



THE CANADIAN TOURISM INDUSTRY

A Special Report
Fall, 2012



ABOUT THE TOURISM INDUSTRY ASSOCIATION OF CANADA

The Tourism Industry Association of Canada (TIAC) is the only national organization representing the full cross-section of Canada's \$78.8 billion tourism industry.

TIAC's members include air and passenger rail services, airport authorities, local and provincial destination authorities, hotels, attractions, tour operators and business suppliers.

ABOUT HLT ADVISORY

HLT Advisory (HLT) provides a wide range of senior-level advisory services to private- and public-sector clients in Canada and internationally. Since its formation in 2005 HLT has been an active TIAC member and has gained particular prominence in the tourism, gaming, lodging, recreation, sport, entertainment and public-assembly venue sectors.

A MESSAGE FROM TIAC AND HLT ADVISORY

On behalf of the Tourism Industry Association of Canada and HLT Advisory, we'd like to thank you for taking the opportunity to review our first ever Special Report on the Canadian Tourism Industry.

Tourism is a dynamic and far-reaching sector whose economic impact helps to employ Canadians across the country, in every region. Moreover, ours is an industry of collaboration between businesses: The transportation services which deliver visitors to and through our vast country; the hotels and other accommodations who provide them with comfort and hospitality once they arrive; and the attractions, which create the experiences and memories which compel visitors to come to Canada and return often.

Globally, tourism is one of the world's most remarkable growth industries, with the vast majority of destinations around the globe showing increased arrivals and tourism spending each year. There remains a tremendous economic opportunity for us if we choose to grasp it. We are a nation that is blessed with the basics, including some of the most spectacular geography and world-class cosmopolitan centres. And, perhaps most importantly, warm, friendly people who work diligently to welcome visitors as they would friends.

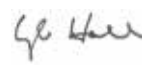
This report is a collaboration between TIAC, HLT and our colleagues at Visa Canada, and came about as we all sought to find a cohesive and clear set of metrics that help to illuminate the current state of Canada's tourism sector. But evaluating where the tourism sectors stands requires more than a cataloguing of data points. We wanted to contextualize the numbers, and find the narrative thread that runs through all of figures.

We hope that you find the report which follows informative, and that you see not only the challenges that Canada's tourism sector faces, but also the opportunities that lie ahead.

Sincerely,



David F. Goldstein
President & CEO
Tourism Industry Association of
Canada



Lyle Hall
Managing Director
HLT Advisory

A MESSAGE FROM VISA CANADA

Visa Canada is pleased to participate in the Special Report on Canada's Tourism Industry. Over the past several decades, continuing growth in the tourism industry has led it to become one of the fastest growing economic sectors in the world and in-turn, a driver for economic progress.

Visa supports economic growth through the development and ongoing enhancements to electronic payment systems that have contributed \$196 billion (CDN) to the Canadian economy over the past 25 years. Electronic payments make commerce more efficient by providing Canadian consumers, merchants and governments a reliable, secure and convenient means of doing business.

Widespread international adoption of electronic payments has also been a major catalyst to the growth of global tourism. Because travellers can depend on digital currency, their tourism consumption increases, stimulating economic growth in one of Canada's largest service sectors. Within the tourism sector, electronic payments are a steady component of economic growth, adding nearly \$3.1 billion (CDN) from 1991 to 2010.

For travelling consumers, global acceptance of electronic payments reduces concerns about exchanging and carrying local currencies while providing security against loss or theft. Visa continually proves to be a travel companion of choice, catering to account holders' desires to explore, and to make their journeys a little easier. Travelling Visa cardholders benefit from acceptance at tens of millions of merchants worldwide, access to local currencies at more than 1.9 million ATMs, and the protection of Visa's Zero Liability Policy for fraudulent transactions. Importantly, tourists are often more comfortable paying with Visa because of the trust they place in our brand.

Similarly, for merchants and tourism providers, Visa's products and innovations provide measurable benefits, including speed, security and access to an expanded consumer base of international visitors, with more purchasing power and confidence than they would have with only cash.

Visa continues to recognize the importance of the tourism sector to Canada's economy, and embraces the opportunity to help facilitate travel for international and domestic visitors, allowing them to spend with confidence in their destination of choice. As members of TIAC, we look forward to continuing to work alongside tourism industry merchants, partners and stakeholders, helping harness tremendous opportunities in the global tourism marketplace in the years to come.

Sincerely,



James J. Allhusen
Country Manager
Visa Canada

ABOUT THE SPECIAL REPORT ON TOURISM

Canadians are inveterate international travellers, and for many, the notion of our tourism industry would focus on those companies that help to facilitate travel abroad.

However, the focus of this report – and indeed, most of TIAC's activities – is travel to Canada by foreign visitors, as well as travel within Canada by Canadians. While some of Canada's travel industry players benefit from their engagement in the international travel market, the most profound impact that the sector has on our economy is its ability to spur spending at Canadian businesses.

A full list of definitions appears on page 4.

DEFINITIONS

Tourism: The definition of tourism in the NTI 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 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 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.

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EXECUTIVE SUMMARY

In Canada, tourism means business. With \$78.8 billion in total economic activity and 603,400 jobs in the sector, tourism spans the country with businesses located in every region, province, territory, town and community.

The travel and tourism sector – which includes transportation, accommodations, food and beverage, meetings and events, and attractions – provides a vital stimulus to Canada's commercial growth through the "visitor economy". This is especially true because of the amount of economic activity which the sector draws into the country. With more than \$15.4 billion in export revenue, tourism creates additional economic activity in Canada that has the potential to allow us to punch above our weight in the global economy.

Globally, tourism is booming. International travel between countries represents the fourth-fastest growing export sector in the global economy, with a billion international travellers spending \$1 trillion outside their own borders in 2011. This growth is being fuelled in part by emerging economies, with an influx of new travellers from China, Brazil, India, Russia and Mexico eager and able to explore the world. At the same time, many of these and other emerging economies are turning aggressively towards tourism as an opportunity to grow their own economy, intensifying the competition for international travellers.

Faced with this hyper-competitive backdrop, Canada has experienced flat-line or modest increases in visitation in recent years, and in some years, declines. Our historic reliance on the United States market – which has traditionally provided 75% of Canada's international visitors – has proven to be particularly troubling in light of a decline of 55.5% in these customers since 2000. The loss of United States visitation and the emergence of a wider competitive

spectrum have contributed to Canada's fall from 7th place in international arrivals in 2002 to 18th place in 2011.

These declines in international visits coupled with the near-doubling of the spend for Canadians travelling outside the country has contributed to Canada's ballooning travel deficit. Standing at almost \$16 billion at the end of 2011, this number has increased six-fold over just the past decade.

This travel deficit is not just a function of currency fluctuation, and export industries cannot wait for a devalued currency to once again hide structural problems within economic sectors. As such, TIAC has identified three key areas in which structural change is needed to reverse the current declines in the tourism sector:

- **Marketing:** Canada's marketing budget is currently too small to compete with other destinations, leaving us to spread too few resources over too many target markets.
- **Access:** Canada's aviation cost structure downloads the cost of the system onto the individual traveller, with an assortment of taxes, fees and levies – including landing fees, security charges, navigation fees, and other costs – inflating the already significant base fees of an airline ticket. This system places Canada among the most expensive in the world, and puts us at a distinct disadvantage vis-à-vis competing North American destinations.
Access also includes visitor visas, the "export permits" which allow travellers from many of the key emerging markets to enter the country.
- **Product:** The operating environment for Canadian tourism businesses continues to be challenging. Vital investment and re-investment activities stagnate in Canada, while international capital flows out of Canada and towards tourism markets that are demonstrating significant growth.

1. Introduction

TOURISM IN CANADA

Canada's tourism industry is comprised of several distinct – but complementary – business lines. These include:

- **Transportation:** Including passenger services via air, rail, and boat, as well as interurban, charter and tour busses 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.

Another important group of tourism players are the destination marketing organizations (DMO's), which represent municipalities, regions, and provinces. In the global tourism market, the Canadian Tourism Commission acts as a national destination marketer, promoting Canada to international travellers.

In 2011, Canada's tourism industry provided a vital stimulus to Canada's commercial growth through the "visitor economy". Among the benefits provided by the sector are:

- \$78.8 billion in total economic activity.
- 603 400 direct tourism jobs, as well as a total of 1.6 million jobs supported by tourism spending nationally – 9.2% of all jobs in Canada.
- More than \$15.4 billion in export revenue – i.e., money spent in Canada by international travellers.
- Tourism represents more of Canada's GDP than agriculture, forestry and fisheries combined.

BENEFITS OF ELECTRONIC PAYMENTS TO THE TOURISM INDUSTRY

A key channel in delivering tourism revenues to merchants and tourism providers is through the expansion and advancement of electronic payment technologies. Electronic payments have contributed \$196 billion (CDN) to the Canadian economy in the last 25 years (1986 –2010). This represents nearly 25 percent of the \$782 billion (CDN) cumulative growth in the Canadian economy over the same period. The increase in international tourist spending in Canada is largely attributable to the growth and popularity of electronic payment cards – credit, debit and prepaid – which have contributed a large

majority (over 61.3%) of cumulative tourism spending growth in the past fifteen years. In other words, payment cards provided strong support to the growth of per tourist expenditure and thus the total tourist expenditure in Canada. Thus, electronic payments help to facilitate increased revenues for Canadian travel providers including transportation, accommodation, food and beverage, event and attraction operators.

International tourists are particularly reliant on electronic payments when travelling away from home and their expenditures provide significant economic benefits to the Canadian economy. Electronic payments have been a steady contributor to the critical tourism sector, contributing nearly \$3.1 billion from 1991 to 2010.

Between 1995 and 2010, the real value of international tourism spending within Canada has grown at a compound annual growth rate (CAGR) of 2.0%. Meanwhile, the number of international travellers entering Canada has declined 3.4% in CAGR terms. With fewer visitors but more spending, this means a tourist entering Canada in 2010 tended to spend significantly more than a tourist in 1995. Ongoing collaboration between payment providers, governments and tourism industries around the world will continue to be important to support vibrant and sustainable tourism growth.

2. Value of the Canadian Tourism Industry

No matter the measuring stick, tourism means business in Canada. Not only is it a meaningful contributor to the economy of every Canadian province and territory, but because of its unique structure and expansive influence, the tourism system makes a meaningful contribution to the performance levels of many related sectors and industries (e.g., retail, arts and culture).

Total tourism spending in Canada (by international visitors to Canada as well as Canadians traveling within Canada) reached \$78.8 billion in 2011. This spending resulted in:

- Gross Domestic Product (“GDP”) of \$26.4 billion in constant dollars (i.e., adjusted for inflation) and \$31.2 billion in unadjusted dollars.

- Tax revenues to all three levels of government of \$22.0 billion.

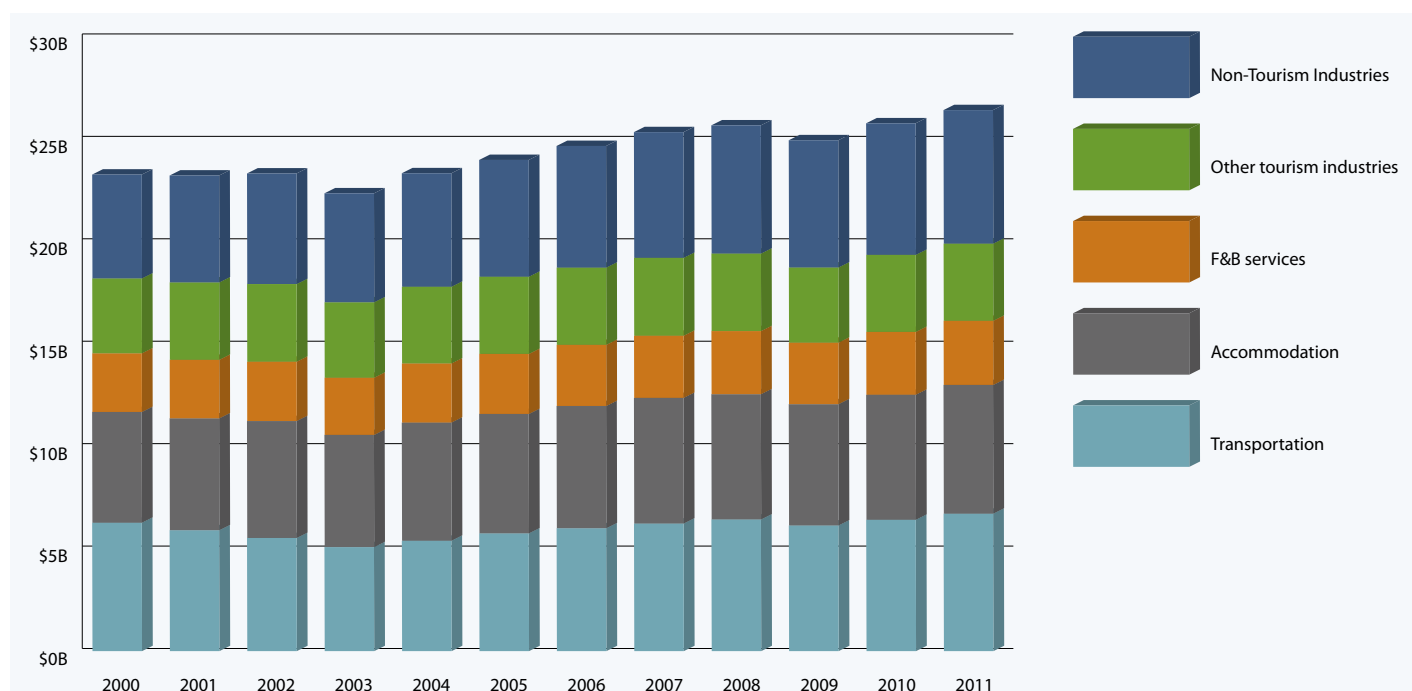
- 603,400 jobs

GDP is generated from four core tourism commodities: accommodation, transportation, food and beverage, and “other tourism industries” (e.g., recreation, travel services) as well as sectors outside the tourism industry (e.g., retail).

As with the ten-year trend line for GDP, tourism employment has seen negligible growth, in fact total employment in 2011 is slightly below that reached in 2000 (Tables 2.1 and 2.2).

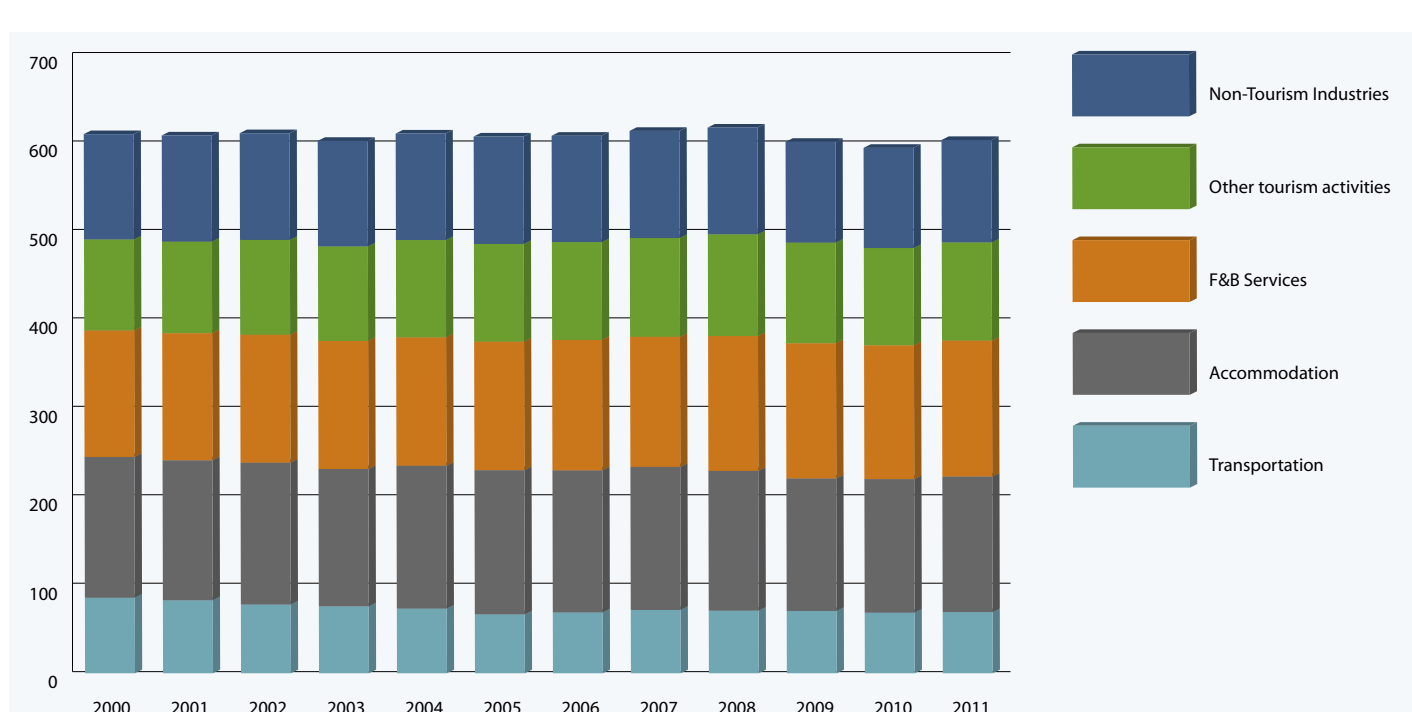


TABLE 2.1: TOURISM GROSS DOMESTIC PRODUCT (2002 DOLLARS)



Source: Statistics Canada, Government Revenue Attributable to Tourism, and HLT estimates.

TABLE 2.2: EMPLOYMENT GENERATED BY TOURISM (IN THOUSANDS)



Source: Statistics Canada, Table 387-0003 - Employment generated by tourism, annual (jobs)

GOVERNMENT REVENUE ATTRIBUTABLE TO TOURISM

While GDP from tourism activity has remained relatively stable, government revenue from visitor spending has increased by 50% (Tables 2.3 and 2.4).

TABLE 2.3: GOVERNMENT REVENUE ATTRIBUTABLE TO TOURISM

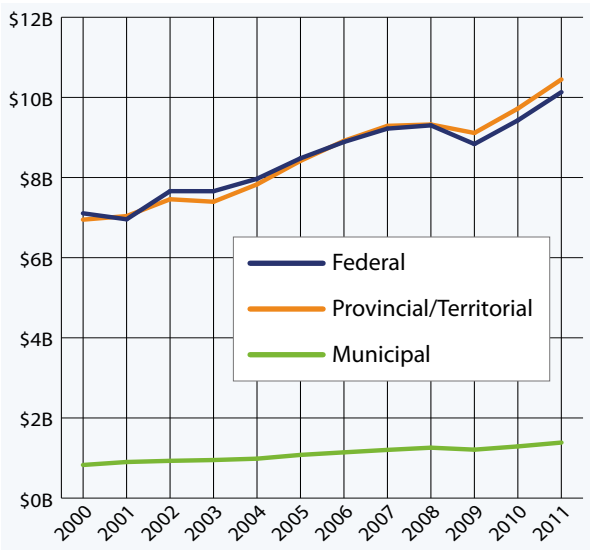
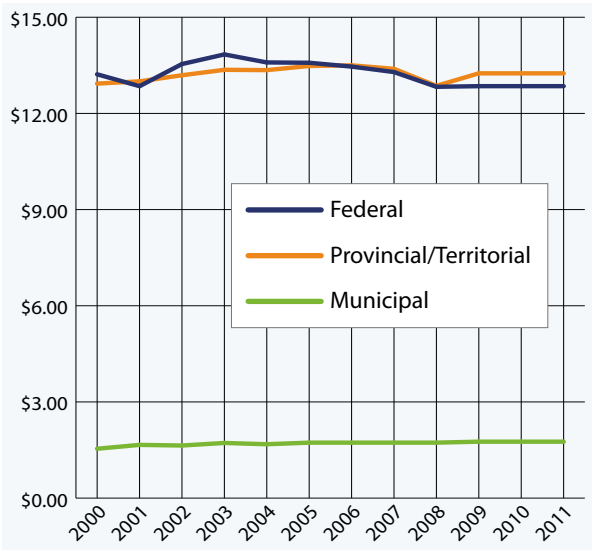


TABLE 2.4: GOVERNMENT REVENUE PER \$100 OF TOURISM SPENDING



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



TABLE 2.5: TOURISM GROSS DOMESTIC PRODUCT & JOBS (2011)

PROVINCE	2011 GROSS DOMESTIC PRODUCT (2002 CONSTANT \$)*	2011 TOURISM EMPLOYMENT (JOBS)**
Newfoundland	\$316M	8,136
Prince Edward Island	\$121M	2,866
Nova Scotia	\$683M	16,636
New Brunswick	\$438M	12,090
Quebec	\$5,357M	130,018
Ontario	\$9,797M	226,781
Manitoba	\$903M	22,628
Saskatchewan	\$677M	18,063
Alberta	\$3,063M	69,308
BC	\$4,913M	96,877
YK/NWT/NV	\$147M	
Total	\$26.415B	603,400

The GDP and employment from tourism spending is felt across Canada in every province and territory (Table 2.5).

Tourism is a significant and unique employer defined by the proportion of small and medium-sized enterprises ("SMEs") and the range of employment opportunities.

- The SME Financing Data Initiative's Survey on Financing of Small and Medium Enterprises by Statistics Canada estimates that 8% of the two million employer and non-employer SMEs in Canada operated in the tourism industry.

Tourism businesses produce a range of full-time, part-time and seasonal positions. Many of these positions are first-time jobs providing an opportunity to a broad cross-section of Canadians to enter the workforce.

**Source: Statistics Canada. Table 387-0010 - Tourism gross domestic product (GDP), annual (dollars). Provincial allocation based on The Provincial and Territorial Tourism Satellite Accounts for Canada, 1998*

***Source: Statistics Canada. Table 387-0003 - Employment generated by tourism, annual (jobs) for Canada and provincial allocation based on CTHRC, Economic Recession only a Temporary Reprieve from Labour Shortages, February 2010*



3. The International Tourism Marketplace

The rate of change in the international tourism marketplace can only be described as breathtaking. New destinations, new customers, new products and services, new methods of communication, and everything growing at breakneck speed. Worldwide tourism arrivals are expected to reach 1.8 billion by 2030, an average increase in arrivals of more than 40 million travellers annually.

Much of this growth is expected to be generated as well as accommodated by emerging travel destinations. The United Nations World Tourism Organization (UNWTO) estimates the arrivals to these destinations will grow at

a pace double that of advanced economies (i.e., +4.4% versus 2.2% a year) over this period. Emerging economies will gain an average 30 million arrivals a year compared to 14 million in advanced economies. The UNWTO projects that Asia (in particular northeast Asia) will be the most visited sub-region in the world and that incremental travel to South America will be similar to the incremental growth projected for North America by 2030.

Not only are emerging economies receiving a rapidly growing number of arrivals, these economies are also producing growth in outbound trips at a much greater pace

TABLE 3.1: INTERNATIONAL TOURISM ARRIVALS - WORLDWIDE

REGIONS	2000	2010	2020	2030
ARRIVALS RECEIVED BY (MILLIONS):				
Africa	6.5	50.3	85	134
Americas	28.2	149.7	199	248
Asia & Pacific	10.1	204	355	535
Europe	85.1	475.3	620	744
Middle East	24.1	60.9	101	149
TOTAL WORLD	74	940.2	1,360.00	1,810.00
% DISTRIBUTION				
Africa	3.90%	5.30%	6.30%	7.40%
Americas	19.00%	15.90%	14.60%	13.70%
Asia & Pacific	16.30%	21.70%	26.10%	29.60%
Europe	57.10%	50.60%	45.60%	41.10%
Middle East	3.60%	6.50%	7.40%	8.20%
TOTAL WORLD	100%	100%	100%	100%
TOTAL GROWTH (INCREMENTAL)				
Africa		23.8	34.7	49
Americas		21.5	49.3	49
Asia & Pacific		93.9	151	180
Europe		90.2	144.7	124
Middle East		36.8	40.1	48
TOTAL WORLD		266.2	419.8	450

Source: UNWTO, Tourism Towards 2030 Global Overview.

TABLE 3.2: INTERNATIONAL TOURISM ARRIVALS - AMERICAS

SUB-REGIONS	2000	2010	2020	2030
ARRIVALS RECEIVED BY (MILLIONS):				
N. America	91.5	98.2	120.0	138.0
Caribbean	17.1	20.1	25.0	30.0
Cent. America	4.3	7.9	14.0	22.0
S. America	15.3	23.6	40.0	58.0
TOTAL AMERICAS	128.2	149.8	199.0	248.0
% DISTRIBUTION				
N. America	71.4%	65.6%	60.3%	55.6%
Caribbean	13.3%	13.4%	12.6%	12.1%
Cent. America	3.4%	5.3%	7.0%	8.9%
S. America	11.9%	15.8%	20.1%	23.4%
TOTAL AMERICAS	100%	100%	100%	100%
TOTAL GROWTH (INCREMENTAL)				
N. America		6.7	21.8	18.0
Caribbean		3.0	4.9	5.0
Cent. America		3.6	6.1	8.0
S. America		8.3	16.4	18.0
TOTAL AMERICAS		21.6	49.2	49.0

Source: UNWTO, Tourism Towards 2030 Global Overview.

than the advanced economies. Outbound travel generated from Asian countries will almost triple accounting for some 30% of total arrivals by 2030. The proportion of total trips generated by Europeans and those from the Americas will drop to 46% and less than 15% respectively.

A new and clear reality exists for established tourist destinations, like Canada: emerging economies are producing vast numbers of outbound travellers... But these destinations are also accommodating much of their own growth.

TABLE 3.3: INTERNATIONAL TOURISM DEPARTURES - WORLDWIDE

REGIONS	2000	2010	2020	2030
DEPARTURES GENERATED FROM (MILLIONS):				
Africa	15.7	29.9	53.0	90.0
Americas	132.5	159.9	212.0	265.0
Asia & Pacific	115.7	204.5	358.0	541.0
Europe	395.3	508.7	681.0	832.0
Middle East	14.8	37.2	57.0	81.0
TOTAL WORLD	674.0	940.2	1,361.0	1,809.0
% DISTRIBUTION				
Africa	2.3%	3.2%	3.9%	5.0%
Americas	19.7%	17.0%	15.6%	14.6%
Asia & Pacific	17.2%	21.8%	26.3%	29.9%
Europe	58.6%	54.1%	50.0%	46.0%
Middle East	2.2%	4.0%	4.2%	4.5%
TOTAL WORLD	100.0%	100.0%	100.0%	100.0%
TOTAL GROWTH (INCREMENTAL)				
Africa		14.2	23.1	37.0
Americas		27.4	52.1	53.0
Asia & Pacific		88.8	153.5	183.0
Europe		113.4	172.3	151.0
Middle East		22.4	19.8	24.0
TOTAL WORLD		266.2	420.8	448.0

Source: UNWTO, *Tourism Towards 2030 Global Overview*.



Historical travel patterns are under change. An example of this shifting demand is the ever changing positions of the world's largest airports measured in terms of total passenger movements. According to UNWTO statistics, air is the travel mode for more than half of all trips. The number of airline trips has increased from 317 million to 481 million between 2000 and 2011. But the more interesting statistic is that nine of the world's 30 busiest international airports in 2011 were not among the busiest airports in 2000 (Table 3.4).

TABLE 3.4: TOP 30 INTERNATIONAL AIRPORTS BY PASSENGER VOLUME

AIRPORT/CITY	2011*		2000	
	RANK	PASSENGER VOLUME	RANK	PASSENGER VOLUME
Atlanta GA, US (ATL)	1	92,294,642	1	80,162,407
Beijing, CN (PEK)**	2	77,239,946	26	27,159,665
London, GB (LHR)	3	68,725,035	4	64,606,826
Chicago, IL US (ORD)	4	66,446,348	2	72,144,244
Tokyo, JP (HND)	5	62,126,079	6	56,402,206
Los Angeles, CA US (LAX)	6	61,869,662	3	66,424,767
Paris, FR (CDG)	7	60,580,624	8	48,246,137
Dallas/Fort Worth, TX US (DFW)	8	57,881,307	5	60,687,122
Frankfurt, DE (FRA)	9	55,976,480	7	49,360,630
Hong Kong, HK (HKG)	10	52,971,119	22	32,752,359
Denver, CO US (DEN)	11	52,612,288	11	38,751,687
Jakarta, ID (CGK)	12	51,774,148		10,200,000
Dubai, AE (DXB)	13	50,546,080		12,300,000
Madrid, ES (MAD)	14	49,618,491	20	32,893,190
Amsterdam, NL (AMS)	15	49,457,149	10	39,606,925
New York, NY US (JFK)	16	47,736,133	21	32,856,220
Bangkok, TH (BKK)	17	47,696,621	26	29,616,432
Singapore, SG (SIN)	18	46,082,371	28	28,618,200
Las Vegas, NV US (LAS)	19	41,359,232	12	36,865,866
Shanghai, CN (PVG)***	20	41,134,926		17,690,000
San Francisco, CA US (SFO)	21	40,639,565	9	41,040,995
Phoenix, AZ US (PHX)	22	40,502,315	15	36,040,469
Houston, TX US (IAH)	23	40,245,708	17	35,251,372
Charlotte, NC US (CLT)	24	38,991,027		22,500,000
Miami, FL US (MIA)	25	38,063,949	19	33,621,273
Rome, IT (FCO)	26	37,641,070		25,900,000
Munich, DE (MUC)	27	37,502,635		23,153,154
Kuala Lumpur, MY (KUL)**	28	37,480,075		16,398.00
Istanbul, TR (IST)	29	36,860,457		14,600,000
Sydney, AU (SYD)	30	36,093,660		25,814,000
Total Top 30 Airports		1,518,149,142		1,095,282,544

* Based on data from December 2010 to November 2011. ** Represents 2002 passenger volumes. *** Includes Pudong and Hongqiao airports for 2000. Source: ACI and airports' websites.

Faced with this hyper-competitive backdrop, Canada has experienced flat-line or modest increases in visitation in recent years, and in some years, declines. Our historic reliance on the United States market – which has traditionally provided 75% of Canada’s international visitors – has proven to be particularly troubling in light of a decline of 23.9% (55.5% including same-day visitors)

in these customers since 2000, fuelled by a combination of tighter border and passport regulations, and a Canadian dollar which is no longer deeply discounted versus the American greenback. The loss of United States visitation and the emergence of a wider competitive spectrum have contributed to Canada’s fall from 7th place in international arrivals in 2002 to 18th place in 2011 (Table 3.5).

TABLE 3.5: INTERNATIONAL TOURIST ARRIVALS, 2000 VS. 2010 & 2011

2000			2010			2011		
Rank	Country	#	Rank	Country	#	Rank	Country	#
#1	France	77.2M	#1	France	77.1M	#1	France**	77.1M
#2	United States	51.2M	#2	United States	59.8M	#2	Unites States	62.3M
#3	Spain	46.4M	#3	China	55.7M	#3	China	57.6M
#4	Italy	41.2M	#4	Spain	52.7M	#4	Spain	56.7M
#5	China	31.2M	#5	Italy	43.6M	#5	Italy	46.1M
#6	United Kingdom	23.2M	#6	United Kingdom	28.3M	#6	Turkey	29.3M
#7	Mexico	20.6M	#7	Turkey	27.0M	#7	United Kingdom**	28.3M
#8	Canada	19.6M	#8	Germany	26.9M	#8	Germany	28.4M
#9	Russian Fed.	19.2M	#9	Malaysia	24.6M	#9	Malaysia	24.7M
#10	Germany	19.0M	#10	Mexico	22.3M	#10	Austria	23.0M
#11	Austria	18.0M	#11	Austria	22.0M	#11	Russian Fed.	22.7M
#12	Poland	17.4M	#12	Ukraine	21.2M	#12	Mexico	22.7M
#13	Greece	13.1M	#13	Russian Fed.	20.3M	#13	Hong Kong	22.3M
#14	Portugal	12.1M	#14	Hong Kong	20.1M	#14	Ukraine	21.4M
#15	Malaysia	10.2M	#15	Canada	16.1M	#15	Thailand	19.1M
#16	Netherlands	10.0M	#16	Switzerland	15.0M	#16	Saudi Arabia	17.3M
#17	Turkey	9.6M	#17	India	14.2M	#17	Greece	16.4M
#18	Thailand	9.6M	#18	Singapore	14.1M	#18	Canada	16.0M
#19	Hong Kong	8.8M	#19	Japan	13.2M	#19	Poland	13.4M
#20	Switzerland	7.8M	#20	Netherlands	12.9M	#20	Macau	12.9M
World		691.2M	World		939.0M	World		980.0M
Total Top 20 Countries		465.5M	Total Top 20 Countries		587.1M	Total Top 20 Countries		617.7M
As % of Total		67.3%	As % of Total		67.3%	As % of Total		63.0%

Source: UNWTO, World Tourism Barometer, Volume 10, March 2012.

Comparing the sources and associated volumes of international visitors to Canada with that of the United States is revealing (Table 3.6). While the United States is clearly the Canadian tourism industry's largest customer (based on total trips), despite the almost tenfold difference in population, Canada remains the largest generator of trips to the United States. Geographic, cultural and familial "closeness" is likely the underlying factor. However, the composition of the next ten largest source countries for 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 3.6: 2011 INT'L TOURIST ARRIVALS - CANADA VS. UNITED STATES

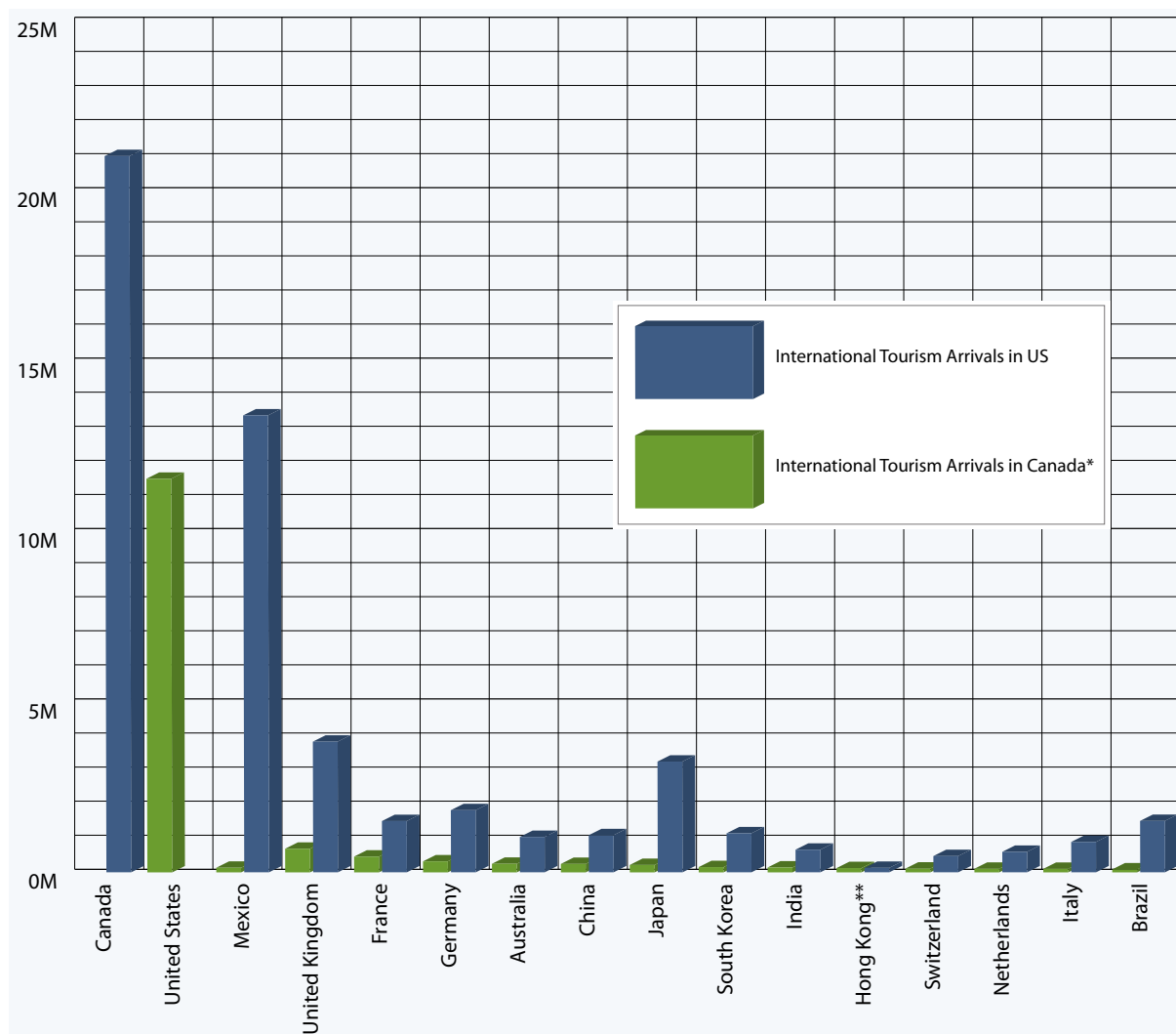
COUNTRY	INTERNATIONAL TOURISM ARRIVALS IN CANADA*	INTERNATIONAL TOURISM ARRIVALS IN U.S.
Canada	N/A	21,028,177
United States	11,556,632	N/A
Mexico	136,931	13,414,020
Subtotal (North America)	11,693,563	34,442,197
United Kingdom	694,581	3,835,300
France	464,569	1,504,182
Germany	324,009	1,823,797
Australia	253,331	1,037,852
China	248,888	1,089,405
Japan	218,813	3,249,569
South Korea	155,683	1,145,216
India	144,409	663,465
Hong Kong**	126,752	131,000
Switzerland	112,241	476,502
Netherlands	107,082	601,013
Italy	104,484	891,571
Brazil	88,489	1,508,279
Subtotal (Other)	3,043,331	17,957,151
Total Top 15 Inbound Countries	14,736,894	52,399,348

*Note: Tourist Arrivals refers to overnight arrivals only (excludes same-day travellers). * Same-day non-U.S. international visitors to Canada are included in total. ** Estimated based on 2010 actual based on information contained in the International Visitation to the United States: A Statistical Summary of Visitation 2010. Source: The U.S. Office of Travel and Tourism Industries and Statistics Canada Table 427-0001 - Number of international travellers entering or returning to Canada*

The United States and Canada share similar source markets for tourism arrivals, but the vast difference in aggregate visitation levels is a curious situation (Table 3.7). An almost six-fold variance in visitation from the fourteen-country international sample begs the question: Why? Further, these visitation levels to the United States have been created with neither a coordinated national tourism

marketing strategy nor a dedicated funding source. With a \$200 million+ budget (\$USD), the newly created national marketing entity *Brand USA* will bring a coordinated effort to grow visitation to a country already generating the second greatest visitation of any international destination.

TABLE 3.7: 2011 INTERNATIONAL TOURIST ARRIVALS - CANADA VS. UNITED STATES



Note: Tourist Arrivals refers to overnight arrivals only (excludes same-day travellers). * Same-day non-U.S. international visitors to Canada are included in total. ** Estimated based on 2010 actual based on information contained in the International Visitation to the United States: A Statistical Summary of Visitation 2010. Source: The U.S. Office of Travel and Tourism Industries and Statistics Canada Table 427-0001 - Number of international travellers entering or returning to Canada.

4. The Profile of International Visitors to Canada

TABLE 4.1: INBOUND INTERNATIONAL TRAVELLERS AND SPENDING IN CANADA

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011**
Non-Resident Travellers	19.6M	19.6M	19.9M	17.4M	19.0M	18.6M	18.1M	17.8M	16.9M	15.6M	15.9M	15.6M
Spending	\$13.0M	\$13.4M	\$13.7M	\$11.7M	\$13.6M	\$13.2M	\$13.0M	\$13.1M	\$12.9M	\$11.5M	\$11.9M	\$11.8M

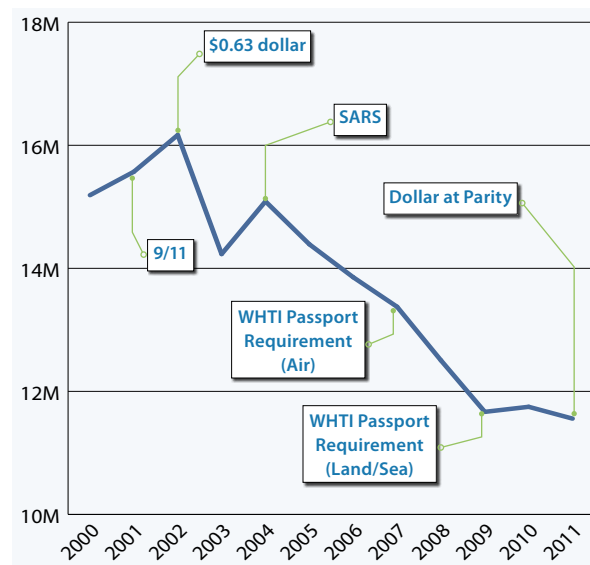
*Expenditures include the following categories: accommodation, transportation within a country, food and beverages, recreation and entertainment and others (souvenirs, shopping, photos, etc.). Expenditures exclude medical expenses, expenses on education and spending by crews. Fares paid to travel between countries, known as international passenger fares, are also excluded. **2011 numbers based on 2010 Q4 & 2011 Q1, Q2 & Q3 estimates from Statistics Canada International Travel Survey Microfile data. Source: Statistics Canada, International Travel Survey

In 2011, Canada welcomed some 15.6 million international overnight visitors that spent \$11.8 billion in Canada (Table 4.1). Overnight visitation, the source of more than 95% of total tourism spending in Canada, has declined by almost four million a year—or 20%—over the past decade.

The U.S. market is overwhelmingly the largest source market for Canadian tourism—generating 75% of all overnight trips in 2011—but the makeup of this market has changed dramatically over the last decade.

Between 2000 and 2011 overnight travel from the United States to Canada has declined significantly (Table 4.2). A host of factors underlie this drop including tighter border controls following September 11, 2001, economic pressures (exacerbated in many of the “rust belt” states proximate to the U.S. – Canada border) and the Western Hemisphere Travel Initiative requirement for U.S. residents to hold a passport to return to the United States. Overnight travel by U.S. residents to Canada fell by almost 3.6 million visitors in this period, a decline of 23.9%.

TABLE 4.2: OVERNIGHT U.S. VISITORS



Excluding the United States the greatest generators of visitors to Canada are the United Kingdom, France, Germany, Australia and China (Table 4.3). On a percentage basis, the most significant increases have been posted by

visitors from China, India and Brazil. The largest percentage decreases in absolute numbers are in visitors from Canada's traditional source markets Japan, Germany and the United Kingdom.

TABLE 4.3: INTERNATIONAL VISITORS TO CANADA - TOP 15 INBOUND COUNTRIES (EXCLUDING THE U.S.)

INBOUND COUNTRIES	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
U.K.	913,797	876,771	769,005	723,205	846,694	921,208	881,742	925,566	869,926	724,470	727,496	694,581
France	417,215	368,625	320,662	280,882	341,534	361,968	373,606	379,268	425,409	411,741	440,723	464,569
Germany	416,889	359,978	311,684	271,568	318,320	336,559	313,025	318,165	332,008	318,844	342,002	324,009
Australia	179,510	171,918	162,778	156,619	185,135	209,220	206,542	228,726	248,718	213,671	244,172	253,331
China	77,265	86,407	99,292	77,527	104,840	120,313	147,853	155,753	165,823	166,192	200,033	248,888
Japan	540,095	449,047	452,546	273,886	437,160	441,783	401,127	343,451	287,198	205,639	243,040	218,813
South Korea	149,032	157,081	165,101	148,557	190,982	191,319	201,815	212,602	196,564	144,141	169,953	155,683
India	55,162	58,173	58,729	59,492	71,012	82,037	89,954	105,154	114,975	111,579	132,212	144,409
Mexico	146,945	154,671	165,097	144,061	177,269	194,344	213,945	250,633	270,828	172,006	123,763	136,931
Hong Kong	145,139	130,113	122,798	93,961	120,987	113,767	111,866	115,558	132,407	111,779	119,366	126,752
Switzerland	106,912	98,761	90,737	83,638	92,760	98,787	93,156	95,816	99,294	100,772	107,220	112,241
Netherlands	132,450	118,341	110,817	106,248	120,026	122,171	121,754	124,441	123,872	110,746	110,957	107,082
Italy	125,601	101,445	104,799	62,165	93,736	98,414	93,017	102,592	106,348	99,314	108,380	104,484
Brazil	52,454	40,516	36,941	31,598	50,516	62,155	65,649	66,682	72,126	62,243	80,776	88,489
Spain	43,995	39,149	45,544	31,899	43,396	50,979	56,830	67,224	75,903	72,897	68,609	68,127
Subtotal	3,458,466	3,171,847	2,970,986	2,513,407	3,150,971	3,354,045	3,315,051	3,424,407	3,445,496	2,953,137	3,150,093	3,180,262

Source: Statistics Canada, Table 427-0003 - Number of non-resident travellers entering Canada, by country of residence (excluding the United States), annual (persons). Total Overseas Visitors includes same-day and overnight.

Once in Canada, both non-U.S. international visitors and U.S. visitors tend to stay in the province of arrival (Table 4.4). The 15.6 million overnight trips by international visitors resulted in 20.1 million overnight visits to individual provinces and territories. Ontario, British Columbia and Quebec received 83% of the 20.1 million overnight visits generated by international visitors to Canada. The tendency to remain in province of arrival has remained relatively constant over the last decade.

TABLE 4.4: 2011- PERSON VISITS (OVERNIGHT) OF INTERNATIONAL TRAVELLERS BY PROVINCE OF DESTINATION

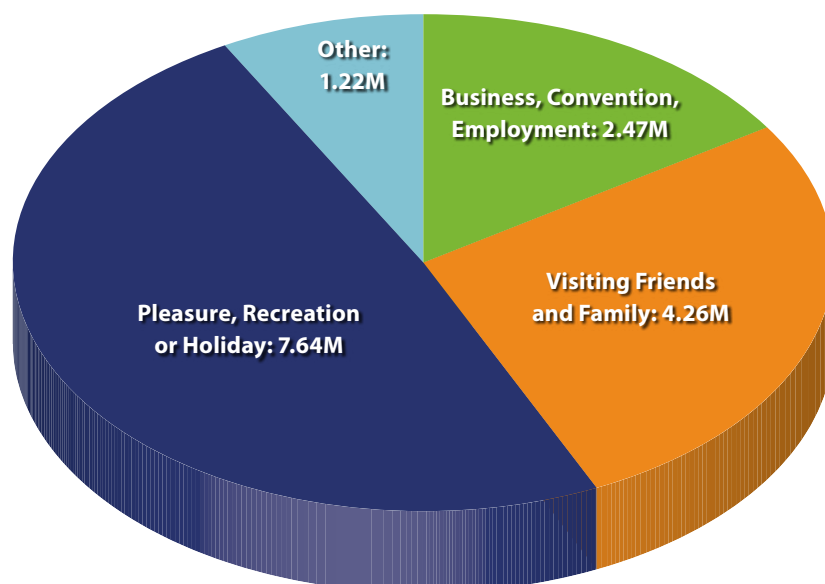
PROVINCE	PERSON VISITS (000)			SPENDING (\$MILLION)***		
	U.S.	OVERSEAS	TOTAL	U.S.	OVERSEAS	TOTAL
British Columbia *	3,552	1,417	4,969	\$1,570	\$1,737	\$3,307
Alberta	817	718	1,534	\$571	\$731	\$1,302
Saskatchewan	159	43	202	\$79	\$39	\$118
Manitoba	248	84	332	\$109	\$70	\$179
Ontario	6,916	1,795	8,711	\$2,328	\$1,743	\$4,071
Québec	1,936	1,143	3,079	\$1,018	\$1,115	\$2,133
Atlantic Canada **	1,016	305	1,320	\$386	\$290	\$675
Total	14,643	5,504	20,147	\$6,061	\$5,725	\$11,786

* Includes sum of visits to British Columbia, Yukon, Northwest Territories and Nunavut. ** Includes sum of visits to Newfoundland and Labrador, New Brunswick, Nova Scotia and Prince Edward Island. *** 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 Microfile Data for 2010 Q4, 2011 Q1, 2011 Q2 and 2011 Q3.

CHARACTERISTICS OF ALL INTERNATIONAL VISITORS TO CANADA

While friends and family connections can help to encourage travel to Canada, the vast majority of international visitors are traveling for leisure and holiday purposes (Table 4.5).

TABLE 4.5: PERSON-TRIPS (OVERNIGHT) BY TRIP PURPOSE, 2011



Source: Statistics Canada, International Travel Survey Microfile Data for 2010 Q4, 2011 Q1, 2011 Q2 and 2011 Q3.

Canada is a “fly-to” destination. The growth of inbound visitors has mainly been from non-residents arriving by air (Table 4.6). The decrease in U.S. visitors can be attributed to less road traffic – but when there is modest growth in visitors from the U.S., it is entirely from those who are flying to Canada.

TABLE 4.6: PERSON TRIPS BY MODE OF TRANSPORTATION (OVERNIGHT)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
U.S. OVERNIGHT TRAVELLERS (000)												
Automobile	9,457	9,889	10,607	9,120	9,409	8,774	8,318	7,961	7,367	7,051	6,922	6,651
Plane	3,835	3,782	3,790	3,502	3,932	3,915	3,881	3,781	3,591	3,280	3,465	3,519
Bus	798	708	661	476	498	546	477	462	391	291	333	352
Other Types*	1,098	1,191	1,110	1,135	1,249	1,155	1,179	1,171	1,155	1,045	1,028	1,035
Total	15,189	15,570	16,167	14,232	15,088	14,391	13,855	13,375	12,504	11,667	11,749	11,557
OVERSEAS OVERNIGHT TRAVELLERS (000) (VIA THE U.S.)												
Land	559	453	405	313	376	423	380	379	416	419	491	452
Air**	930	858	830	679	793	886	884	908	864	766	956	959
Sea	73	83	70	75	106	112	112	133	149	138	147	152
Total	1,562	1,394	1,305	1,068	1,276	1,421	1,376	1,420	1,429	1,323	1,594	1,563
OVERSEAS OVERNIGHT TRAVELLERS (000) (DIRECT)												
Land												
Air**	2,869	2,708	2,573	2,227	2,772	2,945	3,020	3,129	3,197	2,735	2,742	2,843
Sea	8	8	12	7	9	14	14	10	12	12	13	13
Total	2,877	2,715	2,585	2,234	2,782	2,959	3,034	3,139	3,209	2,746	2,755	2,856
TOTAL OVERSEAS OVERNIGHT TRAVELLERS												
Land	559	453	405	313	376	423	380	379	416	419	491	452
Air**	3,799	3,566	3,403	2,907	3,566	3,831	3,904	4,037	4,061	3,501	3,697	3,802
Sea	81	91	82	82	115	126	126	143	162	150	160	165
Total	4,438	4,109	3,890	3,302	4,057	4,380	4,410	4,560	4,638	4,070	4,349	4,419

Source: Statistics Canada CANSIM table 427-0001. *Other types includes train, boat, pedestrians, bicycle, motorcycle, etc. **Includes same-day trips of overseas visitors arriving to Canada by air.

Travellers are increasingly turning to electronic payments while visiting other countries as this method of payment reduces concerns about exchanging and carrying cash. In Canada, the purchasing power provided by electronic payment cards has been a major contributor to the increase in international tourist spending. In addition to facilitating trade, electronic payments help provide insight into how tourists –and their money– contribute to the Canadian economy. For example, in Canada services and commodities purchased by international visitors reflect fairly traditional spending patterns.

While leisure trips generate the greatest aggregate spending, business trips account for much greater revenues on a \$/trip basis. Business travellers accounted for 16% of all overnight trips in 2011 but more than 22% of 2011 overnight trip spending. A visitor traveling to Canada for business or to attend a convention/meeting spends, on average, \$1,062 compared with \$522 for a VFR (Visiting Friends or Relatives) visitor or \$769 for someone traveling to Canada for a holiday/pleasure trip.

These figures are corroborated by a study on the economic impact of meetings in Canada completed for the Meeting Professionals International Foundation by Maritz Research and the Conference Board of Canada (initially in 2008 with an update prepared in 2009). The study identified total spending of approximately \$1,000/meeting participant.

A direct relationship exists between distance travelled, length of time spent in Canada and total spending (Table 4.10). The average spending by all international overnight visitors to Canada (i.e., \$756/visitor) reflects the long haul nature of travel to Canada and the length of trip.

Comparing average spending per visit to Canada with average spending per visit to the other UNWTO Top 15 countries, produces a reasonably favourable result (note: UNWTO spending per international arrival includes airfare, while the Statistics Canada spending totals do not).

TABLE 4.7 - 2011 TOURIST SPENDING IN CANADA BY CATEGORY - UNITED STATES

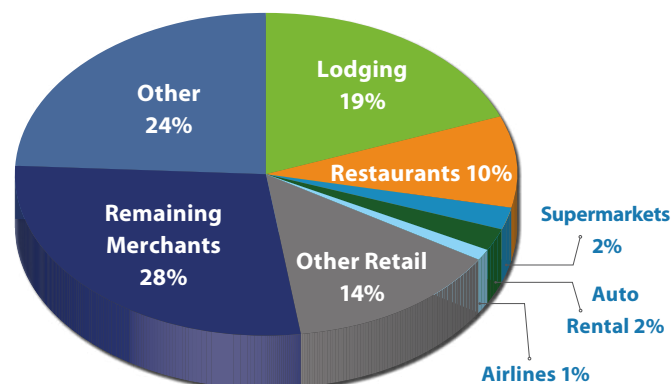
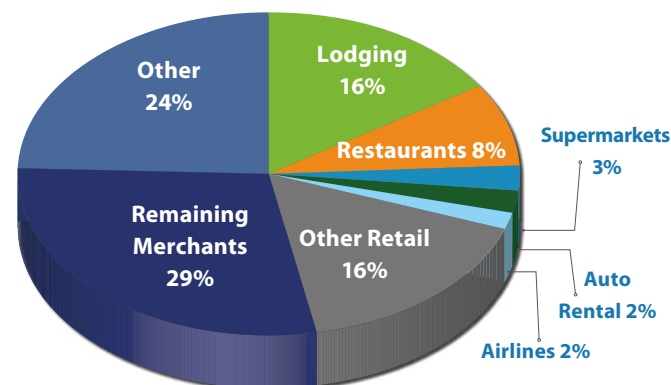


TABLE 4.8 - 2011 TOURIST SPENDING IN CANADA BY CATEGORY - TOP 15 INBOUND COUNTRIES TO CANADA



Source: Visa Canada



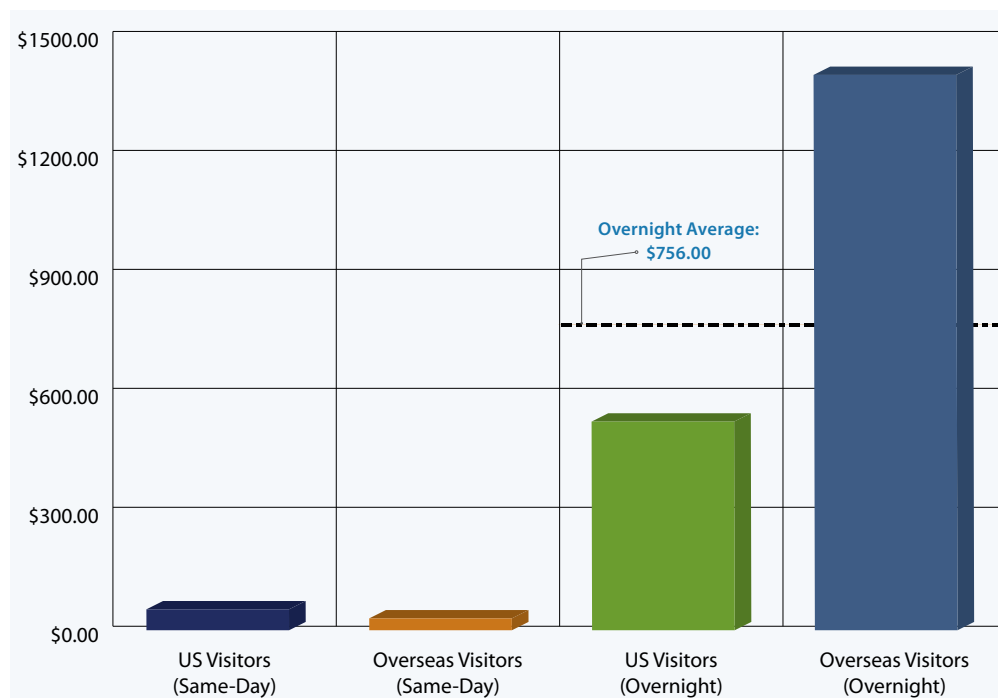
15,598,000
OVERNIGHT PERSON-TRIPS

in 2011 accounted for



\$11,786,000
IN SPENDING IN CANADA

TABLE 4.9: SPENDING PER PERSON-TRIP (\$)



Source: Statistics Canada, International Travel Survey Microfile Data for 2010 Q4, 2011 Q1, 2011 Q2 and 2011 Q3.

TABLE 4.10: SPENDING PER INTERNATIONAL ARRIVAL, 2010 (TOP 15 INBOUND COUNTRIES IN 2011)

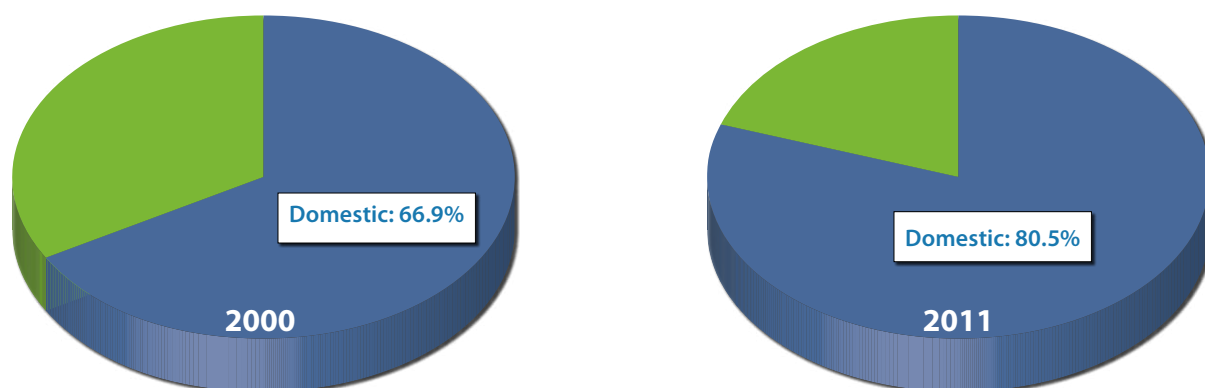
COUNTRIES	2010 INTERNATIONAL ARRIVALS	2010 INTERNATIONAL TOURISM RECEIPTS (\$USD)	2010 TOURISM RECEIPTS PER ARRIVAL (\$USD)
France	77.1M	\$46.6B	\$604.40
Unites States	59.8M	\$103.5B	\$1,730.80
China	55.7M	\$45.8B	\$822.30
Spain	52.7M	\$52.5B	\$996.20
Italy	43.6M	\$38.8B	\$889.90
Turkey	27.0M	\$20.8B	\$770.40
United Kingdom	28.3M	\$32.4B	\$1,144.90
Germany	26.9M	\$34.7B	\$1,290.00
Malaysia	24.6M	\$18.3B	\$743.90
Austria	22.0M	\$18.6B	\$845.50
Russian Federation	20.3M	\$9.0B	\$443.30
Mexico	22.3M	\$11.8B	\$529.10
Hong Kong	20.1M	\$22.2B	\$1,104.50
Ukraine	21.2M	\$20.1B	\$948.10
Thailand	15.9M	\$20.1B	\$1,264.20

Source: UNWTO World Tourism Barometer, Volume 10, March 2012. International Arrivals - excludes same-day visitors. International Tourism Receipts - Cover all tourism receipts made by visitors from abroad (inbound) on lodging, food & drinks, fuel, transportation, entertainment, etc. It excludes expenses related to transportation between countries.

5. Canada's Domestic Tourism Market

Travel by Canadians within Canada accounted for just over 80% of total visitor spending in 2011. In 2000 domestic spending represented only 67% of total spending. The significant increase in domestic travel spending, as a proportion of total travel spending, results from declining international visitation (mostly caused by declines in U.S. day visitors) as well as increasing volumes of Canadians traveling within Canada.

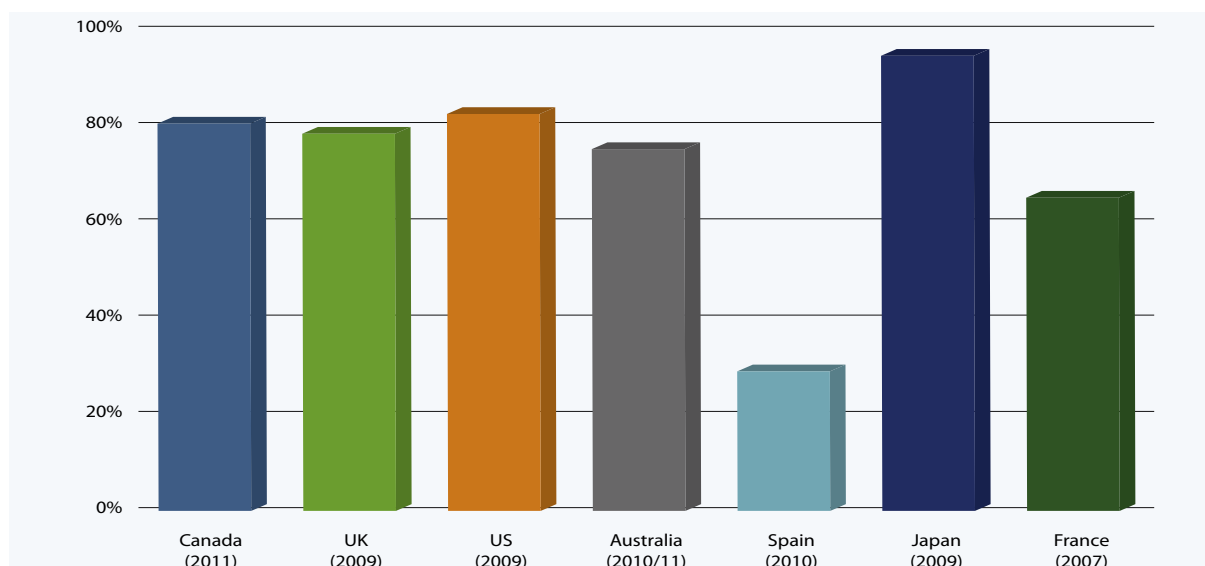
TABLE 5.1: TOURISM SPENDING IN CANADA, 2000 VS. 2011



Source: Statistics Canada Table 387-0001. Tourism Domestic Spending is the spending in Canada by Canadian visitors on domestically produced commodities. Foreign Tourism Spending is spending by foreign visitors on Canadian-produced tourism 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. It does not include expenses of crew members or medical and educational expenses.

The importance of domestic travel in Canada however, is not unique as most developed countries rely on domestic travel for a significant portion of total spending. However, it is vital to recognize that Canada's growing reliance on domestic tourism is not a sustainable growth model for the sector.

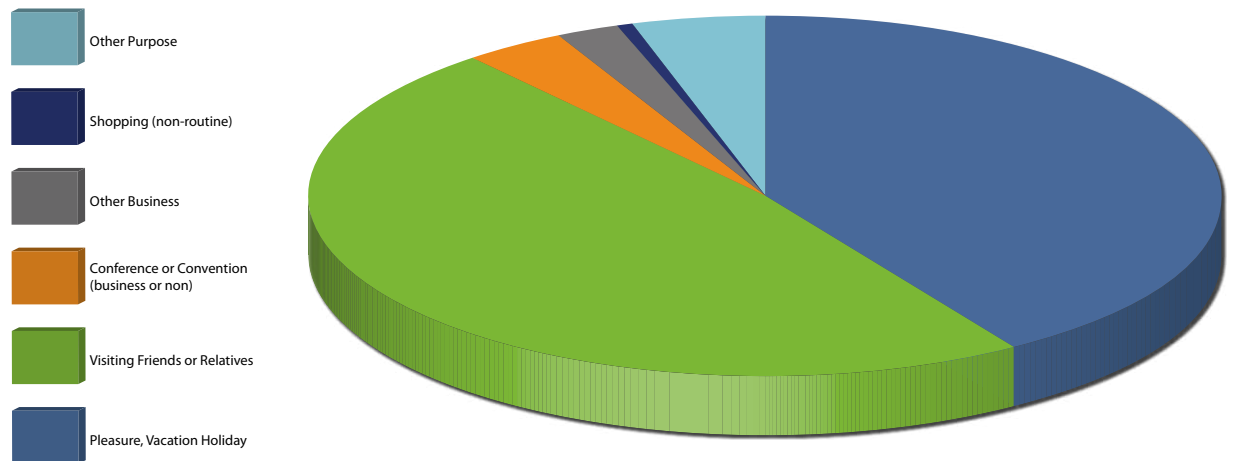
TABLE 5.2: DOMESTIC TOURISM SPENDING (AS A % OF TOTAL TOURISM SPENDING)



Statistics Canada Table 387-0001 and data from selected International Tourism Agencies.

Unlike international travel, “Visiting Friends and Relatives” accounts for a much greater proportion of total domestic travel, fully 48% of total overnight travel within Canada. This, coupled with leisure trips, accounts for 92% of total travel. Business travel is a small (though still important) component of domestic travel.

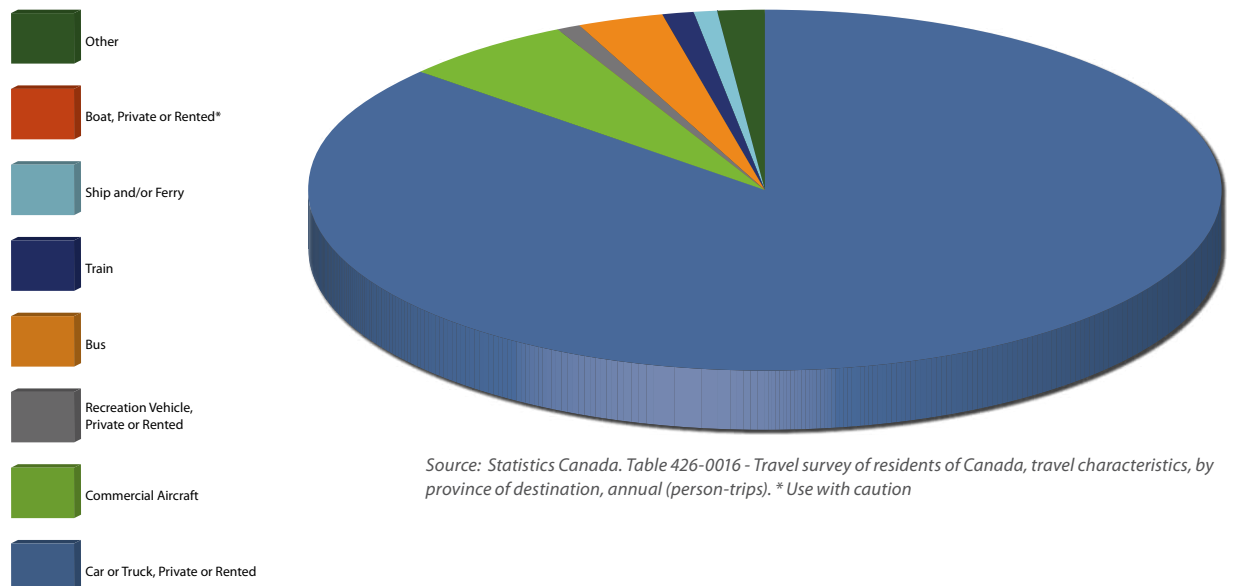
TABLE 5.3: DOMESTIC TRAVEL OF CANADIAN RESIDENTS BY TRIP PURPOSE, 2010 (OVERNIGHT ONLY)



Source: Statistics Canada. Table 426-0016 - Travel survey of residents of Canada, travel characteristics, by province of destination, annual (person-trips)

Land-based transportation options are the overwhelming choice of domestic travellers however, travel distances within Canada means that air travel still accounts for a meaningful portion of total travel.

TABLE 5.4: DOMESTIC TRAVEL OF CANADIAN RESIDENTS BY MODE OF TRANSPORTATION, 2010 (OVERNIGHT ONLY)



Source: Statistics Canada. Table 426-0016 - Travel survey of residents of Canada, travel characteristics, by province of destination, annual (person-trips). * Use with caution

Spending reflects traditional tourist services and commodities although the visiting friends and relatives component results in far higher residential commodity purchases (e.g., food and beverage – stores). Business travel, on a per trip basis generates substantially greater spending.

TABLE 5.5: DOMESTIC TRAVEL SPENDING OF CANADIAN RESIDENTS BY CATEGORY (OVERNIGHT ONLY)

SPENDING BY CATEGORY (\$000)	2010
Accommodation	\$5,424,050
Vehicle Rental	\$389,767
Vehicle Operation	\$4,328,173
Local Transportation	\$251,359
Transportation Fares	\$3,020,711
Food & Beverage - Restaurants	\$4,886,213
Food & Beverage - Store	\$2,039,841
Recreation	\$942,207
Entertainment	\$859,705
Clothing	\$1,841,437
Other Costs	\$666,510
Total Spending	\$24,649,973

TABLE 5.6: DOMESTIC TRAVEL SPENDING OF CANADIAN RESIDENTS BY TRIP PURPOSE (OVERNIGHT ONLY)

SPENDING BY TRIP PURPOSE (\$000)	2010
Pleasure, Vacation Holiday	\$11,844,460
Visiting Friends or Relatives	\$7,739,639
Conference or Convention (business or non)	\$2,032,497
Other Business	\$1,475,221
Shopping (non-routine)	\$178,513
Other Purpose	\$1,379,643
Total	\$24,649,973

The vast majority of domestic travel occurs within the province of residence and reflects the Visiting Friends and Relatives trip purpose.

TABLE 5.7: DOMESTIC PERSON-VISITS BY PROVINCE OF ORIGIN (2010)

PROVINCE OF ORIGIN	PERSON VISITS (000)		
	SAME PROVINCE	OTHER PROVINCES	TOTAL
Newfoundland & Labrador	1,506	31	1,537
Prince Edward Island	484	82	566
Nova Scotia	2,796	91	2,887
New Brunswick	2,184	57	2,241
Quebec	23,367	306	23,673
Ontario	34,369	325	34,694
Manitoba	2,968	122	3,090
Saskatchewan	4,060	102	4,162
Alberta	9,359	345	9,704
British Columbia	10,749	310	11,059

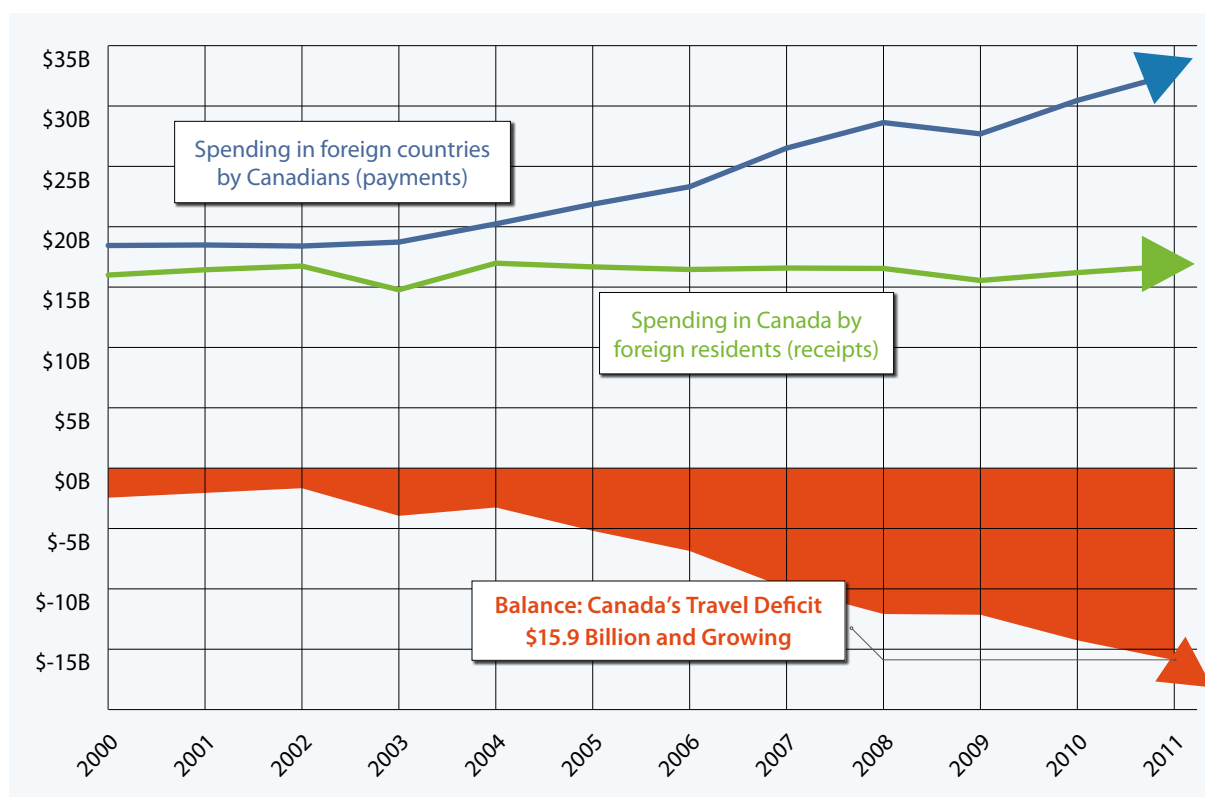
Source: Statistics Canada. Table 426-0005 - Canadian travel survey, reallocated expenditures, by trip characteristics, annual (dollars)

6. The Travel Deficit

Canada's travel deficit, almost \$16 billion at the end of 2011, has increased six-fold over just the past decade. Flat line international inbound travel spending has been offset

by a near doubling of the spend of Canadians traveling outside the country (Table 6.1).

TABLE 6.1: CANADA'S INTERNATIONAL TRAVEL DEFICIT

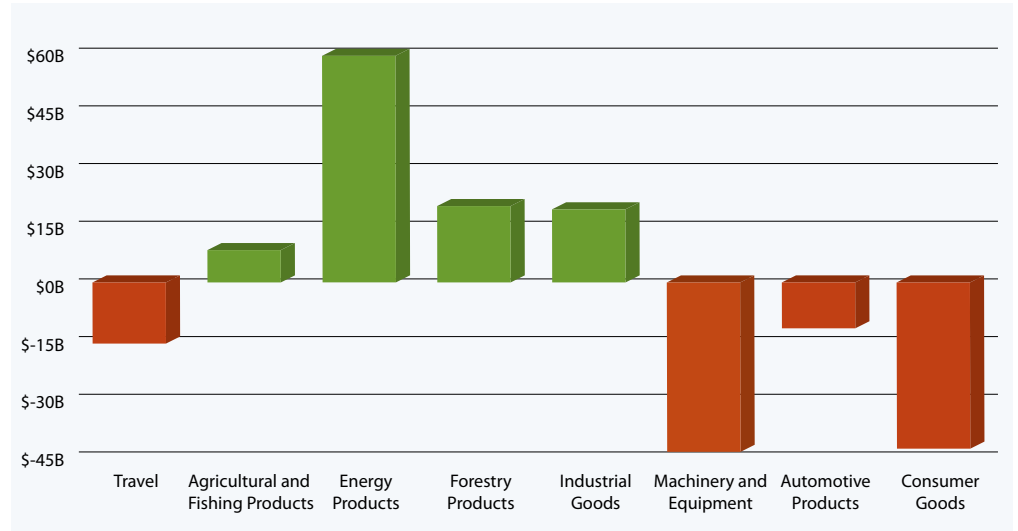


Source: Statistics Canada

Travel is a significant drag on Canada's national trade balance, with the \$15.9 billion deficit eclipsed by only machinery and equipment (\$44 billion) and consumer goods (\$43.2 billion) (Table 6.2).

While outbound travel reaches a peak during

the winter months, travel deficits occur every month throughout the year. Monthly spending data provided by Visa Canada shows the greatest travel deficits occurring in March, February, January, April and November. The smallest deficits occur in June, July and September.

TABLE 6.2: 2011 BALANCE OF PAYMENTS - TRAVEL VS. OTHER GOODS**TABLE 6.3: SPENDING IN CANADA BY FOREIGNERS AND SPENDING OF CANADIANS IN FOREIGN COUNTRIES (2011)**

	SPENDING BY INBOUND TOURISTS IN CANADA	SPENDING BY CANADIANS IN FOREIGN COUNTRIES	SPENDING DEFICIT
January, 2011	\$416,283,067	\$1,296,856,824	\$880,573,757
February, 2011	\$399,894,412	\$1,308,846,887	\$908,952,475
March, 2011	\$442,316,081	\$1,648,994,919	\$1,206,678,838
April, 2011	\$441,773,443	\$1,380,089,921	\$938,316,478
May, 2011	\$530,169,549	\$1,310,090,832	\$779,921,283
June, 2011	\$635,252,836	\$1,107,734,541	\$472,481,704
July, 2011	\$824,908,360	\$1,376,940,881	\$552,032,522
August, 2011	\$833,568,994	\$1,423,052,711	\$589,483,716
September, 2011	\$670,465,786	\$1,215,695,874	\$545,230,088
October, 2011	\$535,942,415	\$1,253,468,985	\$717,526,570
November, 2011	\$434,730,155	\$1,308,480,211	\$873,750,056
December, 2011	\$483,074,722	\$1,273,539,715	\$790,464,993
Total 2011	\$6,648,379,821	\$15,903,792,301	\$9,255,412,480

Source: VISA

Given the seasonal peaks of Canadian outbound travel, the countries with which Canada has its most significant travel spending imbalances are sun destinations. On a country-by-country basis, Visa data shows the greatest sun destination imbalances being posted by Mexico, Jamaica and the Dominican Republic. For a cold-weather country with a long tradition of visiting sun destinations, this imbalance with those countries is to be expected. But the imbalances with developed nations such as the United Kingdom and Italy (with about twice the population of Canada) and Spain (with a population about 50% greater) are more interesting.

TABLE 6.3: SPENDING IN CANADA BY FOREIGNERS AND SPENDING OF CANADIANS IN FOREIGN COUNTRIES (2011)

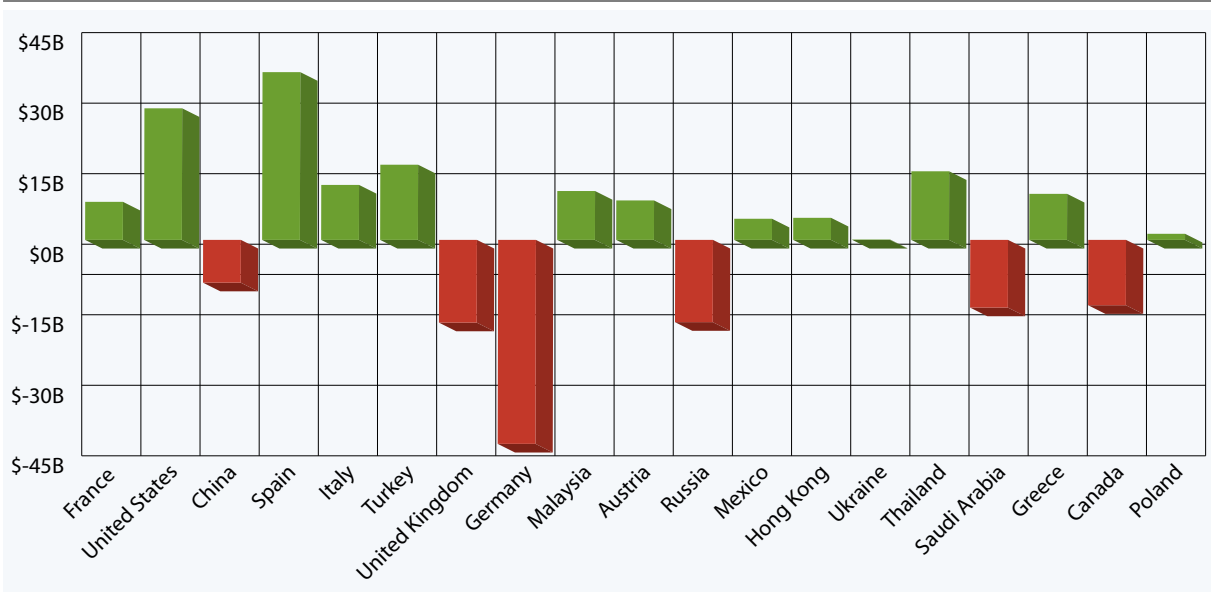
	SPENDING BY INBOUND TOURISTS IN CANADA	SPENDING BY CANADIANS IN FOREIGN COUNTRIES	SURPLUS/DEFICIT
United States	\$3,524,466,180.98	\$10,335,265,677.85	-\$6,810,799,496.87
Mexico	\$70,419,733.54	\$594,760,870.94	-\$524,341,137.40
Italy	\$36,626,490.22	\$306,269,933.00	-\$269,643,442.78
United Kingdom	\$348,337,673.68	\$500,326,254.85	-\$151,988,581.17
Spain	\$39,758,734.34	\$150,212,708.52	-\$110,453,974.18
Netherlands	\$22,680,990.78	\$114,396,058.71	-\$91,715,067.93
Jamaica	\$3,758,489.02	\$83,108,283.47	-\$79,349,794.45
France	\$351,237,008.91	\$416,167,303.94	-\$64,930,295.03
Dominican Republic	\$4,071,038.18	\$59,503,482.07	-\$55,432,443.89
Germany	\$122,967,196.04	\$164,489,158.35	-\$41,521,962.31
Republic of Ireland	\$25,231,442.77	\$59,503,482.07	-\$34,272,039.30
Hong Kong	\$105,716,447.46	\$99,294,180.47	\$6,422,266.99
Switzerland	\$84,451,925.83	\$75,618,363.79	\$8,833,562.04
China	\$321,411,631.14	\$153,459,540.52	\$167,952,090.62
Cuba	(Not Available)	(Not Available)	(Not Available)
Top 15 Countries Visited by Canadians	\$4,739,723,352	\$12,958,915,758	-\$8,219,192,406

Source: VISA

Of the top 20 inbound countries, six currently have a tourism deficit (Germany, the UK, Russia, Saudi Arabia, Canada and China), with Canada having the fifth largest (Table 6.4).

Travel deficits are a function of the domestic population (i.e., the number of potential outbound visitors), the strength of the domestic economy, as well as the destination attractiveness (including the ability to market effectively). On a per capita basis, Canada's travel deficit becomes the third largest among the top 20 inbound countries.

TABLE 6.4: NATIONAL TRAVEL DEFICIT/SURPLUS, 2010 - TOP 20 INBOUND COUNTRIES (\$USD BILLIONS)



Source: UNWTO, World Tourism Barometer, Volume 10, March 2012



7. Challenges and Opportunities

In 2009, the federal, provincial and territorial tourism ministers set a goal of \$100 billion from tourism spending in Canada by 2015. This goal was adopted within the recently-released federal tourism strategy: “Canada’s Federal Tourism Strategy: Welcoming the World.”

The \$100 billion goal is ambitious given:

- Continued economic uncertainty on the world stage;
- A rapidly growing and intensively competitive international tourism marketplace;
- A large and growing travel deficit resulting from flat international travel to Canada and rapidly growing outbound travel by Canadians;
- Pricing disadvantages due to an increasingly complex array of taxes, charges and levies; and
- Fiscal pressures across all levels of government threatening to further reduce marketing budgets.

With these market realities as a backdrop, and despite the ambitious goal set out in 2009, Canada experienced a decrease in visitation through 2011—the only country on the UNWTO Top 20 list to post a decline in the number of international arrivals.

TIAC has identified three structural problems underpinning Canada’s declining position in international tourism: marketing, access and product.

MARKETING

Many factors can affect the visitor volumes achieved in any given country including destination appeal, cost, capacity, visa/immigration processes, and safety among others. But the positioning and awareness of a country’s tourism product is largely a function of brand, quantum and allocation of marketing.

The vast majority of countries continue to invest in tourism marketing because it produces significant returns on investment. In fact, the Canadian Tourism Commission’s direct-to-consumer campaigns in 2011 inspired some 322,800 international travellers to come to Canada. These leisure travellers coupled with meetings conventions and incentive travel (MC&IT) generated an estimated \$590 million in tourism revenue for Canada’s economy and created or protected 4,781 tourism jobs across the country.

TABLE 7.1: COUNTRY INDEX RANKING AND INTERNATIONAL VISITORS – 2005 AND 2011

	2011			2005		
	COUNTRY INDEX	INT’L VISITORS	VISITORS RANKING	COUNTRY INDEX	INT’L VISITORS	VISITORS RANKING
Canada	1	16.0M	18	>10	19.6M	12
Switzerland	2	8.5M	29	>10	7.3M	29
New Zealand	3	2.4M	(Not Avail)	>10	2.4M	58
Japan	4	6.2M	39	>10	6.7M	33
Australia	5	5.9M	42	2	5.5M	39
United States	6	62.3M	2	3	51.2M	3
Sweden	7	5.0M	46	>10	4.9M	42
Finland	8	4.2M	51	>10	3.1M	53
France	9	79.5M	1	4	77.2M	1
Italy	10	46.1M	5	1	41.2M	5

Source: Futurebrand Country Brand Index and UNWTO, World Tourism Barometer, Volume 10, March 2012.

BRAND LEADERSHIP HASN'T TRANSLATED INTO VISITATION

Canada has sat atop the Futurebrand country index for the last two years, having first moved into 6th place in 2007 and second place in 2009 (See Table 7.3). Prior to 2007, Canada was not among the Top 10 country brands. Despite this leadership position in branding, international visitation to Canada has dropped from 19.6 million to 16.0 million (from 12th place to 18th) between 2005 and 2011.

THE MISSING LINK: A SENSE OF URGENCY

Futurebrand's country index is developed using a range of attributes including, but by no means exclusively, tourism focused. Looking solely at the tourism characteristics Canada fares less well than other countries on such key decision criteria as value for money and things to see and do (e.g., attractions, arts/culture, even natural beauty).

Arguably Canada has been unable to develop the sense of urgency that seems to exist for Futurebrand's other top-rated, and more frequently visited countries, as evidenced in the Futurebrand "expert" summaries attached to each of the ten top-ranked countries.

The dullness of the "expert summary" on Canada should resonate with tourism marketers as consideration is given on how to build a sense of urgency among potential visitors to Canada.

THE MARKETING BUDGET: TOO LITTLE, TOO INCONSISTENT, SPREAD TOO THIN

The Canadian Tourism Commission's budget in the fiscal year ending March 2011 was \$72 million (See Table 7.2) but this is slated to drop to \$58 million in 2014. One-time allocations of stimulus funds as marketing support for the Olympic Winter Games in Vancouver have resulted in annual marketing spending as high as \$92 million in 2009.

TABLE 7.2: ANNUAL BUDGETS OF NATIONAL TOURISM ORGANIZATIONS

COUNTRY	2011 TOURISM BUDGET	TOURISM BUDGET GROWTH	GROWTH IN ARRIVALS FROM KEY MARKETS 2011/96
India	\$294M	↑	193%
Ireland	\$211M	↑	14%
Mexico	\$153M	↑	4%
Australia	\$147M	↑	30%
Malaysia	\$128M	↑	257%
S. Africa	\$118M	↑	7.30%
France	\$112M	↑	13%
Korea	\$94M	↑	158%
NZ	\$89M	↑	83%
Brazil	\$84M	↑	100%
Switzerland	\$80M	↑	23%
Canada	\$72M	↓	-10%



Source: Canadian Tourism Commission

TABLE 7.3: FUTUREBRAND RANKING ON TOURISM, HERITAGE AND CULTURE ATTRIBUTES

		TOURISM				ARTS AND CULTURE			
	2011 COUNTRY INDEX	VALUE FOR MONEY	LODGING OPTION	ATTRACTIONS	FOOD	NATURAL BEAUTY	HISTORY	ARTS/ CULTURE	AUTHENTIC
Canada	1	17	14	16	30	15	44	29	34
Switzerland	2	18	4	10	10	3	25	24	7
New Zealand	3	12	12	7	36	1	65	45	4
Japan	4	25	3	1	3	23	15	9	2
Australia	5	11	19	11	14	16	54	42	15
United States	6	2	5	4	15	47	39	40	33
Sweden	7	26	11	21	23	10	30	12	13
Finland	8	34	30	32	29	18	55	22	25
France	9	62	17	3	2	35	4	2	10
Italy	10	28	15	2	1	12	3	1	5

WHAT THE EXPERTS ARE SAYING...

FRANCE:

"France has history, culture, gastronomy, fashion, wine, landscapes—and timeless romance."

UNITED STATES:

"The United States is a very modern and forward looking nation with beautiful natural scenery, people-oriented services, great shopping and tourist-friendly infrastructure."

NEW ZEALAND:

"New Zealand has moved from showing landscapes to showing people in the landscape enjoying good service. They are building a holistic, attractive experience."

ITALY:

"Italy doesn't need to promote—It just delivers!"

CANADA

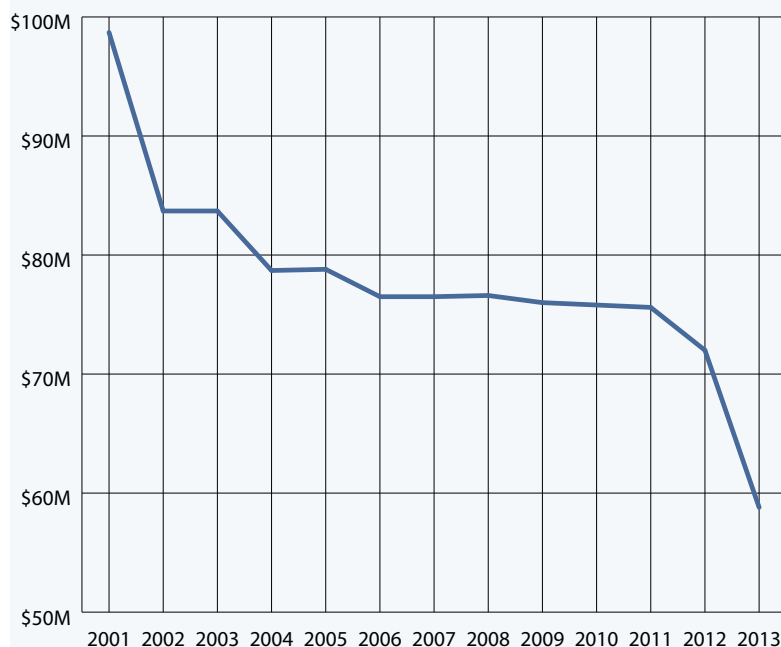
"Canada has a stable political system, economy and market; an open and tolerant society; and policies that encourage immigration."

Source: Futurebrand 2011-2012 Country Brand Index.

An issue as equally as challenging as the quantum of marketing budget is the consistency of funding levels from one year over the next. Canada, like most countries among the UNTWO's Top 20 list, funds the Canadian Tourism Commission on an annual basis with no formula or linkage (i.e., tied to visitor arrivals) that permits forward planning based on a known budget.

The lack of resourcing, despite decisions to target spending—such as movement out of the U.S. market—creates a situation where limited marketing dollars are spread like “jam on toast” across too many international target countries. The Canadian Tourism Commission's high priority markets include the United Kingdom, France, Germany, Japan, Australia, China, South Korea, India, Mexico and Brazil.

TABLE 7.4: ANNUAL BASE FUNDING OF THE CANADIAN TOURISM COMMISSION



Source: CTC

COST

Canada is an expensive destination. A combination of high fixed costs (e.g., property taxes), domestic airfares, commodity taxation (e.g., HST, food and alcohol), labour, and an array of fees and charges at all levels of government make many Canadian travel products some of the most expensive in world.

The elimination of the Visitor Rebate Program in April 2007 and replacement with the Foreign Convention and Tour Incentive Program placed Canada at a disadvantage vis a vis the closest competitor (and customer), the United States (Table 7.5).

While tour groups and recognized foreign convention organizers are able to apply for refunds of GST or HST, individual travellers are not. The ability for individual travellers to claim refunds on federal (and in some cases state/provincial) taxes is fairly universal.

TABLE 7.5: TOP 15 COUNTRIES (ARRIVALS) – VALUE ADDED TAXES AT NATIONAL LEVEL

COUNTRY	VALUE-ADDED TAX?	REBATE?	MAX. AMOUNT (%)	QUALIFICATIONS
France	Yes	Yes	19.6%	Non-EU residents, certain goods exempt
United States	No	N/A	N/A	
China	No	N/A	N/A	
Spain	Yes	Yes	18.0%	Non-EU residents, certain goods exempt
Italy	Yes	Yes	21.0%	
United Kingdom	Yes	Yes	20.0%	
Turkey	Yes	Yes	18.0%	
Germany	Yes	Yes	19.0%	Non-EU residents, certain goods exempt
Malaysia	No	N/A	N/A	
Mexico	Yes	Yes	16.0%	Restricted to certain participating locations
Austria	Yes	Yes	20.0%	Non-EU residents, certain goods exempt
Ukraine	Yes	No	20.0%	
Russia	Yes	No	18.0%	
Hong Kong	No	N/A	N/A	

Source: HLT Advisory Inc., based on publicly available information

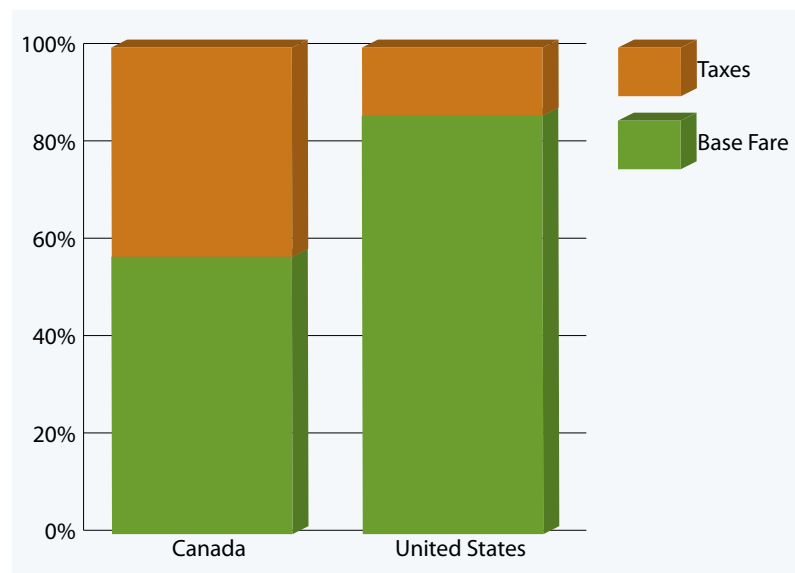
AIR ACCESS TO CANADA

While flight routings exist from most major inbound markets, costs of air travel to Canada are becoming prohibitive. Of the 19 North American airports with landing charges exceeding the North American average, six are Canadian including Toronto (the North American leader with fees almost twice that of New York's LaGuardia, in second place), Montreal, Winnipeg, Calgary and Halifax. The only large Canadian airport not exceeding the mean is Vancouver.

Further demonstrating the unfairness of landing fees applied to international travellers is the Greater Toronto Airports Authority's decision to again reduce cargo aircraft landing fees in early 2011 by an additional 4.3%, bringing the total reduction since 2007 to 45%. Passenger aircraft landing fees remain unchanged.

The assortment of fees on inbound passenger aircraft doesn't stop at landing fees, however. Unlike the United States (and many other established and emerging economies), Canada's airports are viewed as self-funding, if not cash-generating, operations.

**TABLE 7.6: TAX AS PERCENT OF TOTAL AIRLINE TICKET*
- U.S. VS CANADA**



*based on similar journeys. Source: Senate of Canada Report "The Future of Canadian Air Travel"

**TABLE 7.7: STRUCTURAL COST ADVANTAGES FOR
UNITED STATES VERSUS CANADIAN AIRPORTS PER TRIP**

	CANADA		UNITED STATES
	INTERNATIONAL	TRANS-BORDER	
Ground Rents	25.74	17.06	No Ground Rent
Air Traveler Security Charge	33.59	22.26	Subsidized by U.S. Government
Airspace Control - NavCan	37.4	22.38	Subsidized by U.S. Government
Payments to Municipalities	8.56	5.67	A number of airports levy local taxes
Airport Improvement Fees	59.87	39.67	Federal Infrastructure Grants & Tax Exempt Bonds
Total U.S. Advantages	165.16	107.04	

Source: Looking to 2020: The Future of Travel and Tourism in Canada Whitepaper, National Travel and Tourism Coalition; October 2010

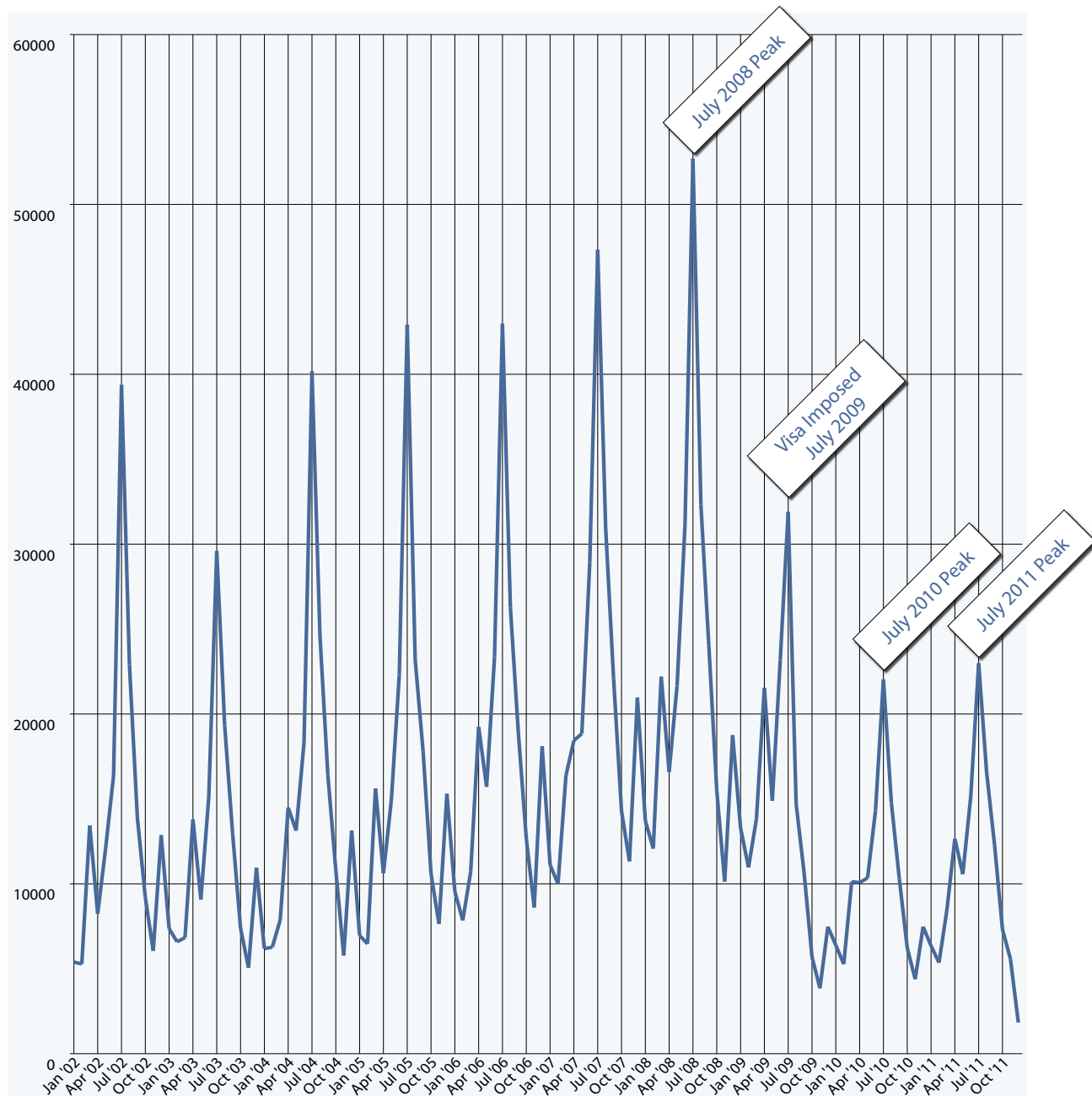
BARRIERS

A disconnect exists between the identification of high-priority target markets and the approach taken in admitting citizens from these countries to Canada. Nowhere is this better evidenced than the imposition of visa requirements on Mexican citizens at a point where arrivals had increased some 25% in a matter of years. The

requirement for a visa was imposed in July 2009, resulting in an almost 50% reduction in visitation over the succeeding twelve months.

In addition to Mexico, citizens of three other of the Canadian Tourism Commission's high priority markets are required to hold visas to enter Canada specifically China, India, and Brazil.

TABLE 7.8: : MONTHLY MEXICAN ARRIVALS TO CANADA



Source: Statistics Canada, Table 427-003, Number of Non-Resident Travellers Entering Canada by Country of Residence (excluding United States), monthly.

REINVESTMENT AND CAPACITY

Investment in tourism follows the same principles as in any other sector. Investors are looking for stabilized returns with low volatility and incremental growth. As in other industries, for an investment to grow, there must be positive market conditions/outlook for the asset, a quality management team and a sound investor strategy.

Taking a closer look at the critical element of risk, potential investors will ask key questions about sustainability of the customer base, mitigation strategies, including volatility, contingency plans and diversification.

Within the Canadian tourism industry, the thin line between healthy and risky investments may lie in seemingly minor conditions. For example, while overall demand, government revenue and jobs attributable to tourism in Canada are increasing, the erosion of the international visitor base will nonetheless dissuade potential investors. No steady demand of valuable customers means little incentive to invest.

As the Canadian share of the international tourism market has eroded steadily over the past decade in sharp contrast to increasing global numbers, investment in new tourism product has been sluggish. Healthy international visitor numbers mean a natural disaster in Japan or a devalued American dollar can be mitigated by visitors from other countries.

Using the hotel sector as one indicator, PKF Consulting

Inc.'s National Financial Outlook suggests that net operating income levels in 2011 are slightly below those achieved in 2002 (prior to adjustment for inflation). The consistent year-over-year growth in profitability experienced through the 1990s has not been seen in the 2000s or thus far in the 2010s. The inability to grow bottom line at a faster and consistent pace results from various factors including rising costs (commodities, taxes, payroll) and an inability to raise room rates. The latter is at least partly a function of reduced international travel to Canada and a greater reliance on domestic travellers.

Lodging Econometrics reports that, similar to most developed countries, fewer new openings are expected to occur in Canada during 2012. However, after nine consecutive quarters of decline, Lodging Econometrics reports that the total development pipeline in Canada (under construction, construction start up or planning) is at a record low of 141 projects with 16,857 rooms. Of these, the vast majority are suburban hotels in major cities or hotels in second/third tier cities.

The sluggishness of the development pipeline is most evident when looking at the age of full-service hotel infrastructure. Fewer than fifteen full-service hotels (300 + rooms) have been built in Canada since 2000. In some cases downtown hotel infrastructure is more than thirty years old, such as in Winnipeg (last full-service hotel built downtown in 1974), Edmonton (1978) and Moncton (1972).

TABLE 7.9: MOST RECENTLY OPENED, 300+ ROOM, FULL-SERVICE HOTELS IN MAJOR CANADIAN CENTRES

CITY	NAME	ROOMS	YEAR OPENED
Banff*	Rimrock Resort Hotel	346	1993
Calgary	Hyatt Regency - Calgary	355	2000
Charlottetown**	Delta Prince Edward	211	1984
Edmonton	Sutton Place Hotel – Edmonton	313	1978
Halifax	Halifax Marriott Harbourfront	352	1985
Moncton	Delta Beauséjour	310	1972
Montréal	Le Westin Montréal	454	2009
Niagara Falls	Hilton Niagara Falls	500	2009
Ottawa	Minto Place Suite Hotel	417	1988
Québec City	Loews le Concorde Québec City	406	1974
Regina**	Delta Regina	274	1988
Saskatoon**	Radisson Hotel - Saskatoon	291	1984
Toronto	Toronto Marriott Downtown Eaton Centre	461	1991
Vancouver	Fairmont Pacific Rim	377	2010
Victoria	Hotel Grand Pacific	304	2001
Whistler	Westin Resort & Spa Whistler	419	2000
Winnipeg	Delta Winnipeg	393	1974

8. The Future of Canada's Tourism Industry



Canada has a remarkable opportunity for economic growth in the global tourism market. Billions of dollars and jobs across the country could flow from attracting a greater number of international travellers to Canada, but we are currently allowing this activity to slip out of our grasp, and into the pockets of our competitors.

In spite of the international economic downturn, the global tourism market is booming. International travel between countries represents the fourth-fastest growing export sector in the global economy, with a billion international travellers spending \$1 trillion outside their own borders this year. This growth is being fuelled in part by emerging economies, with an influx of new travellers from China, Brazil, India, Russia and Mexico eager and able to explore the world.

To capitalize on this unprecedented growth, Canada needs to act now. The competition for the pool of international travellers is fierce, and yet, with

increasingly diminished resources to attract visitors to Canada, we are allowing ourselves to drift behind while other countries lead. In cutting the funding to our national tourism marketing organization in recent years – including a cut of nearly 20% in the 2012 budget – we are not only squandering an opportunity to carve out our piece of this growing pie, we are allowing other countries to chip away at our piece.

It's true that at a cursory glance, Canada's tourism industry seems to be doing well: in 2011 demand was up 7.4%. A closer look, however, reveals a troubling trend: Canada continues to lose international visitors each year. We have fallen from being the 7th most visited country in the world (2002) to 18th last year – with an overall reduction of 4 million international visitors.

Effectively, the majority of growth seen in the tourism industry in recent years has come from domestic visitors. For example, of the \$78.8 billion generated by tourism in 2011 only 20% was from international travellers compared to 33% in 2001. But if overall we've grown 7.4%, why should we care if the visitors come from Canada or other countries?



Our declining international tourist arrival numbers are a warning sign of a weakened export industry. As an export sector, tourism brings an additional \$16 billion a year into the economy from international visitors. Relying solely on domestic tourists is a dangerous strategy for the industry: first, by ignoring the international market we are overlooking a lucrative source of diverse economic growth and investment and second, there is no guarantee that the domestic market itself is stable.

Like all areas of the economy, diversifying source markets through increased foreign visitors will strengthen the tourism industry. Relying on domestic tourists to fill the void left by international travellers is not a sure-fire strategy, since Canadians are increasingly choosing to travel abroad instead of staying at home. In 2011, Canada had a \$15.9 billion travel deficit meaning they spent more travelling internationally than they did domestically.

The Canadian tourism industry is suffering from major underlying structural issues that are visible in declining international arrivals. If we continue to ignore the warning signs of the industry's crumbling foundation we put a \$78.8 billion industry and over 600,000 jobs at risk.





HLT ADVISORY INC.

166 Pearl Street, Suite 200
Toronto, Ontario M5H 1L3
www.hlta.ca

TOURISM INDUSTRY ASSOCIATION OF CANADA

600-116 Lisgar Street
Ottawa, Ontario K2P 0C2
www.tiac.travel

VISA CANADA

P.O. Box 124
Toronto, Ontario M5H 3Y2
www.visa.ca