



HOTEL ASSOCIATION OF CANADA  
ASSOCIATION DES HÔTELS DU CANADA

**Facing a New Reality**

**An action plan for Canadian Travel and Tourism**

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**By**

**Canada's Hotels**

**Summer 2008**

## Introduction

Throughout the decade of the 1990s and into the 21<sup>st</sup> Century, Canada was privileged to be one of the most attractive travel destinations in the world. Adding to the appeal of our natural landscape, major Canadian urban centres became known for the quality of their attractions, such as the Toronto Film Festival, the Just For Laughs Comedy Festival in Montreal and the Calgary Stampede.

Economic and geographic advantages also lay with Canada.

- The 125 million Americans living within one day's drive of Toronto benefited from a strong currency advantage – at times close to 40 cents. Strong economic growth ensured steadily rising levels of disposable income. The cost of gasoline fell as a percentage of household expenses throughout the 1990s.
- Canada enjoyed a privileged relationship with the U.S. and traveled across the “world's longest undefended border,” was generally swift, requiring no passport.

These positive factors stimulated our travel sector. Between 2003 and 2006, tourism-related spending in Canada grew from \$54.8 billion \$66.8 billion. The benefits were shared by all parts of the travel and tourism economy, and across the country. Governments were significant beneficiaries, earning \$19.4 billion in tourism related revenues.

Abruptly, this picture has changed in Canada, even while tourism is growing at a rate of 6.3% world wide.

In 22 months the Canadian dollar appreciated 55% against the U.S. dollar. The slowing U.S. economy has cost Americans a part of their disposable income, curtailing their travel intentions. Gasoline prices jumped from \$ U.S. 2.20 per gallon in July of 2007, to \$ U.S. 4 per gallon. Border security between the two countries has been stiffened, producing long delays. In 2009, a passport will be required for U.S. citizens for all modes of travel.

The result of these abrupt changes is not surprising. Travel surveys indicate a sharp reduction in anticipated travel volumes in the coming year – up to 10% in some regions. Overnight trips from the U.S. have declined 11% since 2002. Canada's travel deficit is now more than \$10 billion, up from \$1.2 billion in 2002.

This means less revenue for government and industry. A sector which previously contributed enormously to Canada's economy is in danger of a serious recession. For Canada the stakes are huge. Although the hotel segment is only part of the travel and tourism economy, alone it generates \$18 billion in revenues and pays taxes in excess of six billion dollars to governments across the country. The lodging industry also employs more than 300 thousand people.

There is a need for action to retain the prosperity of this important sector. The Government of Canada can ensure continued growth for the sector, and a continued contribution to government revenues as well.

**Canada's tourism industry is falling behind and urgent action must be taken immediately. The Hotel Association calls on Ottawa to adopt an integrated program with an acceptance and recognition of the changing circumstances confronting the tourism sector, and ensure Canada can remain a competitive, high value travel destination.**

## Key Elements of a National Plan for Restoring Canada's Travel competitiveness

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### 1. Promotion

All discretionary service industries depend heavily on promotion to create and sustain demand. Canadians compete in a global travel environment, in which leisure travelers may select from an entire world of choices. Individual companies can promote themselves. But Canada must sell Canada as a leisure travel destination. Canada is being outspent in marketing initiatives by rival destinations. At the same time core funding for the CTC has fallen from \$98.6 million in 2001 to \$76.5 million in 2008.

However, given that the federal government is one of the largest beneficiaries, its investment in promoting Canada is a sound business move – representing a tiny fraction of the billions in tax revenues it receives from a prosperous hospitality sector.

In 2007, governments in Canada received nearly \$ 7 billion in tax revenue from the lodging industry alone. To protect and sustain these revenues, private industry is investing aggressively in promotion; so should Ottawa.

Current estimates predict a 8-10% decline in travel demand in Canada this year. For governments this represents a loss of \$560 million to \$700 million in revenue.

There is a urgent need for increased promotion, especially targeting non-US markets. Canada must build an awareness of its travel offerings among the emerging middle classes of Asia, and also complement its efforts in Latin and South America by encouraging those populations to consider Canada for leisure travel.

**1. a The Hotel Association calls on the government to invest more strongly in international travel promotion, with an investment of at least 1.5% of directly related federal revenues, or \$100 million.**

### 2. Transportation costs

A cost-competitive transportation sector is a key part of the travel and tourism industries. Not only does transportation empower many other businesses, it also helps to generate billions in tax revenues. But Canada's federal government has indulged itself in extremely high taxes and other charges on the airline sector.

**2. a The Hotel Association calls on the government of Canada to implement a comprehensive cost-reduction program to ensure government imposed costs on transportation carriers and passengers are brought down.**

**2. b Canada has the highest aviation security tax in the world. Yet security costs in other modes of transportation, as well as public policing and security, are funded by governments as a public good. Canada's aviation security tax should be eliminated.**

**2. c Canada has very high aviation fuel excise taxes. With fuel prices at historic levels, these taxes are now generating far more revenue, creating room in government budgets for reductions. The federal government should follow the example of some provinces and phase out the federal 4 cents per litre excise tax.**

- 2. d The federal government imposes a high airport rent charge on our major airports – \$289 million in 2006. Since 1990 the three largest airports alone have paid more than \$2 billion in rent to the federal bureaucracy. Seeing no justification for federal rent on the national airport system, the Hotel Association calls for the elimination of airport rent.**

### **3. Border facilitation**

Travelers are all too familiar with the “thickening” border; the long lines of cars and trucks, the uncertainty of planning travel.

Canada’s hospitality industry relies heavily on overnight American travelers who drive into Canada. This critical customer base is in jeopardy due to longer wait-times, higher border fees, increased inspection times and clogged border infrastructure. For example, at the Ambassador Bridge at Windsor-Detroit wait times were *in excess of four hours* between July and August 2007. Visitors crossing at the Blue Water Bridge experienced delays of at least an hour. These delays are unacceptable to most travelers and seriously threaten our industry. Meanwhile, millions of Europeans cross their national borders every day without delay.

Border efficiency is a critical economic priority. The Canadian government must pursue, aggressively, projects to reduce wait times while maintaining security.

#### **The Hotel Association recommends:**

- 3. a Enrolment in the NEXUS program is currently less than 200,000 persons. The Canadian objective should be to enroll 1 million persons by 2010. This goal can be achieved by**

- establishing enrolment centres,
- streamlining the renewal process,
- ensuring adequate investment in equipment and maintenance to guarantee system growth and reliability;

- 3. b Establish a mechanism for pre-approval of multiple entries by executives, technical and professional citizens and permanent residents of Canada and the United States who are security cleared for travel between the two countries;**

- 3. c Ensure the necessary funds and resources are allocated towards the development of enhanced drivers licenses in all provinces and that there is collaboration between governments to ensure all advanced drivers licenses are based on common technologies that satisfy both countries’ security requirements.**

### **4. Transportation competition**

Within Canada we rely on market forces to establish demand for air services. As a result, Canadians enjoy a competitive and changing domestic airline industry.

But in international markets, Canada still relies on antiquated agreements which tightly regulate the market. As a result, competition is much lower, and prices much higher. International carriers have no incentive to develop new services in Canada’s regional markets, focusing instead on major urban centres. Our travel industry is seriously disadvantaged.

Canada needs to secure an Approved Destination Status (ADS) with China to secure access to the group outbound Chinese travel market. The U.S. signed its ADS agreement with China in December 2007.

The Canadian government is slowly liberalizing international air services. In 2006 the government announced the “Blues Skies” policy of more open arrangements with foreign partners. Although we strongly support this policy, it is evident some protected interests are opposed.

Markets are developing rapidly in Asia, Eastern Europe, Central and Southern America. The Hotel Association supports more liberalized air agreements which will lead to greater opportunities for travel industries in Canada and abroad.

- 4. a Canada needs to secure its ADS agreement with China**
- 4. b Canada’s negotiation of a liberalized air agreement with the European Union should be a high priority.**
- 4. c Pending negotiations with critical partners such as Australia and South Korea provide new opportunities to expand competition in growing markets.**
- 4. d The government’s efforts in opening smaller markets with growth potential (Jordan, Iceland, Mexico and now the Philippines,) are also strongly endorsed.**

## **5. Labour availability**

The key feature of Canada’s hospitality sector is service. Our most valuable assets are human resources which assure travelers the levels of service required in a world-competitive market.

However, parts of our industry are severely constrained by labour shortages affecting our ability to maintain the services visitors expect, as well as constraining our capacity to grow. In some cases facilities are unable to open – because the owners cannot staff them.

In Alberta the hospitality association has calculated it requires 25,000 workers more than it can currently attract. Quebec’s shortage of tourism workers is expected to grow to more than 15,000 in the next two years. Similar problems exist across the country.

**The Hotel Association calls on the government of Canada to make labour availability a leading economic priority by:**

- 5. a Significantly increasing resources for Canada’s missions abroad to process both immigration applicants and temporary workers.**
- 5. b Extend the Expedited Labour Market Opinion project (currently a pilot in BC and Alberta) across the rest of Canada so that all employers can benefit from a faster consideration of need.**
- 5. c Expand the Employer application seminar program to assist employers in expediting their applications to the Temporary Foreign Worker Program.**
- 5. d Accelerate processing of C & D occupational classifications to ensure Canada has the unskilled workers needed for many occupations not currently sought by Canadian workers.**
- 5. e Updating the Immigration Protection Act to allow government and business to fulfill human resource requirements.**