion. Travel and tourism represents more of Canada's GDP than agriculture, hunting and fishering combined.
- » The labour market benefits from the 609,500 jobs generated by the industry

But the big winner is government. Tourism tax revenues to all three levels of government—notably commodity taxes such as HST/GST, personal income taxes and corporate income taxes—reached $21.372 billion in 2011.[2] Federal and provincial governments receive almost 95% of the taxes generated.

Consistent with the growing proportion of visitation and spending by Canadians travelling within Canada, the associated tax revenues are also accruing from domestic spending. In fact, tax revenues from domestic travel almost doubled between 2000 and 2012 while tax revenue from international visitors declined by almost 20%.

2 2012 GRAT (Government Revenue Attributed to Tourism) numbers are not out yet, but HLT has estimated $22.260 billion was collected in taxes.

HOW DOES CANADA'S INTERNATIONAL VISITOR CAPTURE RATE COMPARE?

Canada continues to hold a spot among the top twenty most-visited international destinations, albeit out of the "top ten" a position held until the early 2000's. The UNWTO's worldwide rankings place Canada in 16th place, a slight improvement from Canada's 2011 18th place showing.

Table 3: UNWTO Worldwide Visitation Ranking 2012 - Visitors (M)

Rank	Country Name	2000	Rank	Country Name	2010	Rank	Country Name	2011	Rank	Country Name	2012
	World	**691.2**		**World**	**939.0**		**World**	**996.0**		**World**	**1,035.0**
#1	France	77.2	#1	France	77.1	#1	France	81.6	#1	France	83.0
#2	United States	51.2	#2	United States	59.8	#2	Unites States	62.7	#2	Unites States**	67.0
#3	Spain	46.4	#3	China	55.7	#3	China	57.6	#3	China	57.7
#4	Italy	41.2	#4	Spain	52.7	#4	Spain	56.7	#4	Spain	57.7
#5	China	31.2	#5	Italy	43.6	#5	Italy	46.1	#5	Italy	46.4
#6	United Kingdom	23.2	#6	United Kingdom	28.3	#6	Turkey	34.7	#6	Turkey	35.7
#7	Mexico	20.6	#7	Turkey	27.0	#7	United Kingdom	29.3	#7	Germany	30.4
#8	**Canada**	**19.6**	#8	Germany	26.9	#8	Germany	28.4	#8	United Kingdom	29.3
#9	Russian Federation	19.2	#9	Malaysia	24.6	#9	Malaysia	24.7	#9	Russia Federation	25.7
#10	Germany	19.0	#10	Mexico	22.3	#10	Mexico	23.4	#10	Malaysia	25.0
#11	Austria	18.0	#11	Austria	22.0	#11	Austria	23.0	#11	Austria	24.2
#12	Poland	17.4	#12	Ukraine	21.2	#12	Russia Federation	22.7	#12	Hong Kong	23.8
#13	Greece	13.1	#13	Russia Federation	20.3	#13	Hong Kong	22.3	#13	Mexico	23.1
#14	Portugal	12.1	#14	Hong Kong	20.1	#14	Ukraine	21.4	#14	Ukraine	23.0
#15	Malaysia	10.2	**#15**	**Canada**	**16.1**	#15	Thailand	19.1	#15	Thailand	22.4
#16	Bangladesh	10.0	#16	Switzerland	15.0	#16	Saudi Arabia	17.5	**#16**	**Canada**	**16.3**
#17	Turkey	9.6	#17	India	14.2	#17	Greece	16.4	#17	Greece	15.5
#18	Thailand	9.6	#18	Singapore	14.1	**#18**	**Canada**	**16.0**	#18	Poland	14.8
#19	Hong Kong	8.8	#19	Japan	13.2	#19	Poland	13.4	#19	Saudi Arabia	13.7
#20	Switzerland	7.8	#20	Netherlands	12.9	#20	Macau	12.9	#20	Macau	13.6
Total Top 20 Countries		**465.5**			**587.1**			**629.9**			**648.3**
As % of Total		**67.3%**			**62.5%**			**63.2%**			**62.6%**

Source: UNWTO
Notes: Numbers represent international arrivals (excludes same-day travellers)
** Data from the US Department of Commerce - ITA Office of Travel & Tourism Industries.

Excluding the United States the greatest generators of visitors to Canada are the United Kingdom, France, Germany, Australia and China. While on a percentage basis, the most significant increases in 2012 were posted by visitors from China, Australia, Mexico and Japan, Canada experienced declines from traditional source markets (i.e., United Kingdom, France and Germany). Ontario, British Columbia and Québec received more than 80% of the overnight visits generated by international visitors to Canada.

AND WHERE DO WE STAND VIS A VIS THE UNITED STATES?

The US market is overwhelmingly the largest international source market for Canadian travel and tourism—generating almost all same day and 74% of all overnight trips in 2012—but the makeup of this market has changed dramatically over the last decade. The marked decline in total visitation results almost entirely from the decline in same-day visits by US residents to the lowest level in the past decade (i.e., a fall from a high of 29.0 million in 2000 to 8.83 million in 2012). These may not be "high yield" visitors along the lines of overseas visitors, but they are an important customer for many Canadian travel and tourism businesses.

Of more interest is the comparison of the sources and associated volumes of visitors to Canada with the sources and volumes of visitors to the United States. Each country is its own "best customer" (based on total trips), despite the almost tenfold difference in population. However, the composition of the next ten largest source countries for each of Canada and the United States is remarkably similar—with the exception of the actual volume of visitation. The United States receives almost six times more visitors from the United Kingdom and Germany and three times as many visitors from France.

Table 4: 2012 International Tourist Arrivals (Overnight Visits)

2012 International Tourist Arrivals (Overnight Visits) Canada vs. United States		
Country	**Canada**	**US**
Canada		22,698,986
United States	11,886,950	
Mexico	141,921	14,509,341
Subtotal	12,028,871	37,208,327
United Kingdom	653,921	3,763,381
France	455,300	1,455,720
Germany	311,692	1,875,952
China	288,279	1,474,408
Australia	258,115	1,122,180
Japan	226,215	3,698,073
India	146,652	724,433
South Korea	139,999	1,251,432
Hong Kong	120,022	128,512
Switzerland	109,951	476,637
Netherlands	100,644	591,746
Italy	93,127	831,343
Brazil	93,570	1,791,103
Subtotal Other	23,139,408	19,184,920
Total Top 15 Inbound Countries	15,168,279	56,393,247

Note: Tourist Arrivals refers to overnight arrivals only (excludes same-day travellers).
Source: The US Office of Travel and Tourism Industries and Statistics Canada, International Survey Frontier Counts 2012.

Before 2012, the United States had neither a coordinated national travel and tourism marketing strategy nor a dedicated funding source. However, due to its natural brand appeal, visitor volume has always been three to six times larger from a given market to the US than to Canada. Now, the US has a $200 million budget and a newly created national marketing entity ("Brand USA"). This new, well funded and coordinated initiative not only strengthens US competitiveness to attract international travelers, but it also threatens to redirect Canadian domestic tourists south of the border. The US now brings a coordinated effort to grow visitation to an already competitive travel and tourism destination.

ISSUES AND CHALLENGES

With a strong domestic travel and tourism industry, the focus on issues and challenges—and associated improvements/actions—turns to the international marketplace. In this regard, five issues are identified as having the most meaningful impact:

- **Issue #1: Barriers to Global Competitiveness**
- **Issue #2: Alignment Within and Between Governments and the Private Sector**
- **Issue #3: Sustainable, Competitive and Balanced Marketing**
- **Issue #4: A Growing Travel Deficit**
- **Issue #5: Creating an Environment for Product Investment**

Each of these issues is briefly set out in the following pages.

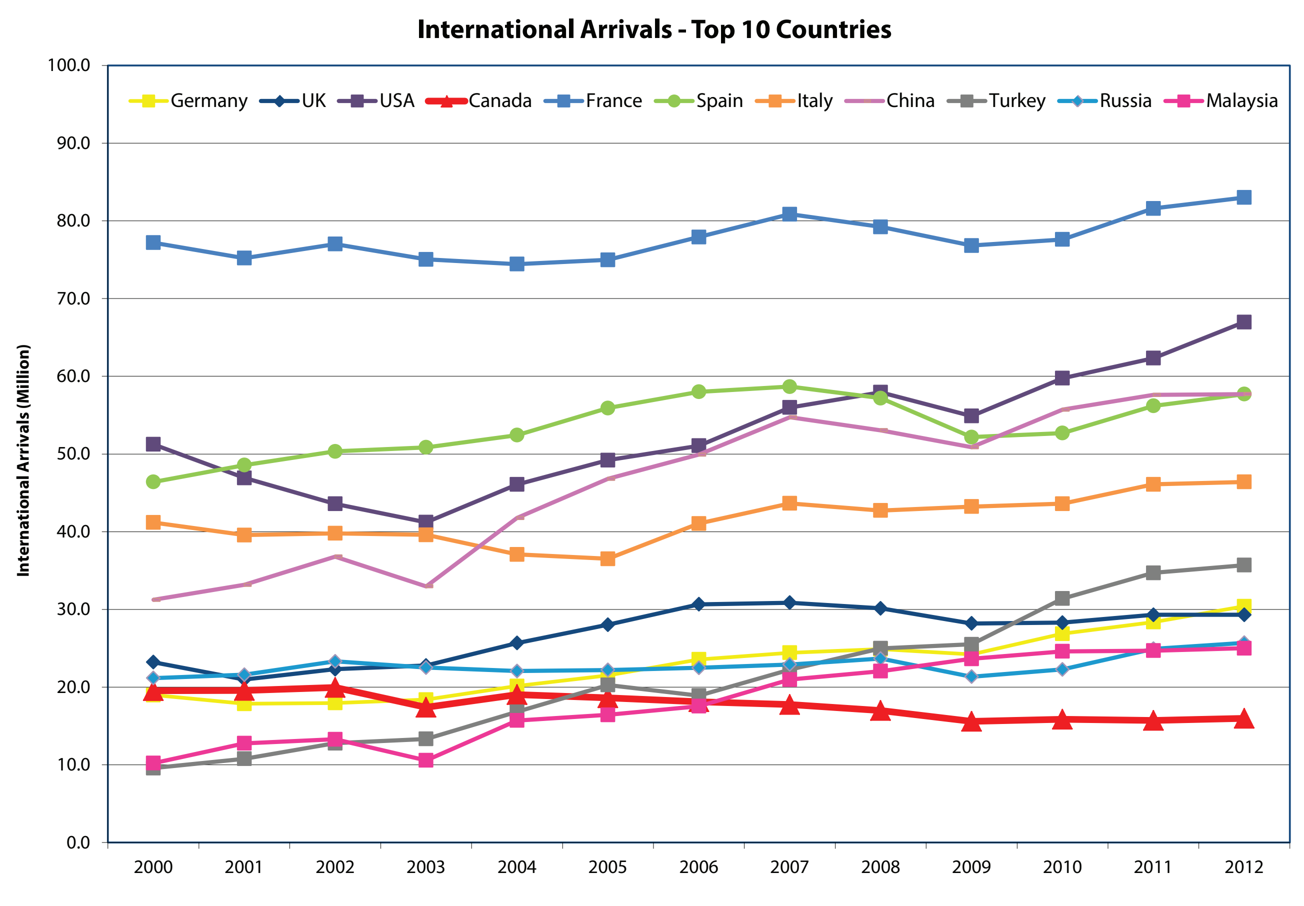
ISSUE #1: BARRIERS TO GLOBAL COMPETITIVENESS

Canada is losing position as an international travel destination not only from a ranking perspective (vis a vis the UNWTO global rankings) but also when measuring aggregate visitor volumes. Several facts underpin this conclusion, including:

- Among the UNWTO's Top 10 inbound tourist destinations in 2000, only Canada has fewer visitors in 2012 than in 2000.
- Visitation from the fifteen countries generating the most international visitation to Canada—**excluding the United States**—dropped from 3.5 million in 2000 to 3.1 million in 2012.
- Even if Canada's international visitation recovered to 2000 levels, Canada would still be ranked 16th in the UNWTO list of most visited destinations.
- The United States continues to generate international visitation from source markets anywhere from three to six times greater than the number of visitors to Canada (e.g., Canada received about 653,921 UK visitors in 2012 while the United States welcomed 3.8 million).

Why the decline? Despite Canada's national brand positioning, a number of policy barriers are preventing visitors from transitioning to booking tickets from merely having a positive opinion of the country.

Figure 1: International Arrivals



Source: UK Office of National Statistics, US Department of Commerce - ITA Office of Travel & Tourism Industries, Statistics Canada and UNWTO.

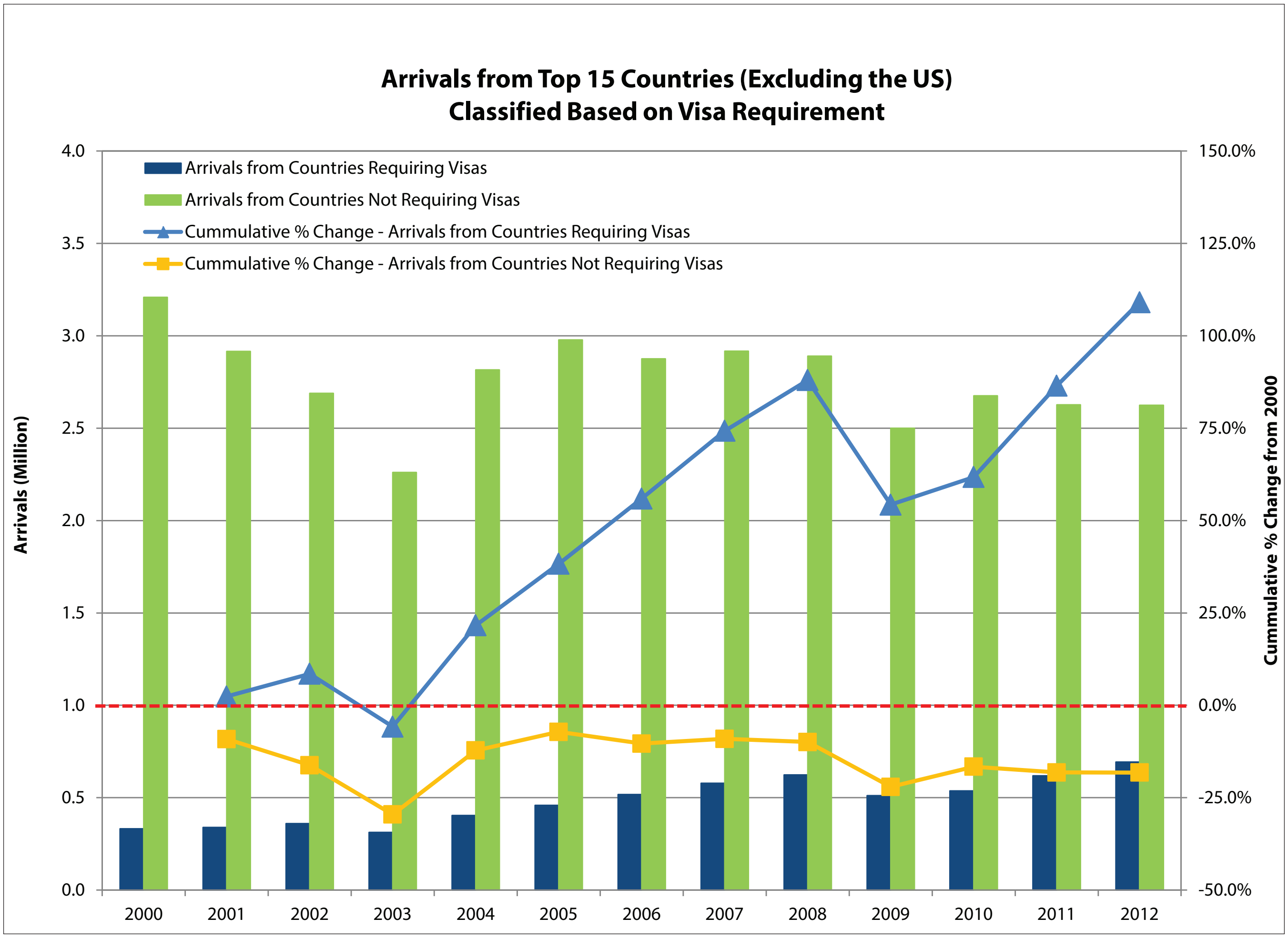
In stark contrast to the US, which generates sixfold more international visitors, Canada's air access issues are slowing down inbound international visitation. Air access issues are primarily cost-based issues including:

- » Cost of air travel to and within Canada. Costs are a factor of landing fees and taxes. Simply put, the Canadian government (and individual airport authorities) view airports as full cost-recovery business enterprises where air travel in other countries is seen, and treated, as public infrastructure. Canadian air infrastructure routinely ranks among the highest with respect to quality and, unfortunately cost as well.
- » Cost of air travel into Canada which relates partially to Canadian airport landing fees.
- » Overall cost of infrastructure for prospective carriers means a lack of competition within Canada to provide a lower cost alternative both domestically and internationally.

Taxation of exports is another known barrier. Tourism is an export commodity and Canada is one of the only countries in the world that levies a non-recoverable tax on travel and tourism: the Goods and Services (or Harmonized Sales) Tax. Almost every other country with a similar GST or "value added" tax offers a rebate program for foreign visitors. Canada does not, placing Canadian travel and tourism operators, convention planners and the rest of the industry at a significant disadvantage with up to 15% price point premium over our competitors.

One of the more interesting decisions having an impact on international travel and tourism however, is visa policy and processing. Countries whose nationals require a visa are generating much greater year-over-year growth rates than Canada's traditional, visa-exempt markets. For example, total arrivals from Brazil, Mexico and China between 2001 and 2012 increased by more than 100% while percentage growth from traditional countries has decreased.

Figure 2: Arrivals from Top 15 Countries



This is a two-pronged issue which comprises the federal government's position on which country's nationals require visas as well as the difficulty, time and cost required to obtain a visa.

ISSUE #2: ALIGNMENT WITHIN AND BETWEEN GOVERNMENTS AND THE PRIVATE SECTOR

The 2011 federal travel and tourism strategy, *Canada's Federal Tourism Strategy: Welcoming the World,* identified the need for a "whole-of-government" approach that applies a travel lens to policy and program development and focuses future travel and tourism investments on priority areas." The following examples illustrate the need for broader government communication and coordination to achieve the desired outcomes:

» Visa policies/requirements are imposed with little thought to existing marketing spending. A whole-of-government approach would have ensured that major stakeholders in the travel and tourism industry were consulted before this significant policy decision was made.

» A decision to increase the exemption limits for Canadians travelling outside Canada on goods brought back home, while at the same time reducing travel and tourism marketing budget to attract international travellers.

» Airport infrastructure is looked upon as a profit generating operation, with costs passed on to travellers.

The interaction and coordination among the 15 federal agencies and departments identified in the Federal Tourism Strategy should be a priority focus for constant improvement and communication.

ISSUE #3: BALANCED, SUSTAINABLE AND COORDINATED MARKETING

In the simplest sense, travel is a consumer good like any other product or service. Marketing delivers product awareness, brand continuity, a sense of urgency among other benefits and moves people along the path to purchase. The challenges with marketing the Canadian travel and tourism product include:

» Insufficient Marketing Spend

» Stability and Connection to a Success Measure

» Coordination

Marketing - Insufficient Marketing Spend

The CTC's operating budget in government fiscal year 2012 was $72 million or about $4 for every international overnight visitor to Canada last year; in fiscal year 2014 the operating budget will fall to $58.5 million. With these dwindling resources, the CTC is expected to tell the world about a country of almost 10 million square kilometres and a diverse array of travel and tourism attributes, products and services.

By comparison, in 2012, the Disney Companies spent $125 million on resort properties alone and Air Canada spent $65 million on domestic and international marketing. Compared to other national destination marketing organizations, the CTC is being outspent by a range of countries including the United States, Ireland, Australia, New Zealand, France and Mexico.

Of greater interest, however, is the return generated by governments (mostly federal and provincial) on travel and tourism spending. From 2007 through 2013[3] the federal government invested on average $88 million/year in the form of marketing through the CTC, while reaping an average of $9.3 billion/annum.

Similar disparities between investment (i.e., marketing expenditures) and return (i.e., tax revenues realized) are present at the provincial level.

3 Without adjusting from calendar to government fiscal year.

Table 5: Investment and Return from International Arrivals

Investment and Return from International Arrivals						
	2007	**2008**	**2009**	**2010**	**2011**	**2012***
Overnight International Arrivals	17,776,000	16,997,000	15,585,000	15,867,000	15,703,000	15,972,000
CTC Operating Budget (M)	$79	$83	$105	$109	$82	$72
Federal Gov't Revenue (B)	$9.221	$9.152	$8.610	$9.017	$9.623	$10.025
CTC Operating Budget/ Arrival	$4	$5	$7	$7	$5	$4
Federal Gov't Revenue/ Arrival	$519	$538	$552	$568	$613	$628

Source: Statistics Canada, Government Revenue Attributable to Tourism, CANSIM Table 387-0001, Statistics Canada International Travel Survey.
*2012 numbers are HLT estimates.

The recent approach taken by the United States towards travel marketing provides an additional comparison. Brand USA was established under the Travel Promotion Act of 2009 as: "a national program with the mission of attracting billions of dollars in increased visitor spending to the United States, which will create tens of thousands of new jobs." Prior to Brand USA there was limited coordinated international travel and tourism marketing effort—despite the US being in second position in total international arrivals for the past decade (they saw over 60 million international visitors compared to Canada's 16 million).

Brand USA works with a marketing budget of up to US$200 million sourced through Electronic System for Travel Authorization (ESTA) fees matched on a dollar-for-dollar basis with up to $100 million raised from the private sector (cash and in-kind).

Canada is the US' largest inbound travel market, generating approximately 22 million annual visits (about one-third air travellers) and a total spend of US$24 billion. Consequently, Brand USA is projected to allocate approximately US$20 million in marketing funds targeting Canadian visitation. Brand USA's spending will enhance the estimated US$5 million annually spent in Canada by the states of New York, Florida and California which enjoy a large portion of the current Canadian travel spend. Brand USA is targeting a 5% annual increase in Canadian visitation as the result of the US$20 million annual budget allocation.

In other words, Brand USA is spending $20 million/annum to increase Canadian visitation by 5% (1.05 million visitors) from a population base of 34.5 million. The population of the United States is 317 million, from which Canada generated 11.9 million overnight and 8.8 million same day visits in 2012.

Currently, the Canadian national or federal marketing spend in the United States is $0 for the leisure market (with the exception of Business Events Canada market support and media relations).

Marketing - Stability and Connection to a Success Measure

In a perfect world of unlimited financial resources, Canada's travel and tourism offerings would be marketed to long-standing and nearby traditional markets, long haul markets and emerging markets—with product offerings tailored to a range of season, trip purpose, trip length and other differentiators. That world doesn't exist. The operating realities facing the CTC and its provincial and municipal counterparts are of not only limited but also constantly changing resources.

Within just the last seven years the CTC's budget has ranged from $61.2 million to $109 million with one-time or project-related funding accounting for as much as 28% of the total budget. Long-term marketing planning (even short- to medium term staff and support planning) is challenging with such variances in annual budgets.

Table 6: Canadian Tourism Commission Budget

Canadian Tourism Commission Budget, Geographic Focus and Inbound Visitors (M)							
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
CTC Operating Budget	$79	$83	$105	$109	$82	$72	$61.2
Direct Marketing Spend	$60.7	$63.9	$79.2	$86.5	$84.8	$63.5	$50.3
Spend by Region							
US	$16.2	$19.4	$27.5	$26.7	$3.1	$2.0	$0.2
Core/Transitional Markets*	$23.8	$23.7	$23.5	$24.5	$39.0	$34.1	$27.4
Emerging Markets**	$0.0	$0.0	$0.9	$3.3	$3.2	$3.4	$3.0
Domestic	$2.8	-	$8.7	$9.0	-	$0.0	-
BEC (includes US)	$6.0	$6.1	$8.4	$8.2	$6.0	$5.7	$5.7
Brand/General (Research marketing, etc.)	$12.0	$14.7	$10.2	$14.8	$19.3	$18.3	$14.2
TOTAL	**$60.8**	**$63.9**	**$79.2**	**$86.5**	**$70.6**	**$63.5**	**$50.3**
Inbound Visitation (O/N)							
US	13 375	12 504	11 667	11 871	11 597	11 887	-
Core Markets*	1 852	1 876	1 669	1 754	1 736	1 728	-
Emerging Markets**	1 134	1 108	862	950	993	1 084	-

Source: CTC Data
* Core includes UK, France, Germany, Italy, Switzerland and Netherlands, Hong Kong, Japan, Australia and South Korea.
** Emerging includes Brazil, China, India and Mexico.
NB - Note budget numbers reflect the government fiscal year (April-March). The spend numbers reflect the CTC fiscal year (January-December). Additionally, the operating budget excludes partner funding. Lastly, sometimes surpluses from prior years are carried forward, impacting the current years' spend.

As a result, the CTC allocates the majority of its more stable base funding to marketing initiatives directed to a few core and emerging countries (even this amount will decrease by 25% in 2013 over 2007), leaving almost no allocation to the United States leisure market. CTC continues with strong media relations as well as investments in Business Events Canada in the US. With well-funded competitors eyeing Canada's customers, the CTC was forced to allocate its resources in markets where they will have the biggest impact. A consistent, year-over-year funding stream that permits longer range planning is essential to effective marketing.

Marketing - Coordination

The power of a coordinated approach to exponentially grow returns is plainly obvious in the destination marketing field. The best example of this is the industry's dilemma with respect to marketing to the US. With a population of over 300 million and a plethora of interesting places in their backyards, getting the attention of American travellers is a large undertaking.

Significant budget cuts meant the best option for the CTC was to withdraw from the US market and to consolidate remaining resources. (Fortunately, CTC was able maintain a competitive position in key overseas core markets and look to emerging markets to establish a position for Canada's future.)

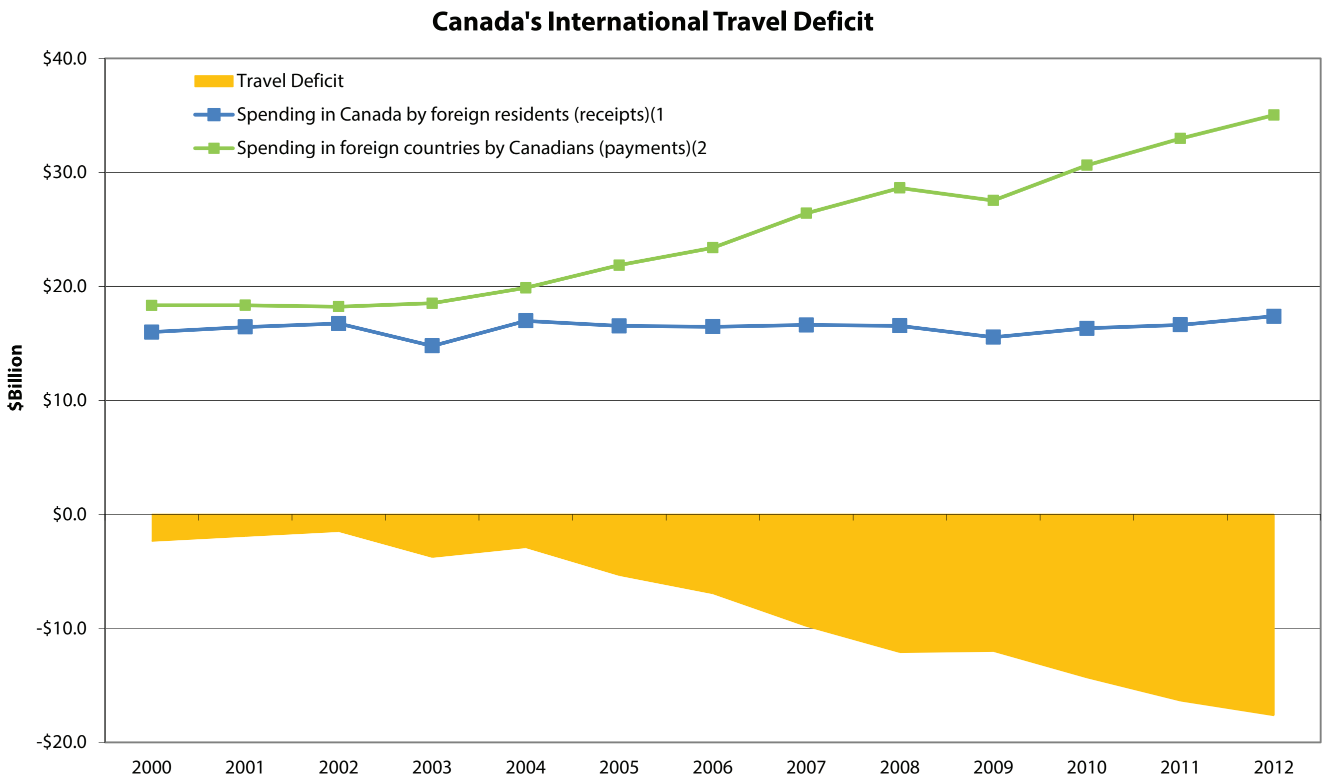
The CTC's necessary withdrawal from the US had impacts for other destinations also investing in the US. In addition to the loss of a natural amalgamation to co-ordinate marketing efforts, individual destinations also experienced a diminished ability to achieve the scale needed to make an impact in the US. While some US-directed marketing continues, most provincial and municipal marketing entities have chosen to funnel resources into domestic marketing (in most cases within the province or into adjacent provinces) as a priority rather than trying to have an impact in the US.

The key takeaway is that while marketing budgets are viewed (correctly) as insufficient, a greater coordination of marketing spend would dramatically improve returns for the CTC and every one of its partners because national marketing investments leverage partnership investments.

ISSUE #4: A GROWING TRAVEL DEFICIT

Canada's travel deficit continues to grow, reaching $17.6 billion in 2012 some $1.3 billion, or 8%, more than the previous year. The travel deficit has increased every year since 2004 (effectively every year since 2000 if the effects of 9/11 and SARS are eliminated). Over the past ten years a meagre 3.8% (total, not annual) growth in international visitor spending has been offset by more than a two-fold increase in spending by Canadians outside of Canada.

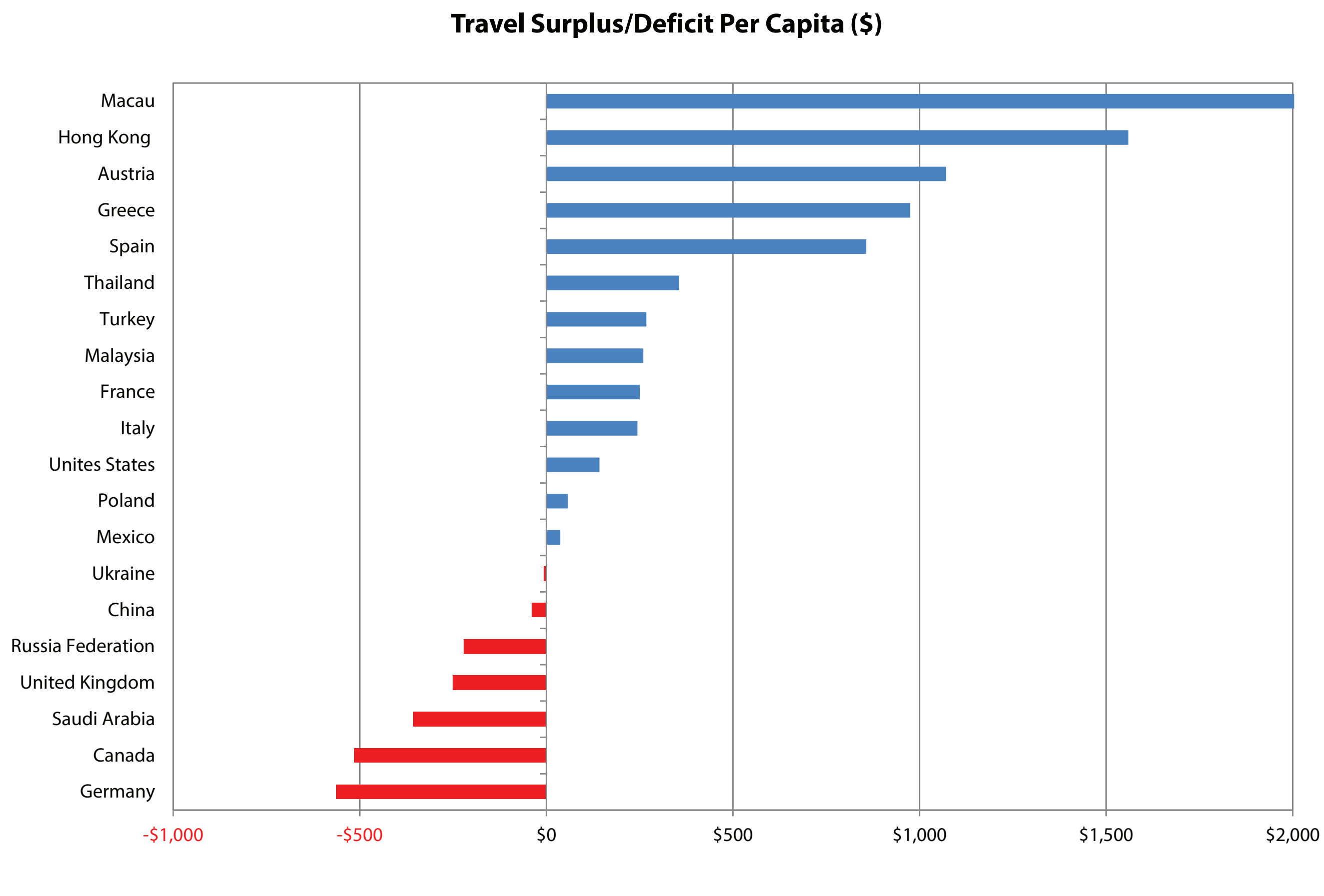
Figure 3: Canada's International Travel Deficit



Source: Statistics Canada. Table 376-0108 - International Transactions in Services, by Category.
1) receipts in the travel account are defined to include all expenses incidental to travel in Canada by non-residents. Among these are expenditures in Canada for lodging, food, entertainment, local and intercity transportation and all other purchases of goods and services (including gifts) made by travellers. The series thus includes any purchases of personal goods to be exported by travellers. Also included are medical expenses and education expenses of non-residents in Canada as well as foreign crew members' spending in the country.
2) Payments in the travel account are correspondingly defined to include all expenses incidental to travel abroad by residents of Canada. Among these are expenditures abroad for lodging, food, entertainment, local and intercity transportation and all other purchases of goods and services (including gifts) made by the travellers. The series thus includes any purchases of goods to be imported for personal use by travellers. Also included are medical expenses and education expenses of Canadian residents outside Canada as well as Canadian crew members'

Canada's travel deficit accounts for 28% of the entire Canadian trade deficit surpassed only by "Electronics and Electrical Equipment" and "Industrial Machinery, Equipment and Parts."

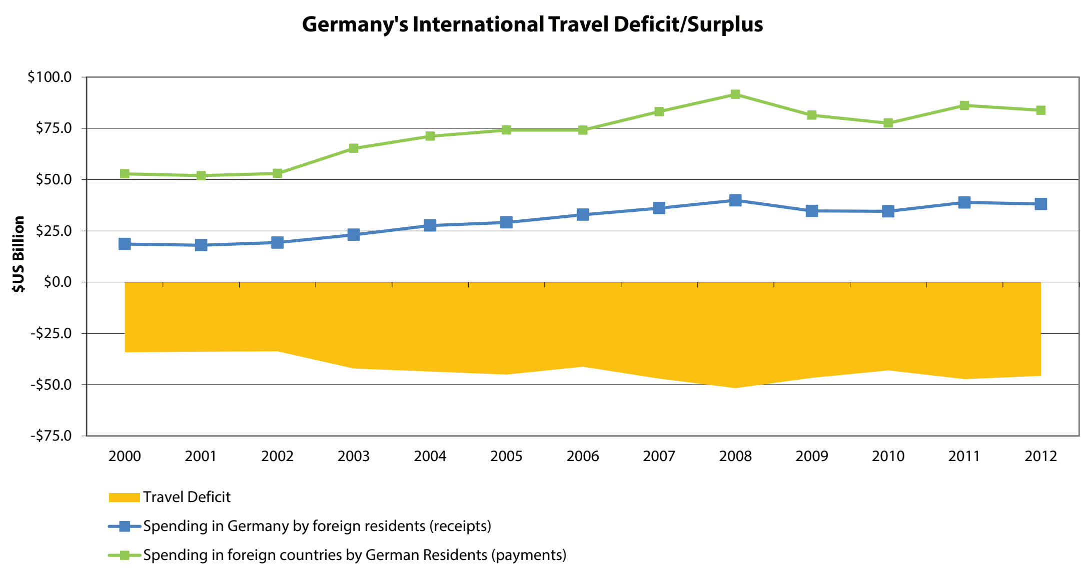
Figure 4: Travel Surplus/Deficit per Capita



Source: UNWTO, CIA Factbook

The only significant western economy with a travel deficit greater in magnitude than Canada's is Germany, while the travel deficit per capita in the United Kingdom is half of Canada's.

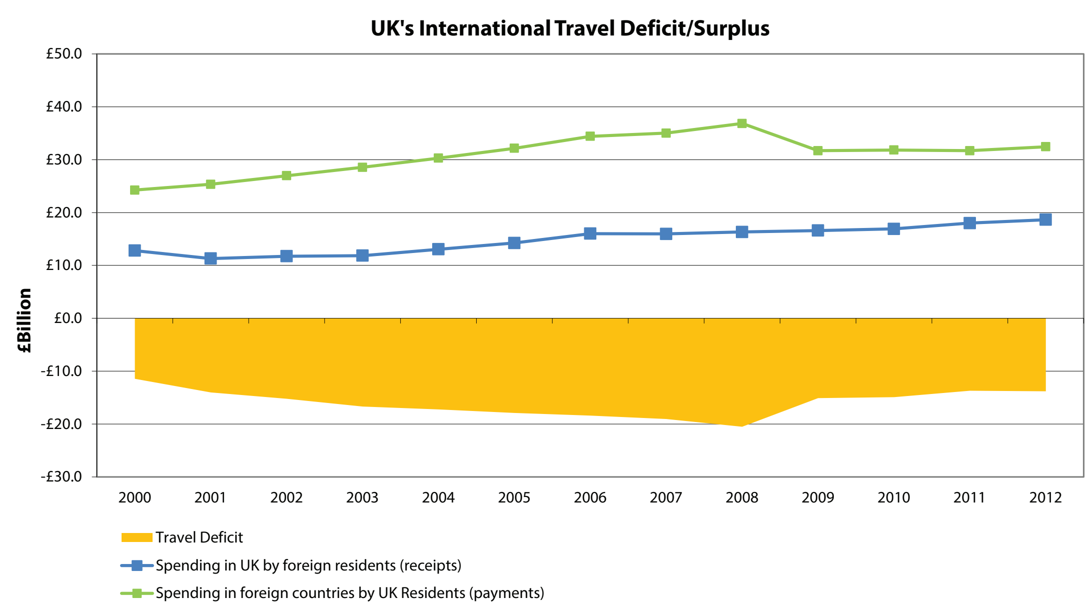
Figure 5: Germany's International Travel Deficit/Surplus



Source: Data from the UNWTO.

Germans are among the world's most consistent outbound travellers. However while the number of Germans travelling abroad has decreased about 1% over the last decade, inbound visitation to Germany has increased by more than 60%.

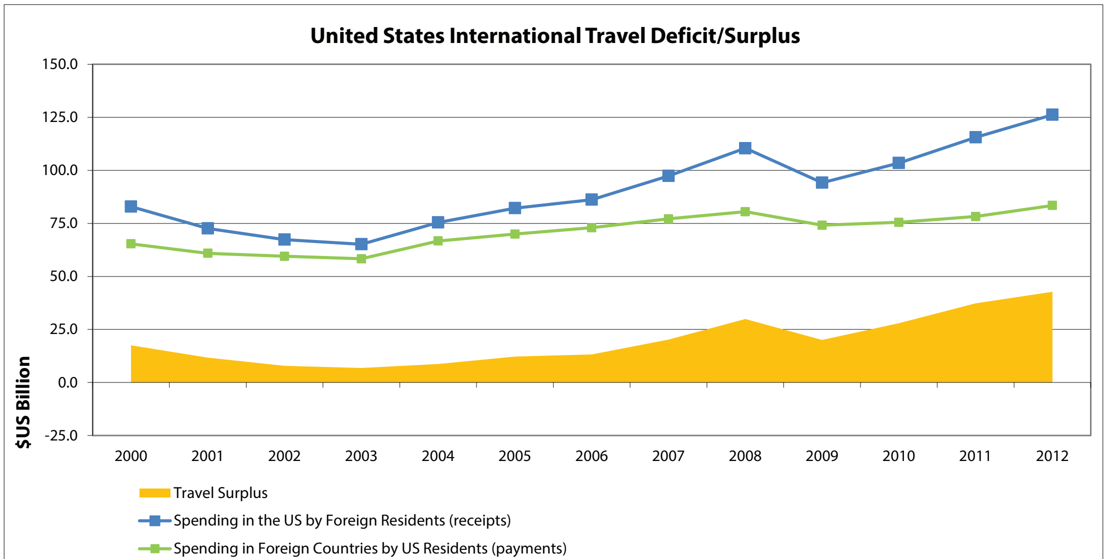
Figure 6: UK's International Travel Deficit/Surplus



Source: Data from the UK Office of National Statistics.

Outbound travel by United Kingdom residents has fallen off dramatically as a result, at least in part, of the diminished value of the Pound against the Euro in recent years. However, inbound visitation continues with a 26% growth in just over a decade.

Figure 7: US' International Travel Deficit/Surplus



Source: U.S. Department of Commerce, Office of Travel and Tourism Industries from the Bureau of Economic Analysis, June 2013.

The United States consistently posts a travel surplus, in part due to the relatively small proportion of US citizens with passports. Inbound international travel to the United States has increased 30% since 2000.

Comparing growth of international travel among Canada, our largest market (and potential competitor and/or ally for international travel), the United States as well as Germany and the United Kingdom paints an interesting picture.

A comparison of key characteristics of Canada, together with the other three leading travel deficit countries, shows certain similarities but also noted differences.

Table 7: 2012 Comparison of Travel Deficit Markets

2012 Comparison of Canada with Other Significant Travel Deficit Markets and the US				
	Canada	**Germany**	**UK**	**United States**
Inbound Trips (M)	16.0	30.7	31.1	66.7
Inbound Trips from (%): **- Americas** **- Europe** **- Asia** **- Other**	77% 13% 8% 2%	11% 73% 9% 7%	11% 73% n/a 16%	65% 19% 12% 4%
Outbound International Trips (M)	55	86.9	56.5	60.7
Population (M)	34.2	80.6	64.2	316.7
Outbound Trips/Capita	1.6	1.08	0.88	0.19
Travel Deficit as % of Total Trade Deficit	28%	Discounting travel deficit, total balance of payment surplus increases by 20%	16%	Discounting travel surplus, total balance of payment deficit increases by 10%
National Marketing Spend Current Year (Local Currency)	$50.3 million (CAD)	€34.5 million (CAD $47.6 million)	£57.4 million (CAD $94 million)	Up to US $200 million (CAD $210 million)
Source: Statistics Canada, Deutsche Bundesbank, The UK Office of National Statistics, US Department of Commerce, Office of Travel and Tourism Industries from the Bureau of Economic Analysis, UNWTO, and CIA FactBook.				

The striking finding is the significant outflow of Canadians (1.6 international trips per capita) when compared to these other northern hemisphere countries.

ISSUE #5: CREATING AN ENVIRONMENT FOR PRODUCT INVESTMENT

The lack of new investment (and reinvestment) in Canadian travel and tourism infrastructure is generated by some (or all) of the previous four issues.

A recent Conference Board of Canada report, entitled *Gateway to Growth: Tourism Competitive Benchmarking Study (2013 Update)*, confirms that while travel and tourism's demand and GDP contribution have grown, the sector actually slipped on a number of financial (microeconomic) indicators. In fact, investment in the travel and tourism sector is currently down 30% compared to pre-recession levels.

Private sector investors look for three key attributes when considering a given travel and tourism investment:

- The degree to which travel is recognized as an integral component of the economic base of the region as demonstrated through policies that support travel and tourism development/operation. The host government (often governments at all levels) must embrace travel and tourism and demonstrate its support in marketing, infrastructure and all other policies affecting the ease and profitability of doing business in the jurisdiction.
- Quality of infrastructure including transportation/access and travel and tourism critical mass. In areas with an existing critical mass of travel and tourism product (such as attractions, hotels, entertainment) the focus will be on compatibility, potential competitiveness and synergies. In fledging or developing areas a greater concern will be the sufficiency of transportation and access infrastructure.
- Destination marketing—for those investors/tourism operators dependent on large volumes of visitors (as opposed to residents) for a significant portion of earnings, knowledge that the destination has sufficient marketing wherewithal is a key decision criterion.

The public sector, as significant owners of travel infrastructure, both direct (e.g., attractions, arts and culture, heritage elements) and indirect (e.g., transportation, parks and recreation), also plays a key role in setting the stage for development.

RECOMMENDATIONS

Canada's travel and tourism industry faces a two-part (but interrelated) problem: a growing reliance on domestic travel and a marked decline in international overnight visitors to Canada. The problem is compounded by a booming global travel and tourism industry—one where total international visits exceeded $1 billion for the first time last year.

TIAC's Gateway to Growth identifies marketing, access and product as the three key challenges to Canada's travel and tourism ability to compete. Some progress has been made. More is necessary. Given the issues and challenges facing the industry the following recommendations are offered as priorities.

MARKETING

Alignment within any and all marketing interests is a core need.

Priority #1: Set an Aggressive Target

In a world of rapidly expanding travel activity—including numbers of visitors and visits, as well as destinations—how should Canada's medium-term visitation goal be established? Aggressively. Consider that a 20% increase over Canada's 2012 visitor volume is required to return Canada to the visitor levels posted in 2000—but that this would still leave Canada ranked in sixteenth position behind destinations not even in the top twenty in 2000 (e.g., Turkey, Russia, Ukraine, Thailand).

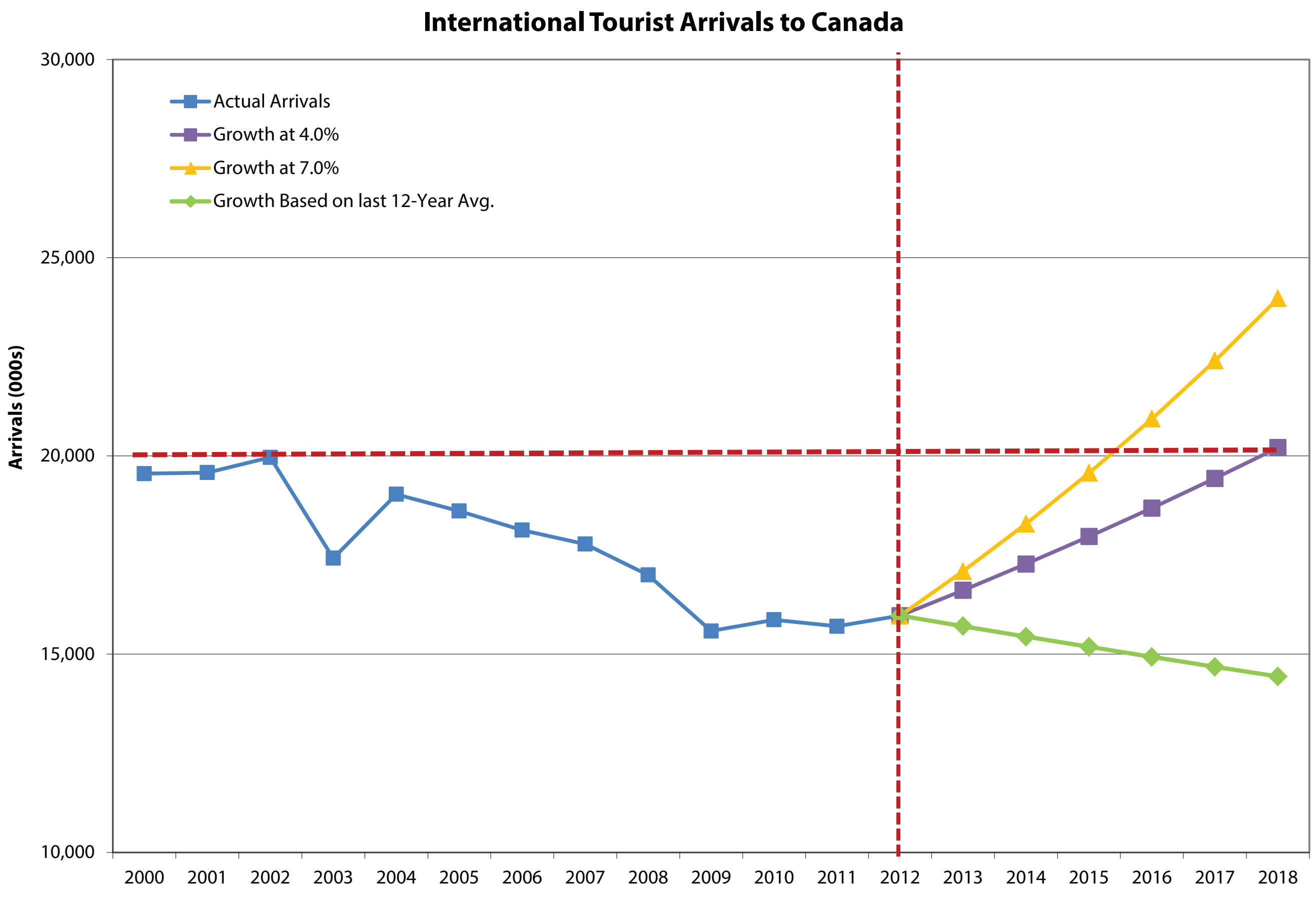
Is a 20% increase aggressive? When the compounded average growth rate in foreign arrivals to Canada has been -1.7% over the past decade, with a slim 1.7% increase in 2012 over 2011, the answer is yes, probably. However, the potential economic benefit from recovery of visitor activity to 2000 levels, cannot be overlooked.

Three scenarios were considered for the purpose of calculating "what if" outcomes based on different growth levels, specifically:

- » Scenario 1: Canada continues to experience negative growth (consistent with the -1.7% average over the past twelve years).
- » Scenario 2: Canada achieved the 4% average growth in visitation reported by the United Nations World Tourism Organization for 2012 over 2011 (consistent with the 3.8% annual growth rate through 2020).
- » Scenario 3: Canada achieved the 7% average growth in visitation achieved by the United States (2012 over 2011).

Looking at the mid-point of the 4%/annum and 7%/annum growth levels, Canada would return to 2000 levels of visitation by the sesquicentennial of 2017.

Figure 8: International Tourist Arrivals to Canada



Source: HLT Advisory Inc. based on Statistics Canada, International Travel Survey and HLT estimates.

The incremental visitation and related spending impacts are substantial. A 7% growth rate would result in 1.1 million more visitors spending more than $850 million and generating more than 900,000 new room nights. This increased activity could reduce the travel deficit by about $860 million.

Priority #2: Connecting America

Canada needs a coordinated, aggressive marketing approach in the US to recapture old clients and entice new market segments. We believe that a public private partnership like the one suggested by the CTC will help bring more American tourists to Canada.

In addition to existing CTC campaigns in developing markets, "Connecting America," a new 3 year federal investment will be effective. This campaign will be a fully aligned, fully matched public-private CTC-led national marketing campaign in the US and will provide immediate returns for Canada's economy. This campaign will utilize "city pairs" to increase visitation from key regions across the US directly into almost every key Canadian international airport.

Priority #3: Tie Marketing Investment to a Success Measure

While the quantum of CTC funding makes international marketing a challenge, the annual variances are just as problematic from a planning perspective. More to the point, the current funding mechanism (reliance on an annual appropriation from the federal treasury) neither incents nor rewards success.

TIAC believes a mechanism linked to the number of visitors and/or visitor spending is a more appropriate method to fund international travel marketing. Such an approach could be accomplished through an index of the international portion of Federal Government revenues attributable to travel and tourism.

ACCESS

Priority #1: Fix the Visa Problem

Addressing Canada's Visa problems require two fundamental changes to the system.

The first is to improve visa logistics (introduce visa transferability and paperless visas) as well as removal of the relatively recent requirements for Brazilians and Mexicans to obtain visas.

The second is to look at ways to optimize security infrastructure such as the ability to transit without a visa as well as the introduction of reciprocal visa arrangements with the US. This last point is crucial given the number of long haul travellers to North America and the potential for a Canadian portion of a US focused trip.

Overall, and fundamentally, the capacity to issue visas needs to be increased commensurately with the interest by foreign nationals to visit Canada.

Priority #2: A Modern and Competitive Transportation Policy

In June 2012, the Senate Committee on Transport and Communications released a report titled, *The Future of Canadian Air Travel: Toll Booth or Spark Plug?* In this report the committee states that "the high cost of flying in Canada is limiting potential economic growth." It recommends, among other things, Transport Canada, together with the Department of Finance, bring all relevant stakeholders to the table to establish a National Air Travel Strategy to increase and facilitate air travel in Canada.

We recommend that in creating a National Air Travel Strategy, the government and its partners focus on identifying clear and surmountable obstacles to affordable travel. By breaking down aviation cost barriers one at a time, we believe momentum will be built to overhaul the system.

APPENDICES

APPENDIX A - TERMS AND DEFINITIONS

The composition of Canada's travel and tourism industry includes several distinct – but complementary – business lines. These include:

» **Transportation:** Including passenger services via air, rail, and boat, as well as interurban, charter and tour buses and vehicle rental.

» **Accommodations:** Including hotels, inns, hostels, camping and rental properties.

» **Food and Beverage:** Restaurants and licensed establishments, as well as food service provided by accommodations.

» **Meetings and Events:** Conventions and business meetings, as well as major events and festivals.

» **Attractions:** Recreation and entertainment activities, as well as cultural, natural and historical attractions.

Tourism: The definition of travel and tourism follows that adopted by the World Tourism Organization and the United Nations Statistical Commission: "the activities of persons travelling to and staying in places outside their usual environment for not more than one consecutive year for leisure, business and other purposes".

Tourism demand/spending is defined as the spending of Canadian and non-resident visitors on domestically produced commodities. It is the sum of travel and tourism domestic demand and tourism exports.

Tourism domestic demand is the spending in Canada by Canadians on domestically produced commodities.

Tourism exports is the spending by foreign visitors on Canadian-produced goods and services. It includes spending that may take place outside of Canada, for instance, the purchase of an airline ticket from a Canadian international carrier to travel to Canada.

Tourism gross domestic product is the unduplicated value of production, within the boundaries of a region, of goods and services purchased by tourists. In the NTI, GDP is calculated at basic prices in both current and constant dollars. Only direct GDP is calculated in the NTI. GDP is also generated indirectly in the upstream production chain of a good or service. Although these indirect effects can be linked to tourism, they are not included in tourism GDP.

Tourism employment is a measure of employment in travel and tourism and non-tourism industries. Tourism employment measures the number of jobs in an industry generated by, or attributable to, tourism spending on the goods and/or services produced by that industry. It is based on an estimate of jobs rather than "hours of work". Thus, someone who works 10 hours a week counts for as much, by this measure, as someone who works 50 hours a week.

Travel Receipts in the travel account are defined to include all expenses incidental to travel in Canada by non-residents. Among these are expenditures in Canada for lodging, food, entertainment, local and intercity transportation and all other purchases of goods and services (including gifts) made by travellers. The series thus includes any purchases of personal goods to be exported by travellers. Medical expenses and education expenses of non-residents in Canada as well as foreign crew members' spending in the country are also included. Travel receipts exclude international transportation fares paid by non-resident travellers to Canadian carriers.

Travel Payments in the travel account are correspondingly defined to include all expenses incidental to travel abroad by residents of Canada. Among these are expenditures abroad for lodging, food, entertainment, local and intercity transportation and all other purchases of goods and services (including gifts) made by the travellers. The series thus includes any purchases of goods to be imported for personal use by travellers. Also included are medical expenses and education expenses of Canadian residents outside Canada as well as Canadian crew members' spending in other countries. Travel payments do not include international transportation fares paid by Canadian residents to foreign carriers.

APPENDIX B - DATA TABLES

Appendix B-1: Gross Domestic Product from Tourism (Billions)

Prices	Activities	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Current Prices	**Tourism Gross Domestic Product (GDP)**	22.406	22.488	23.318	22.571	23.906	25.216	26.548	27.808	28.958	27.512	29.186	30.876	32.037
	Total Tourism Industries	17.356	17.242	17.917	17.089	17.996	18.861	19.820	20.709	21.450	20.526	21.732	22.772	23.644
	Transportation	5.953	5.305	5.523	5.014	5.121	5.512	5.892	6.115	6.405	5.764	6.217	6.736	6.986
	Accommodation	5.247	5.493	5.709	5.430	5.893	6.116	6.456	6.839	7.021	6.609	7.041	7.277	7.536
	Food And Beverage Services	2.690	2.768	2.898	2.860	3.035	3.170	3.315	3.460	3.604	3.618	3.762	3.910	4.105
	Other Tourism Industries	3.465	3.679	3.787	3.785	3.947	4.063	4.157	4.295	4.420	4.535	4.712	4.849	5.017
	Other Industries	5.051	5.246	5.401	5.482	5.910	6.355	6.728	7.099	7.508	6.986	7.454	8.104	8.393

Source: Statistics Canada, Tourism Gross Domestic Product (current prices).

Appendix B-2: Tourism Employment (000s)

Activities	Tourism activities	Total tourism industries	Transportation	Air transportation	Other transportation	Accommodation	Food and beverage services	Other tourism activities	Recreation and entertainment	Travel agencies	Other industries
2000	609,900	490,800	85,500	58,200	14,600,000	159,200	143,200	102,900	61,100	41,800	119,100
2001	608,400	488,400	82,600	55,500	14,600,000	158,400	143,800	103,600	61,900	41,700	120,000
2002	611,000	490,400	77,800	50,600	27,300,000	160,500	144,700	107,300	65,500	41,800	120,700
2003	602,200	482,800	75,700	48,800	26,900,000	155,400	144,800	107,000	66,000	40,900	119,400
2004	610,600	490,000	73,200	46,800	26,400,000	161,600	145,300	110,000	68,200	41,800	120,500
2005	607,100	485,600	66,600	39,600	26,900,000	163,200	145,400	110,500	68,100	42,400	121,500
2006	608,100	487,800	68,800	40,700	28,100,000	160,800	147,500	110,700	68,700	42,000	120,300
2007	613,600	492,400	71,700	42,600	29,100,000	161,800	147,200	111,700	69,300	42,400	121,200
2008	617,400	496,800	70,900	41,000	29,900,000	158,000	152,600	115,200	70,300	44,900	120,600
2009	599,600	487,700	70,800	42,300	28,400,000	150,200	153,400	113,300	71,400	41,800	112,000
2010	592,700	483,100	69,600	41,500	28,100,000	150,600	152,800	110,000	71,000	39,000	109,600
2011	600,300	488,700	70,200	42,000	28,200,000	153,400	154,300	110,800	70,400	40,400	111,600
2012	609,500	495,700	72,000	44,300	27,700,000	154,400	158,500	110,800	71,400	39,500	113,800

Footnotes
1 The tourism employment series are reduced to the following industries: Air transportation, Other transportation, Accommodation, Food and beverage services, Recreation and entertainment, Travel services, and Other (non-tourism) industries.
2 Other transportation includes rail, water, bus, taxi and vehicle rental.
Source:: Statistics Canada. Table 387-0003 - Employment generated by tourism, annual (jobs)

Appendix B-3: Tourism Demand (Billions)

	Expenditures	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Tourism Demand	Tourism expenditures	$53.748	$54.141	$56.560	$55.339	$58.629	$62.427	$66.052	$69.373	$72.512	$68.515	$73.402	$78.464	$81.749
	Total tourism commodities	$45.074	$44.916	$46.535	$45.548	$48.747	$52.255	$55.468	$58.349	$61.163	$56.974	$61.396	$66.094	$68.834
	Transportation	$19.986	$18.974	$19.553	$19.043	$20.874	$23.332	$25.157	$26.582	$28.487	$24.720	$27.594	$31.283	$32.617
	Accommodation	$8.281	$8.545	$8.998	$8.544	$9.173	$9.456	$10.009	$10.626	$10.883	$10.153	$10.865	$11.226	$11.621
	Food and beverage services	$7.929	$8.231	$8.550	$8.473	$8.895	$9.312	$9.712	$10.133	$10.533	$10.536	$10.924	$11.331	$11.836
	Other tourism commodities	$8.877	$9.165	$9.434	$9.488	$9.805	$10.155	$10.590	$11.008	$11.260	$11.565	$12.013	$12.254	$12.760
	Total other commodities	$8.674	$9.227	$10.025	$9.791	$9.882	$10.172	$10.584	$11.024	$11.349	$11.541	$12.006	$12.370	$12.915
Tourism (Domestic Demand)	Tourism expenditures	$35.934	$36.243	$38.444	$39.624	$41.091	$45.517	$49.439	$52.770	$56.317	$54.292	$58.251	$62.950	$65.773
	Total tourism commodities	$30.615	$30.538	$31.963	$32.909	$34.658	$38.671	$42.065	$44.926	$48.055	$45.537	$49.059	$53.349	$55.676
	Transportation	$15.142	$14.205	$14.729	$14.844	$16.094	$18.714	$20.568	$22.057	$23.974	$21.032	$23.379	$26.634	$27.805
	Accommodation	$3.998	$4.345	$4.674	$4.858	$5.031	$5.459	$6.041	$6.568	$6.960	$6.704	$7.230	$7.615	$7.880
	Food and beverage services	$4.989	$5.230	$5.544	$5.872	$6.024	$6.522	$6.948	$7.339	$7.816	$8.020	$8.296	$8.696	$9.124
	Other tourism commodities	$6.486	$6.758	$7.016	$7.335	$7.509	$7.976	$8.508	$8.962	$9.305	$9.781	$10.154	$10.404	$10.867
	Total other commodities	$5.318	$5.706	$6.481	$6.715	$6.433	$6.846	$7.374	$7.844	$8.262	$8.755	$9.192	$9.601	$10.097
Tourism Exports (Foreign Demand)	Tourism expenditures	$17.815	$17.899	$18.116	$15.715	$17.538	$16.910	$16.613	$16.603	$16.195	$14.223	$15.151	$15.514	$15.976
	Total tourism commodities	$14.459	$14.379	$14.572	$12.639	$14.089	$13.584	$13.403	$13.423	$13.108	$11.437	$12.337	$12.745	$13.158
	Transportation	$4.845	$4.768	$4.824	$4.199	$4.780	$4.618	$4.589	$4.525	$4.513	$3.688	$4.215	$4.649	$4.812
	Accommodation	$4.284	$4.200	$4.324	$3.686	$4.142	$3.997	$3.968	$4.058	$3.923	$3.449	$3.635	$3.611	$3.741
	Food and beverage services	$2.939	$3.002	$3.006	$2.601	$2.871	$2.790	$2.764	$2.794	$2.717	$2.516	$2.628	$2.635	$2.712
	Other tourism commodities	$2.393	$2.409	$2.418	$2.153	$2.296	$2.179	$2.082	$2.046	$1.955	$1.784	$1.859	$1.850	$1.893
	Total other commodities	$3.355	$3.521	$3.544	$3.076	$3.449	$3.326	$3.210	$3.180	$3.087	$2.786	$2.814	$2.769	$2.818
Domestic as % of Total Demand		66.9%	66.9%	68.0%	71.6%	70.1%	72.9%	74.8%	76.1%	77.7%	79.2%	79.4%	80.2%	80.5%

Source:: Statistics Canada, Tourism Demand in Canada (current prices).

Appendix B-4: Government Revenue from Tourism

Government Revenue Attributable to Tourism													
Breakdown	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008R**	**2009R**	**2010R**	**2011L**	**2012E**
Government Revenues Attributed to Tourism (M)	$14.882	$14.896	$16.048	$15.999	$16.783	$17.975	$18.946	$19.714	$19.812	$18.985	$20.055	$21.372	$22.260
Revenues/ $100 of Tourism Spending	$27.7	$27.5	$28.4	$28.9	$28.6	$28.8	$28.7	$28.4	$27.3	$27.6	$27.3	$27.2	
Federal													
Government Revenues Attributed to Tourism (M)	$7.107	$6.958	$7.660	$7.659	$7.969	$8.480	$8.888	$9.221	$9.152	$8.610	$9.017	$9.623	$10.026
Revenues/ $100 of Tourism Spending	$13.2	$12.85	$13.54	$13.84	$13.59	$13.58	$13.46	$13.29	$12.62	$12.52	$12.29	$12.23	
Provincial/Territorial													
Government Revenues Attributed to Tourism (M)	$6.949	$7.038	$7.458	$7.396	$7.829	$8.417	$8.916	$9.290	$9.467	$9.233	$9.821	$10.454	$10.892
Revenues/ $100 of Tourism Spending	$12.93	$13.00	$13.19	$13.36	$13.35	$13.48	$13.50	$13.39	$13.06	$13.43	$13.39	$13.29	
Municipal													
Government Revenues Attributed to Tourism (M)	$827	$901	$930	$950	$984	$1.078	$1.142	$1.203	$1.194	$1.142	$1.216	$1.295	$1.349
Revenues/ $100 of Tourism Spending	$1.54	$1.66	$1.64	$1.72	$1.68	$1.73	$1.73	$1.73	$1.65	$1.66	$1.66	$1.65	

Source: Statistics Canada, Government Revenue Attributable to Tourism, CANSIM Table 387-0001, and HLT estimates.

Appendix B-5a: Inbound International Arrivals and Spending in Canada

Inbound International Arrivalss and Spending in Canada						
	International Arrivals (000s)			Spending (M)[1]		
Year	Total travel	Same Day	Overnight	Total travel	Same Day	Overnight
2000	48,638	29,084	19,554	$14.813	$1.816	$12.997
2001	47,147	27,567	19,580	$15.081	$1.722	$13.359
2002	44,896	24,932	19,964	$15.232	$1.549	$13.683
2003	38,903	21,484	17,419	$13.072	$1.388	$11.683
2004	38,844	19,813	19,031	$14.825	$1.268	$13.557
2005	36,161	17,550	18,611	$14.302	$1.073	$13.229
2006	33,390	15,263	18,127	$13.954	$946	$13.008
2007	30,374	12,598	17,776	$13.855	$733	$13.121
2008	27,370	10,373	16,997	$13.482	$589	$12.893
2009	24,697	9,112	15,585	$12.052	$531	$11.521
2010	24,669	8,802	15,867	$12.427	$505	$11.921
2011	25,066	9,363	15,703	$12.482	$481	$12.001
2012	25,318	9,346	15,972	$12.754	$482	$12.271

[1] Expenditures include the following categories: accommodation, transportation within a country, food and beverages, recreation and entertainment and others (souvenirs, shopping, photos, etc.). Expenditures exclude medical expenses, expenses on education and spending by crews. Fares paid to travel between countries, known as international passenger fares, are also excluded. Source: Statistics Canada, International Travel Survey

Appendix B-5b: US Arrivals to Canada (000s)

US Arrivals to Canada (000s)			
Year	Total	Same day	Overnight
2000	43,994	28,805	15,189
2001	42,871	27,301	15,570
2002	40,878	24,711	16,167
2003	35,509	21,277	14,232
2004	34,626	19,539	15,088
2005	31,655	17,264	14,391
2006	28,873	15,017	13,855
2007	25,695	12,319	13,375
2008	22,606	10,102	12,504
2009	20,526	8,858	11,667
2010	21,166	9,295	11,871
2011	20,543	8,947	11,597
2012	20,719	8,832	11,887

Note: In this table, travellers include crews, seasonal workers and commuters as part of international travel. Source: Statistics Canada. Table 427-0001 Number of international travellers entering or returning to Canada, by type of transport, annual (persons)

Appendix B-6: Number of Non-Resident Travellers Entering Canada

Number of Non-Resident Overnight Travellers Entering Canada, by Country of Residence (Excluding the United States) Annual (Persons)

Country of Residence	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
United Kingdom	879,323	849,048	749,659	708,092	824,758	906,179	866,299	908,806	854,404	710,513	711,689	679,828	653,921
France	404,386	360,661	313,987	276,672	331,978	356,489	369,624	374,785	420,895	407,653	435,465	459,140	455,300
Germany	387,274	341,118	295,715	260,247	299,802	324,373	302,323	306,638	319,895	309,684	332,086	315,901	311,692
China	73,459	81,293	96,142	76,475	101,883	117,490	144,601	152,200	159,927	160,833	194,979	243,692	288,279
Australia	174,532	165,208	157,610	152,087	179,782	201,939	199,691	219,592	238,802	204,383	232,855	242,430	258,115
Japan	507,844	418,445	436,510	262,182	414,057	423,881	386,485	330,931	276,091	197,752	235,510	211,062	226,215
India	52,071	54,742	55,492	57,010	68,315	77,849	87,210	101,724	110,890	107,959	127,619	139,213	146,652
South Korea	133,809	142,843	151,476	138,563	169,866	179,961	193,665	200,388	183,895	138,150	164,282	151,101	139,999
Mexico	142,974	150,292	161,843	142,162	173,243	189,357	210,641	247,106	266,295	168,724	120,499	132,217	141,921
Hong Kong	141,653	126,929	119,449	91,632	115,449	111,415	109,677	113,404	128,139	107,410	114,973	123,060	120,022
Switzerland	103,382	96,615	88,991	82,467	91,156	96,547	91,627	94,381	97,435	99,457	105,425	110,723	109,951
Netherlands	128,455	115,936	107,769	104,283	116,890	118,805	118,998	121,651	121,050	109,133	109,208	105,842	100,644
Italy	108,651	90,972	97,313	57,314	82,476	90,585	85,288	94,850	96,050	92,393	101,738	98,191	93,127
Brazil	51,425	39,918	36,393	31,140	49,840	61,118	65,169	66,134	71,619	61,829	80,188	87,904	93,570
Israel	75,786	78,886	74,501	58,169	67,051	80,082	76,639	69,187	66,236	57,704	60,681	63,322	62,935
Spain	39,280	35,728	42,181	29,897	40,260	47,252	52,970	61,832	67,799	66,731	64,383	63,852	54,413

Source: CTC and Statistics Canada, International Travel Survey Frontier Counts, 2000-2012.

Appendix B-7: 2012 Overnight International Person Visits by Province

2012 Overnight International Person Visits by Province						
	Person Visits (000s)			Spending (M)[3]		
Province	**US**	**Overseas**	**Total**	**US**	**Overseas**	**Total**
BC[1]	3,116	1,381	4,497	$1.562	$1.748	$3.309
AB	818	706	1,524	$621	$758	$1.379
SK	147	59	206	$85	$80	$165
MB	204	74	278	$136	$64	$201
ON	5,885	1,767	7,652	$2.538	$1.816	$4.354
QC	1,794	1,091	2,884	$1.009	$1.165	$2.174
ATL CND[2]	828	294	1,122	$384	$307	$691
TOTAL	12,792	5,371	18,163	$6.334	$5.938	$12.272

[1] Includes sum of visits to British Columbia, Yukon, Northwest Territories and Nunavut.
[2] Includes sum of visits to Newfoundland and Labrador, New Brunswick, Nova Scotia and Prince Edward Island
[3] Expenditures include the following categories: accommodation, transportation within a country, food and beverages, recreation and entertainment and others (souvenirs, shopping, photos, etc.). Expenditures exclude medical expenses, expenses on education and spending by crews. Fares paid to travel between countries, known as international passenger fares, are also excluded.
"Note: A non-resident traveller may visit several locations on one trip to Canada; each stay represents a person-visit.
As one person-trip may encompass several person-visits, the number of person-visits is often greater than the number of person-trips."
Source: Statistics Canada, International Travel Survey

Appendix B-8: International Travel Account (Billions)

Receipts and Payments on International Travel Account (Billions)			
Receipts and payments	Spending in Canada by foreign residents (receipts)[1]	Spending in foreign countries by Canadians (payments)[2]	Receipts minus payments, international travel account
2000	$15.997	$18.337	-$2.340
2001	$16.437	$18.344	-$1.907
2002	$16.741	$18.222	-$1.481
2003	$14.776	$18.526	-$3.750
2004	$16.980	$19.876	-$2.896
2005	$16.533	$21.870	-$5.337
2006	$16.459	$23.395	-$6.936
2007	$16.618	$26.421	-$9.803
2008	$16.545	$28.644	-$12.099
2009	$15.546	$27.545	-$11.999
2010	$16.320	$30.637	-$14.317
2011	$16.624	$32.975	-$16.351
2012	$17.387	$35.029	-$17.642

Source: Statistics Canada. Table 376-0108 - International Transactions in Services, by Category.

[1] Receipts in the travel account are defined to include all expenses incidental to travel in Canada by non-residents. Among these are expenditures in Canada for lodging, food, entertainment, local and intercity transportation and all other purchases of goods and services (including gifts) made by travellers. The series thus includes any purchases of personal goods to be exported by travellers. Also included are medical expenses and education expenses of non-residents in Canada as well as foreign crew members' spending in the country.

[2] Payments in the travel account are correspondingly defined to include all expenses incidental to travel abroad by residents of Canada. Among these are expenditures abroad for lodging, food, entertainment, local and intercity transportation and all other purchases of goods and services (including gifts) made by the travellers. The series thus includes any purchases of goods to be imported for personal use by travellers. Also included are medical expenses and education expenses of Canadian residents outside Canada as well as Canadian crew members' spending in other countries.

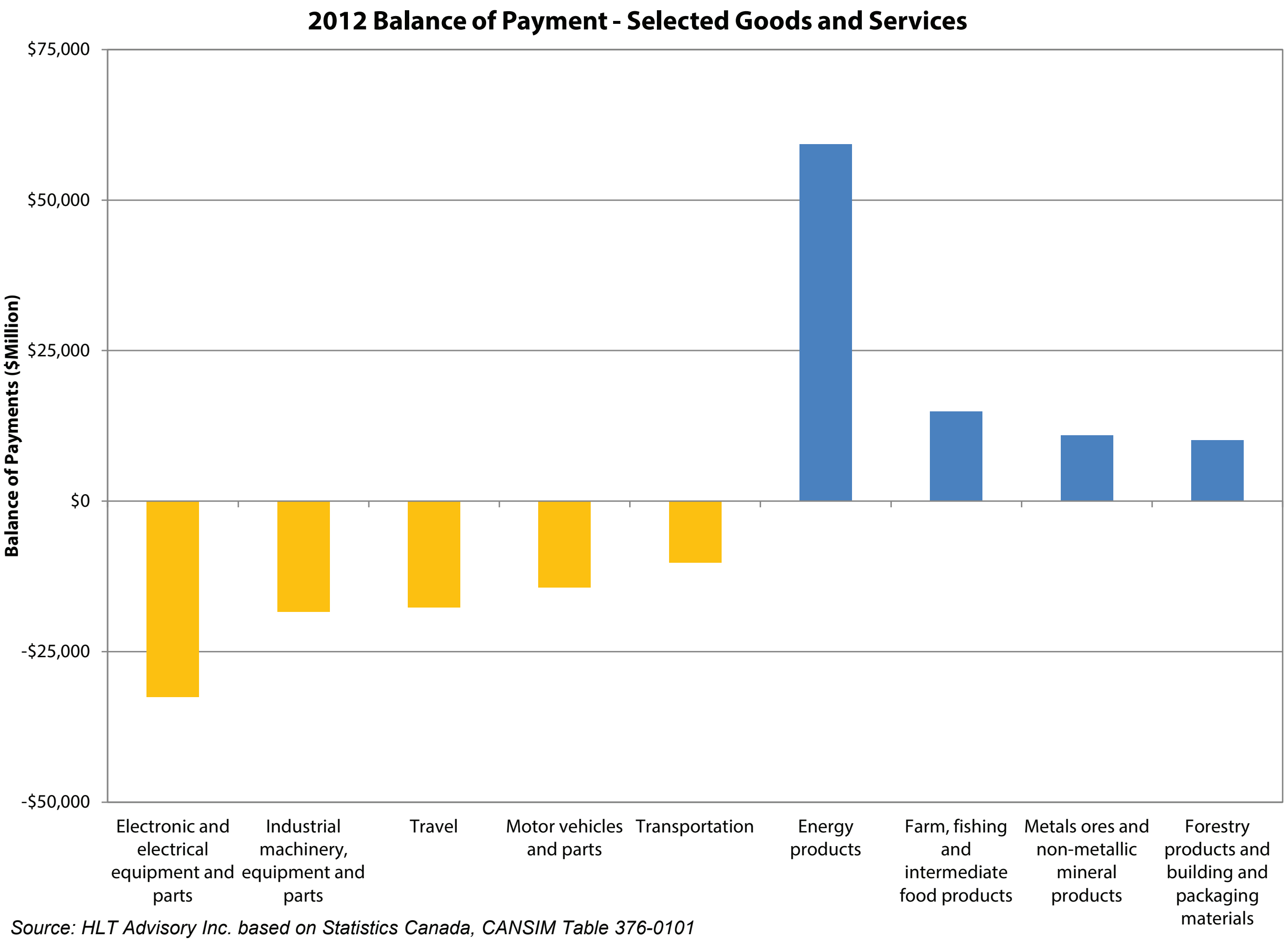
Note: travel receipts exclude international transportation fares paid by non-resident travellers to Canadian carriers. Also, travel payments do not include international transportation fares paid by Canadian residents to foreign carriers.

Appendix B-9: National Travel Deficits/Surpluses

National Tourism Deficits/Surpluses 2012						
Rank	Country	International Arrivals (M)	International Tourism Receipts ($US Billion)	International Tourism Expenditures ($US Billion)	"Surplus/ Deficit ($US Billion)"	Deficit/Per Capita
#1	France	83.0	$53.7	$37.2	$16.5	$250
#2	Unites States	67.0	$128.6	$83.7	$44.9	$142
#3	China	57.7	$50.0	$102.0	-$52.0	-$39
#4	Spain	57.7	$55.9	$15.3	$40.6	$857
#5	Italy	46.4	$41.2	$26.2	$15.0	$244
#6	Turkey	35.7	$25.7	$4.1	$21.6	$268
#7	Germany	30.4	$38.1	$83.8	-$45.7	-$563
#8	United Kingdom	29.3	$36.4	$52.3	-$15.9	-$251
#9	Russia Federation	25.7	$11.2	$42.8	-$31.6	-$222
#10	Malaysia	25.0	$19.7	$12.0	$7.7	$260
#11	Austria	24.2	$18.9	$10.1	$8.8	$1,070
#12	Hong Kong	23.8	$31.7	$20.5	$11.2	$1,559
#13	Mexico	23.1	$12.7	$8.4	$4.3	$37
#14	Ukraine	23.0	$4.8	$5.1	-$0.3	-$7
#15	Thailand	22.4	$30.1	$6.1	$24.0	$356
#16	Canada	16.3	$17.4	$35.2	-$17.8	-$515
#17	Greece	15.5	$12.9	$2.4	$10.5	$975
#18	Poland	14.8	$10.9	$8.7	$2.2	$57
#19	Saudi Arabia	13.7	$7.4	$17.0	-$9.6	-$356
#20	Macau*	13.6	$38.5	$1.4	$37.1	$63,567

* 2011 numbers
Source: UNWTO, CIA Factbook

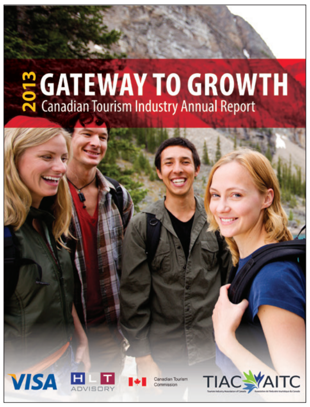
Appendix B-10: Canada`s 2012 Balance of Payments



Source: HLT Advisory Inc. based on Statistics Canada, CANSIM Table 376-0101

GATEWAY TO GROWTH: TIAC RESEARCH SUITE

As one of the fastest growing industries in the world, travel and tourism is constantly evolving. Beyond the impressive contribution to employment levels, GDP and our country's export economy, travel and tourism stakeholders know instinctively that this industry impacts the country's economy on a basic, structural level. During the past year, the Tourism Industry Association of Canada (TIAC) has developed a suite of research papers to empirically explore the industry's deeper impact.



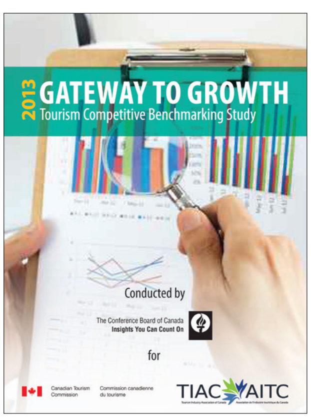
Canadian Tourism Industry Annual Report

This year's version of the Annual Report on the Tourism Industry will feature a new focus on tourism's role in Canada's overall economy. TIAC has worked in partnership with the CTC, Visa Canada and HLT Consulting to create this at-a-glance collection of industry statistics. As in previous years, this document can act as a reference piece for industry, key decision makers, business media and politicians.

Aiming High: Air Access to Canada

TIAC has produced a white paper on how the government's air access policies may or may not affect tourism. This paper considers all sides of the "Open Skies" debate while analyzing potential impacts and interactions with the tourism industry.

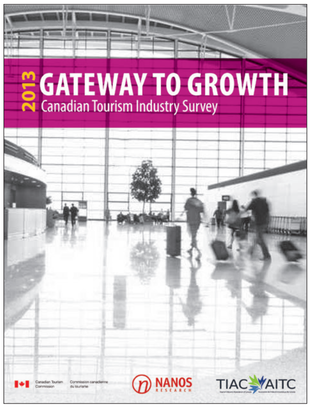
We conclude that it is imprudent to draw a direct correlation between liberalized air policies and tourism growth in Canada as there are various factors in play. We recommend that more liberalized agreements should be considered on a case-by-case basis after thorough study of all factors that could impact visitation.



Tourism Competitive Benchmarking Study

In recent years, the CTC commissioned The Conference Board of Canada to undertake a Tourism Competitive Benchmarking Study. This year CTC and TIAC partnered on an updated version for 2013. The study compared the performance of 11 sectors and 48 industries, including the travel and tourism sector and tourism industries, to each other and to the overall economy.

Compared with the results from 2011, the latest benchmark study shows that the tourism sector improved on its economic performance but slipped slightly on its financial performance, specifically, investment. In fact, investment in the tourism sector is currently down 30 per cent compared with the years leading up to the recession. At its current level, it is likely that investment will be one of the areas that restrict tourism demand growth in the future.



Canadian Tourism Industry Survey

TIAC and CTC worked together to conduct an industry survey. This past spring, 16 open-ended and multiple-choice questions were distributed to industry professionals and businesses. Respondents were asked about their objectives, priorities and concerns surrounding the tourism industry in Canada. The results of this survey provide a front-line perspective on the health of the industry. According to the survey findings:

- » While the respondents were optimistic about the strength of the industry; only 24% indicated that they would invest in upgrading their product in the next year.
- » The US was identified as the top priority for both marketing and growth. The Chinese market was the second most important for respondents.
- » International marketing funding and the high cost of flying are tied for the policy issues of most concern to the industry.

Progress Report on Canadian Visitor Visa Process

TIAC and the CTC have worked closely with Citizenship and Immigration Canada over the past few months to address industry concerns with travel documentation identified in TIAC's 2011 whitepaper "Modernizing Canada's Visitor Visa Process." TIAC has written a progress report on how travel documentation issues are affecting the industry today. TIAC recommendations included the following:

- » Red tape reduction measures including: granting visa waiver status for Brazil and Mexico, expanding electronic Travel Authorization (eTAs) to cover visitor visas, and granting visa transferability from expired passport to a new passport.
- » Optimizing existing security measures, including: implementing a Canada/US Reciprocal Visa Program, expanding the Transit Without Visa program to more countries.

ACKNOWLEDGEMENTS

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TIAC gratefully acknowledges the principal author Adrienne Foster, M.A. of the following papers: *Aiming High: Air Access to Canada*, *Canadian Tourism Industry Survey*, and *Progress Report on Canadian Visitor Visa Process.*