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## Tuesday, June 17, 2008

### Chair

**Mr. James Rajotte**

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● (1105)

[*English*]

**The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)):** I call the 47th meeting of the Standing Committee on Industry, Science and Technology to order.

Members, before we go to our witnesses, I have about five minutes of committee business. We had a subcommittee meeting last night, where we agreed to three items. So I will go through those three items.

As well, I do need someone to move the travel budget request for the committee to go to Waterloo, Toronto, Montreal, Sydney, and perhaps to Halifax, Boston, and Washington, with respect to our study on science and technology. You should all have a copy of the budget in front of you. The subcommittee did agree to it. So I do need someone here at the main committee to move it.

**Hon. Mark Eyking (Sydney—Victoria, Lib.):** I so move, Mr. Chair.

**The Chair:** So moved by Mr. Eyking.

(Motion agreed to [See *Minutes of Proceedings*])

**The Chair:** Thank you.

I'll just go through the three items that the subcommittee agreed to. It was agreed that the committee travel to Toronto, Waterloo, Montreal, Sydney, Boston, and Washington; and we will try to go Halifax, and to Sydney for sure. It's for the period, September 15 to 19, 2008, for the purposes of visiting sites and hearing testimony related to the study of science and technology in Canada.

As for the second item, it was agreed that the committee hold meetings for the purpose of receiving testimony relating to Bill C-454 at meetings scheduled for October 7, 9, 21, and 23, 2008.

In the third and final item, it was agreed that the Subcommittee on Oil and Gas and Other Energy Pricing meet on Wednesday, August 27, for two separate two-hour panels, and that possible additional meetings be scheduled as required.

Is the subcommittee report agreed to?

(Motion agreed to [See *Minutes of Proceedings*])

**The Chair:** *D'accord.* Thank you, members.

We will now go to the orders of today, pursuant to Standing Order 108(2), a study of the current state of the Canadian tourism industry.

We have with us here today three organizations, two in person and one by video conference. First of all, from the Canadian Airports Council, we have the president and CEO, Mr. Jim Facette. We have also the director of communications, Mr. Daniel-Robert Gooch. Secondly, from the Canadian Tourism Commission, we have Michele McKenzie, the president and CEO; and we have Steve Allan, chairperson of the board of directors and the executive committee.

Are you in Vancouver?

**Mr. Steve Allan (Chairperson of the Board of Directors and the Executive Committee, Canadian Tourism Commission):** No, we're in Toronto.

**The Chair:** The third organization with us today is the Tourism Industry Association of Canada. We have Mr. Randy Williams, the president and CEO. Welcome, and thank you for coming back. And we also have Mr. Christopher Jones, vice-president of public affairs.

I do want to mention to all of you that I know we were supposed to have this meeting last week. There were some votes that unexpectedly happened, so I want to thank you for making yourselves available again today.

We do have a full two-hour session until 1 p.m., so we'll start with the Canadian Airports Council. Each organization has up to five minutes for an opening presentation, and then we'll go to questions from members.

Mr. Facette, do you want to begin?

**Mr. Jim Facette (President and Chief Executive Officer, Canadian Airports Council):** Thank you, Mr. Chairman, and good morning. Thank you for the opportunity to speak with you today as part of your study on the current state of the Canadian tourism industry. Mindful of time, I will be brief.

The Canadian Airports Council is the voice of Canada's airports. Our members handle 95% of the passenger traffic and 100% of the cargo traffic. You can see why the tourism business is important to Canada's airports. As gateways to the communities they serve, Canada's airports have an integral role in promoting tourism in this country. We are a key part of Canada's tourism value chain. Our airports are the front door to Canada and to the communities in which they serve. We are a significant part of the tourists' Canadian experience.

For Canada to be competitive in the tourism business, each link in the value chain must be competitive, efficiently operated, and customer focused. As an airport community, our competitiveness depends on three key areas: cost competitiveness, air access, and border facilitation. Canada's airports need a competitive business climate to compete.

This morning Air Canada announced a 7% reduction in its capacity for the coming winter months. Air Canada notes that in addition to record high fuel prices, Canadian carriers must contend with federal and provincial fuel excise taxes, security fees, and high airport charges, charges that are largely the result of an airport rent policy that has outlived its usefulness.

To operate in a cost-competitive business climate and provide a competitive product, we need the federal government to view aviation as an economic generator and not as an industry to be taxed at will. Canada's airports have invested more than $9.5 billion to upgrade airport infrastructure since the transfer of airports to local operating authorities. Our members pay nearly $300 million a year in rent. Since transfer rent payments to the federal government have totalled more than our airports' initial asset value, CAC members have paid in excess of $2.5 billion in rent. The revamped rent formula in 2005 did reduce the expected rent that was to be paid by nine airports in Canada; however, it did not go far enough. The new formula takes a percentage of gross revenue on a graduated scale, regardless of the size of the airport. To put this in context, the Greater Toronto Airport Authority will pay 12% rent on each dollar of revenue over $250 million. The GTAA is a $1.1 billion corporation. You do the math.

The elimination of airport rent would help everyone. Airports generate income for the federal treasury through job creation, both direct and indirect, and they attract tourists and investment. Airports in Canada are committed to passing along any savings from rent relief to their users, be it the airlines or the passengers.

Another important pillar of competitiveness is air access. Air access is a simple concept. If they can't get here from there, everyone suffers. For airports, it means that Canada needs better air service agreements. We define "better" as open skies agreements. Open skies means unfettered access of carriers between two states. The current EU talks are vital to growing our tourist base in Europe.

Few things will leave as bad an impression for tourists as long lineups at border facilitation halls. Border facilitation and the availability of customs officers is crucial. Currently we do not have enough border officers to meet the demand at Canada's airports. Whether for small airports or Toronto, Canada needs more officers at airports. We are using Nexus, and it has been a great boost, but tourists are not always members of trusted traveller programs. Making airports pay for services outside of core hours only adds costs to the business of any given airport.

Working with their local and provincial tourism sectors, Canada's airports today are actively promoting their communities in the United States and abroad. They attend air service trade shows, they are meeting with air carriers from around the world, and they are making the case for Canada as a tourist destination. We need federal policies that encourage more tourists, not ones that will result in a less competitive business.

● (1110)

In closing, we urge this committee to recommend elimination of airport rent, more open sky air service agreements, and greater investment in border officers at airports.

Mr. Chairman, thank you very much.

**The Chair:** Thank you very much, Mr. Facette.

We'll go now to Ms. McKenzie. Will you be presenting on behalf of the Tourism Commission?

**Ms. Michele McKenzie (President and Chief Executive Officer, Canadian Tourism Commission):** Mr. Allan will be.

**Mr. Steve Allan:** Thank you. Good morning.

The Canadian Tourism Commission's role is to market and sell Canada as a tourism destination in nine countries around the world. By marketing Canada in a way that differentiates us from our competitors, the CTC works to support the competitiveness of Canada's tourism industry.

Our focus is on attracting international visitors, while our ultimate goal is to keep increasing the amount of foreign money flowing into the country. We work with provincial and territorial marketing organizations, and tourism industry and federal government partners—for example, Parks Canada and Foreign Affairs and International Trade—so that we can do this under a single banner known as Canada's tourism brand. This collective voice concentrates our efforts and makes sure tourists around the world get a consistent and convincing idea of what awaits them on a vacation in Canada.

Only by working together can we overcome the greatest obstacle facing Canada as a travel destination—international competition. Let me explain. Air travel, once the domain of the wealthy and privileged, is today a form of mass transport, with over four billion passengers annually. Air access has spread the tourism base around and encouraged more countries than ever to get involved in the destination marketing game. In 1950, the top 15 countries held 97% of the world's market share. Today the top 15 countries hold only 57% of the total market share, and that percentage continues to drop. Once second in the world for arrivals, Canada doesn't even figure in the top 10 anymore.

The forecast doesn't look much better for the world's traditional destinations, Canada being among them. By 2020, Europe and the Americas together are expected to barely crest a billion international arrivals. Asia, Africa, and the Middle East together will hit 1.6 billion. This fact doesn't daunt us; it's fuelling our ambition.

Canada competed very hard for its share of the $800 billion that global consumers spent on travel last year. This effort saw Canada's tourism industry generate $70.2 billion in revenues in 2007. Nearly a quarter of these revenues—about $16.6 billion—came from international tourists bringing new money into the economy. This puts Canada in 11th place globally for the amount of total international travel spending our country generates.

In the face of so many competitive pressures and market complexities, Canada is fortunate to have a Secretary of State for Small Business and Tourism and a national tourism marketing organization. The government's decision to identify a Secretary of State for Small Business and Tourism demonstrates the importance the tourism sector holds for Canada and its economic growth. We were pleased with this appointment and see it as a positive sign for the future of tourism in Canada.

We recently held a board retreat to review the CTC's marketing strategy. We examined the competitiveness challenges we are facing and discussed the declines we are seeing from some of our international markets. Similar to the findings of the TIAC report, the board identified global competition and air access as risks.

To continue to be competitive globally, we need to have a strong collective Canadian presence and we need to be nimble enough to react to a rapidly changing global environment. We believe that the Canadian Tourism Commission has the right strategy in place not only to ensure that Canada remains a global contender now and into the future, but also to make sure our share of this foreign exchange continues to grow. We're making sure that Canada is relevant to consumers and that it stands out as a unique and different place to visit.

We're focused on making sure we get the best possible return for every marketing dollar we invest. We're focusing on countries that have a larger base of those consumers who will stay longer and spend more money in Canada. Our strategy has strong partner support, and there are signs our collective approach is working. Spending from overseas target markets is up $200 million to $7.1 billion in 2007. Traveller spending rose to $122 per night last year, up from $113 in 2006. Last year the CTC won a coveted spot on the list of Canada's top 10 marketers.

In terms of partner support, our marketing programs were fully subscribed to last year. Total partnership contributions reached $89.6 million.

Finally, visitor arrivals are up in seven out of the nine international markets that we do business in. Unfortunately, the two markets doing poorly are two of our biggest, Japan and the United States. Japan's visitor volume fell 14.6% to 310,400 visitors last year, but it's still by far our highest-yield overseas market.

● (1115)

The CTC has taken important steps to retool our approach there and influence a recovery—a recovery, I should note, that so far has eluded our competitors as well. This is likely to remain a common challenge as long as the decline in Japanese purchasing power continues to drive the market toward closer destinations, much to the benefit of countries like Thailand that have seen Japanese arrivals surge by nearly 100%.

The U.S. story is more complicated since visitors can both fly and drive into the country. The latest statistics for this year show that the U.S. market is down 3.5%. Last year, the market overall for the year was down 3.7%. We recognize that it is a difficult time for those in our industry who rely heavily on U.S. visitors. Although we continue to perform very well in many other markets, the U.S. continues to be our most important international market. The U.S. accounts for about 54% of the revenue Canada gets from all international markets.

Since our partner provinces and territories already market heavily to U.S. states along the border, the CTC focuses on attracting more affluent Americans who tend to fly into Canada. From this vantage point, U.S. leisure spending in Canada has actually grown since 1996 from $3.9 billion to $5.5 billion last year. That number swells to $7.1 billion if you add in the performance of the meetings, conventions, and the incentive travel market to Canada from the United States.

The number of overnight air leisure travellers to Canada has increased by almost 788,000 since 1996, while overnight automobile travellers declined by 398,000 over the same period. Reasons for the decline in the drive market are varied. Chief among them would be the recent economic uncertainty that has driven consumer confidence to a 30-year low, and of course the weaker American dollar is having a strong impact on U.S. visitors who drive into Canada.

**The Chair:** I'm sorry, Mr. Allan, could we have you conclude? We're over our time.

**Mr. Steve Allan:** I'll be about one more minute.

Other reasons for the decline include, obviously, the cost of fuel and lingering confusion about the official documents required for U. S. entry. Passports, economic uncertainty, high fuel prices and declining purchasing power all make for powerful reasons why Americans are staying home rather than flying to Canada.

The U.S. consumers whom the CTC targets pay less attention to these factors. One issue that is of concern to all markets, not only Japan or the U.S., is air service. For an overseas destination like Canada, the right flight at the right price is critical in order to compete. On this front, Canada has not been doing well. For example, direct flights between South Korea and Canada are at capacity in the peak season. In Australia, we need to keep up the seat capacity secured by our competitors. Out of Japan, Canada is seeing tighter direct seat availability in the busy spring and summer months. Again, this is a market where competition is aggressively growing its air capacity.

In conclusion, I would offer that the CTC has the right strategy and the right partners to ensure that our country is marketed and sold effectively in nine countries that span the globe. However, there are indeed competitiveness challenges and policy issues that make marketing Canada to the world an increasingly difficult challenge.

If some of these issues were addressed, it would increase our ability to compete globally. Collectively, we need to work to ensure that the CTC and Canada's tourism industry are equipped to compete in the competitive global environment that exists today.

Thank you.

● (1120)

**The Chair:** Thank you, Mr. Allan.

We'll go to Mr. Williams, please.

**Mr. Randy Williams (President and Chief Executive Officer, Tourism Industry Association of Canada):** Thank you, Mr. Chair and honourable members of the committee.

With me today is our vice-president of public affairs, Christopher Jones.

First let me thank the committee for the opportunity to appear before you to share our views on the current state of Canada's tourism industry. As you may know, TIAC released a report on Canada's tourism competitiveness on June 2, and I believe you have been provided with a copy of this report. We state in that document that the issues facing the industry are urgent and profound, so we are deeply appreciative of the committee's willingness to convene this meeting and look into these issues without delay.

Globally, tourism is one of the most significant economic engines, with close to $800 billion being spent annually on worldwide personal travel. But while tourism receipts in the rest of the world are growing at roughly 4% to 6% annually, Canada's growth rate lags far behind, at about 2% to 3%. Moreover, Canada's travel deficit—the difference between the amount foreign visitors spend here versus what Canadians spend abroad—reached an historic high of more than negative $10 billion for 2007, with a further significant deterioration of that in the first quarter of 2008.

We're also seeing historic declines in inbound visitation from the United States. Traditionally, more than 80% of our visitors in a given year come from the United States, but last year the number of Americans visiting Canada reached its lowest point in the 35 years that these numbers have been kept. Other markets, such as Japan, are also stagnating, while growth elsewhere has been modest at best.

When external challenges such as 9/11 put a stranglehold on our border, when fear of a SARS pandemic disrupts global travel, when the strength of the Canadian dollar increases the price of our tourism products by 30% in two years, or when fuel prices rise to record highs, there is only so much government can do to mitigate these individual events.

Let me be clear about the issues we are facing. The low Canadian dollar and cheap fuel prices of the past hid many of the underlying structural challenges to our competitiveness as a world-class destination. A higher dollar, higher fuel prices, and a weakening U.S. economy expose the sector's weaknesses. It is my contention that the focus on and reaction to headline-grabbing but isolated events have diverted our attention from the fundamental issues we face as an industry.

Tourism is a $70 billion industry in Canada, and 1.6 million Canadians depend on tourism for their livelihood, but our industry has traditionally been neglected by governments. We have tended to regard tourism as a source of taxation dollars, burdening our businesses with structural costs and compliance measures that impede its price competitiveness. For example, the continuing insistence on charging airport rents, airport security fees, and excise tax on aviation fuel; and the abrupt cancellation of the visitor rebate program and its replacement by the onerous and burdensome foreign convention and tour incentive program are illustrative of the problem. In aviation alone, we estimate the federal government is imposing at least $800 million in punitive levies a year on that industry.

In our report we single out two fundamental areas of concern: accessing Canada, and product animation. Under the heading of access to Canada, we state that visitors need to be able to reach Canada with ease, cross our border efficiently, and then be able to travel within Canada as seamlessly as possible. They also need to be able to find options for travelling to and within Canada that are cost-effective and competitive with other destinations around the world. One example of competing on an uneven playing field is the lack of an agreement on approved destination status with China, the fastest-growing outbound travel market in the world.

In addition to improving access to Canada, we need to ensure that there are persuasive and compelling reasons to visit our country. A concerted effort on the part of both the private and public sectors is required to make sure that new products are introduced and the products we currently offer are world-class. Products must be enhanced continually to meet changing market trends and the standards of today's discerning travellers. We need to do more to animate federally owned assets, such as the national park system and museums, to make them engaging and worthy of repeat visits.

● (1125)

Other countries are recognizing the incredible potential for tourism to be an economic force in their country, and they are investing the time, energy, and funds into ensuring that they are attractive and inspiring destinations. We can no longer rest on the advantages of a lower dollar, low fuel prices, and a strong U.S. economy, concealing some of our deeper issues. Canada has a remarkable opportunity to capitalize on our positive image in the global marketplace by promoting itself as a clean and safe destination that is socially and geographically diverse. Unfortunately, we have thus far failed to recognize and seize the economic opportunities that are afforded to us by this essential sector, which is equivalent in size to fisheries, agriculture, and forestry combined.

I invite you to examine in more detail the seven policy areas we have identified in our report that merit urgent attention. The challenges the tourism sector in Canada faces are profound, but they are not insurmountable. However, if we are to ensure that we remain competitive as a destination, we need a concerted and united effort on the part of leaders in the public and private sectors to address these competitive challenges now, or it will be too late.

Thank you.

**The Chair:** Thank you very much, Mr. Williams.

We will go to questions from members.

Mr. Eyking, you have six minutes for the opening round.

**Hon. Mark Eyking:** Thank you, Mr. Chair.

I'd like to thank the guests for coming here today. I'm sorry about last week.

I have two questions. The first is for the tourist association.

I've done some round tables across this country and have gotten very similar results to those in your report, especially dealing with the problem of air access, border restrictions, approved destination status, and also availability of foreign workers, and the marketing was a big issue. All those challenges are from different departments. There are probably four or five departments involved with the challenges you're facing. There is Transport, Immigration, Foreign Affairs, and Industry.

Would be it be advisable for this government or your group to sit down with the different departments in a room and have a multi-department approach to this, so that the left hand knows what the right is doing? Often we find these departments and ministers work in silos. Especially given the timing right now and how important this is to our GDP, as you mentioned, and the slippery slope we are on, does this intervention need to happen right now?

If you can, give me a couple of minutes, because I have another question.

**Mr. Randy Williams:** I would support that recommendation wholeheartedly. We've been asking for a national tourism strategy. There is a document that exists, a framework document for building a national strategy. It hasn't been authorized or authenticated or supported by all other departments, but we'd like to see a national tourism strategy developed that is supported by all departments of government and is the full government strategy and has the support of all departments.

You have identified, right on the head of the nail, the challenge here: there are so many departments touching on tourism—and they are working in silos—that it is a huge challenge for us.

**Hon. Mark Eyking:** Thank you very much.

My second question deals with the airport situation. I'm going to give you an example. When we were in Vancouver, the biggest complaint, or what they were seeing, was the comparison between Vancouver and Seattle. When you look at the situation, especially the numbers in the report...and there was an article in the *The Economist* about the emerging economy and how there is a growing industry in tourism coming out of Southeast Asia as their economies grow, especially China's.

It the future, when Asian travellers want to go to western North America and are looking at how to get there and where they are going, what we were shown in Vancouver is that, first of all, there are a lot more airlines allowed to go to Seattle. They seem to have an open door to flights coming in.

I have another report in front of me on the airport landing fees. In Vancouver, for a B747, they're $2,400; in Seattle they're $1,700. My question is, when you see those comparisons, if something doesn't change, what's going to happen with that potentially vibrant tourist industry that we could be taking advantage of, if we don't change our airport strategy?

It's not only there. You would probably see the same thing in Toronto airport, that people are landing in Buffalo. I think it is the same right across the country. How is that going to translate over the next few years, when we're not picking up U.S. tourists, but we see all these potential Asian tourists?

● (1130)

**Mr. Jim Facette:** That's an excellent question. Thank you very much for it.

If we don't change the way we do business as a government in terms of policy on airports, we're going to lose potential. The reason Seattle has more international flights to either Asia or elsewhere is that the United States has 91 open skies agreements. That includes the countries in the European Union. Canada has five agreements. If you're keeping score, it's 91 to five. I'm not sure if it's a basket ball game or something else, but it's a high score. That's number one.

Number two, on the landing fee issue, the business model for airports in Canada is very different from that in the United States, and it is unique around the world. We're not asking for government subsidies to build capacity in terms of building structures, runways, and buildings, but the airports in the United States are operated by levels of government, and they are highly subsidized.

Canadian airports have invested $9.5 billion of their own money in airports. It's a very, very different business model in the United States as compared with what we have in Canada. If we don't get more air service agreements and we don't deal with the cost structure of airports, we're going to lose a great amount of potential.

It's a short drive from Seattle to Vancouver; it's not that far. And it's not just Seattle. It's as far as Buffalo is from Toronto. And Montreal is competing with our friends in the United States as well.

**The Chair:** You have 30 seconds, maximum, Mr. Eyking, if you have a very short question.

**Hon. Mark Eyking:** No, I'll pass on it.

**The Chair:** Thank you.

We'll go to Madame Brunelle, please.

[*Translation*]

**Ms. Paule Brunelle (Trois-Rivières, BQ):** Good day, ladies and gentlemen. Thank you for being here.

My first question goes to Mr. Allan and Mr. Williams. I was reading in the documents that were submitted by your respective groups that Canada used to be second in the world as regards arrivals. However, now it is only somewhere in the top 10. Also, Canada ranks 11th concerning total spending by international travellers in our country. So we can see that there are problems. These are only two elements among many.

In addition, according to the Tourism Industry Association of Canada, the government states that it invests $400 million per year in tourism, but we can see that is done with no overall strategy or overarching action framework. You referred to this earlier with the previous member.

You stated that the federal government has only recently recognized the importance of tourism by promising to collaborate with other partners and to explore the numerous opportunities for public-private partnerships.

You said that the government states that it invests $400 million. But does it really do so? We see that there is a lack of strategy. Please explain to me what public-private partnerships would consist of. How can we solve these problems? It is clear that there has been a substantial decline in tourism. Please give us some suggestions because this appears urgent.

[*English*]

**The Chair:** Mr. Williams or Mr. Allan.

**Mr. Randy Williams:** The first question was to Mr. Allan. I don't know if he'd like to answer that, or do you want me to go?

**The Chair:** Mr. Allan, do you want to start?

**Mr. Steve Allan:** Mr. Chair, as I understand it, the $400 million collective investment made by the federal government into various tourism-related things, including parks, I think goes to the previous question about there being a lot of government departments involved in and touching on tourism. The $400 million is taken across many departmental budgets, and again, that's one of the things that make tourism a complex issue in Canada.

It is our understanding that the secretary of state is intending to come forward with a national tourism growth strategy that would involve the multiple departments. As we understand it, that investment is currently being made, but we do have to harness it and bring all the departments together in order to develop an appropriate strategy.

I'm not quite sure what the private-public partnerships are. In the CTC we do work with all of the provincial marketing agencies. We work with tourism industry partners. And I did mention that last year we had $89.6 million in partnership, both dollars and in-kind support, for our marketing programs, so that's added to our current budget of $75 million.

● (1135)

**Mr. Randy Williams:** Obviously the report indicates a $400 million investment from the federal government in tourism-related activities, and we wouldn't argue that point. Obviously when you're investing money in our national parks and in various projects, including convention centres and infrastructure through the Building Canada fund and so on, those are certainly tourism related.

What we need to do is really get serious about strategic investments. Focusing on the level of money that's being invested is really diverting us from the real story here. As Jim said, we're not asking for handouts here. We're not asking for the government to give us money, such as you might get from other sectors. We're asking you to make investments that are strategic, whereas now you're making them in a more haphazard or à la carte fashion.

We'd like to see a strategy developed that's accepted by all departments of government, whereby funds are spent more strategically and there is a commitment to really understanding what a tourism investment is. Some of these expenditures, such as those supporting our parks, are obviously a benefit to tourism, but we're not preserving our parks exclusively for tourism. That's obviously something Canadians would expect for the public good, to conserve our natural heritage. It's obviously of benefit to local Canadians as well.

We have to be serious about looking at the amount of investment we're making in the strategic areas that tourism needs rather than throwing numbers out, which I think is the way you're going with this question. That's the more intelligent way of approaching this, rather than just saying, “We're already giving tourism $400 million, so go away.” That's not what we want to hear. We want to be a lot more strategic in our thinking.

[*Translation*]

**The Chair:** You have 20 seconds.

**Ms. Paule Brunelle:** Mr. Facette, Air Canada announced today that 2,000 jobs would be cut and the number of its flights reduced.

In your opinion, is this solely due to the price of oil or is there something more complex within your industry that is causing these problems and which indicates that this is only the tip of the iceberg?

**Mr. Jim Facette:** Air Canada announced today that it is due to oil prices. However, according to the document in front of me, its representatives stated that they are forced to deal with federal and provincial fuel taxes and security and airport fees that are among the highest in the world. This means that there are other problems that are not only due to oil prices.

[*English*]

**The Chair:** *Merci, madame Brunelle.*

Mr. Stanton, please.

**Mr. Bruce Stanton (Simcoe North, CPC):** Thank you, Mr. Chair.

Welcome to our witnesses.

First of all, I want to say it's great to be talking about an industry that's near and dear to my heart. Today I'm here as a parliamentarian, looking at the big picture here in terms of how government can consider some of the issues that you've brought before us today.

One of the first things—and I'll direct this to TIAC, if I can—is that when you look at the preponderance of statistics in our industry, in particular we're citing growth levels in tourism of around 4.3% in 2007, and the fourth quarter was up 1.4%. We're seeing other indications from the industry that in fact would suggest this culture or this climate of crisis that you describe in your report isn't necessarily substantiated by the numbers we're seeing. We're seeing an industry that in fact is growing. Yes, there have been some changes, but even spending by Canadians is up 6.5% in 2007. I just looked at a Pannell Kerr Forster report for the accommodation industry, and they're seeing continued growth in things like average daily room rates and occupancy levels, even right out to 2010.

So when you look at that situation and compare it with this state of crisis that we're in—and I appreciate where you're coming from and have been on that page before—what can we do to work to improve the industry's position and not be so taken astride by Canada's rankings? Isn't it more important to look at the performance of our industry in terms of growth in profits, growth in expenditures, and actual tourism GDP? Shouldn't that be our first and foremost consideration in these issues?

● (1140)

**Mr. Randy Williams:** Obviously when you're looking at statistics and numbers, there are always going to be some numbers that you can fall back on and say there are some positive reflections there. But for each one of those, we certainly have some numbers that reflect a different point of view, like our travel deficit, like our growth compared to our competitors around the world.

Our report really talks about the future of our industry. A lot of the numbers you reflect on there really are talking about historical.... We've had some growth, yes, of 2% or 3%, and I refer to that in our report. But when the world is growing at 4% to 6%, is 2% to 3% growth in Canada a level that we accept as a satisfactory result? I wouldn't think so. I think there's tonnes of potential, as Jim was saying. This industry has the potential to do more, and it has the potential to do more for every community in Canada. We're not talking about Windsor and the automobile industry or localized industry; we're talking about an industry that has benefit for all Canadians and all communities in Canada.

There are some dark clouds on the horizon. Our report doesn't speak to this summer, it doesn't speak to this summer and fall; it speaks to the next four to five years. And it had the hotels—

**Mr. Bruce Stanton:** I don't mean to interrupt, but I have a limited amount of time here.

Basically what you've cited in your report is that you're looking for relief in terms of the airport rent situation. You're looking for some work on ADS, and we're talking about better animation and marketing of certain tourism products. Doesn't it take in a much broader picture here in terms of how we move forward?

Even if, hypothetically, those few things were considered and there were changes made to those, is that in itself going to predict that the tourism industry would, in turn, grow? We have to look at how Canada performs on its own merits. And yes, I know the travel deficit is there, and the rankings, but at the end of the day what's most important is that we have a climate here where tourism, like other business sectors, can prosper.

In fact, what I'm seeing is that your report is an indictment on what government's role has been in the past, but in fact, what we have is a contrary image in terms of where the industry is now. It has responded quite well. In fact, the only thing we know for sure is that in the future other geopolitical, social shocks are going to come our way. Isn't that our best way to strengthen our economy and business climate here so that we can attract more tourism investment and opportunity?

**The Chair:** You have about a minute, Mr. Williams.

**Mr. Randy Williams:** We have asked for seven strategic areas to be looked at and 53 different initiatives in our report. Some of them are government, some of them are private sector, and some will involve both public and private sector. It's an indictment not only on the way government has looked at tourism, but also on our own industry and the things that we have to do as a private sector.

But government is a stakeholder; it is a shareholder in tourism. You have an investment already. The park system, the museums, many of the historical sites, all of those are owned by Canadians. We're saying that in the future, in the next three to five years, if you don't invest in those properties, they will not be sustainable.

The tip of the iceberg is shown today with 2,000 people laid off at Air Canada, with Air Transat saying their profits are down—one of Canada's success stories—and with VIA Rail increasing their prices by 5%. We are already seeing the crisis point hitting. We're not talking about the past five years; we're talking about the go-forward, the next two to three years.

● (1145)

**The Chair:** Thank you.

Thank you, Mr. Stanton.

We'll go to Ms. Nash.

**Ms. Peggy Nash (Parkdale—High Park, NDP):** Thank you.

Certainly you are outlining some major challenges we're facing in the tourism sector.

Mr. Williams, I can't remember if it was you who said this when you were before our committee in the service sector study, but we had a witness who described the situation in tourism right now as the perfect storm, in which we're facing the high dollar, high oil costs, and the downturn in the U.S. economy. I appreciate the point you're making today that these, in the past perhaps, masked some of the structural challenges that we're facing.

I think I read recently that Paris is still the number one tourism destination in the world. While I happen to think my home town of Toronto is a great place, it's not Paris. But Canada has amazing attractions that no other country has, and not only our natural attractions. I do believe Toronto, as the most diverse city in the world, has its own attractions that perhaps we need to be marketing better.

My question to you is, what kinds of attraction investments does Canada need to make? You said we should be maintaining parks anyway. There has been investment in some of the cultural attractions, at least where I come from. But what kinds of investments rise above the price differentials to make a destination really stand out in the world? What advice do you have for this committee to recommend to the government in terms of making those investments that really will help Canada market itself to the world?

**Mr. Randy Williams:** That's a difficult question to answer specifically, but obviously investments like we're seeing in northern Quebec now with *Le Massif* project are certainly helpful. Blue Mountain is a smaller scale of a Mont-Tremblant or a Whistler. Those kinds of investments certainly are helpful. There have been some investments in the arts and cultural community in the Toronto area that are helpful.

However, we need to really make an investment in our people and our infrastructure to make sure we are getting people into the country—our border infrastructure, our transportation infrastructure, and our people—and provide a climate where businesses can be profitable. Then they can invest in added value, so the experience visitors have when they come to this country is one that they talk about when they go home.

Right now we're servicing the customer. In most cases we're doing a pretty good job of that. But are we wowing them? Are we differentiating ourselves so that when they go back home they're talking about Canada as a must-see destination that is compelling enough to come here?

There are those minor annoyances, such as that it's hard to get around, it's expensive when you get here, it's too much for liquor, it's too much to travel by air, and you take away my visitor rebate program. And it does matter. If the visitor rebate program didn't matter, then all those retailers out there who are saying you're getting GST-free sale on.... Tell those people they're wasting their money advertising a sale on which there's no GST. It does matter.

I want to give you one—

● (1150)

**Ms. Peggy Nash:** Briefly, please, because I do want to get another question in.

**Mr. Randy Williams:** I'm sorry.

An American travelling to Canada for four days will spend $2,594—this is out of the Conference Board report commissioned by the CTC—and $1,800 in the United States. That's a difference of $740 more that they will spend in Canada. Of that, $560 comes from air costs, the difference in the U.S. versus Canada. So the same type of trip in the United States will cost $740 less than one in Canada. That's the kind of stuff we're talking about that artificially inflates our airline costs in Canada. It's hurting us.

Go ahead. I'm sorry.

**Ms. Peggy Nash:** Thanks.

I want to say that I do appreciate the kind of tourism promotion for Canadians within Canada. I saw the VIA ads about VIA Rail being a more human way to travel. I think they're doing a good job in terms of promoting travel across Canada. But certainly air travel is a huge part of the tourism industry.

I appreciate the point you're making, Mr. Facette, about the airport fees. It does seem as though Canadian airports really get hit disproportionately with these fees. Again, coming from Toronto, I think we have a beautiful new airport there. It's a welcoming sight when you arrive at that airport. But I do appreciate the burden that places on companies.

I did want to raise the point about transportation infrastructure. Getting out of that airport is almost impossible. Do you have any recommendations on that?

**Mr. Jim Facette:** There's an expression in the aviation industry that if you've been to one airport, you've been to one airport. Each airport is different and unique.

A lot of the transportation links to the airport, be they public or private, are usually a function of the work that goes on between the airport and the municipality. Some talk about more public access through transit of some sort, be it light rail or what not.

We're going to see a unique situation coming up in Vancouver next year when they open the Canada Line. But the Vancouver airport is paying for the Canada Line on its property. It's paying $400 million for that. There is no other place that money is coming from—not from the municipality, not from anywhere else.

I think in general there's a cooperation that needs to happen between different levels of government to allow an airport to improve the transportation between the facility itself and other destinations. I would simply argue that getting out of Pearson Airport today, in 2008, is much quicker than it was 10 years ago.

**Ms. Peggy Nash:** When I'm waiting 45 minutes for a cab, I don't know.

**The Chair:** We'll have to debate the travel times out of Pearson later. Thank you, Ms. Nash.

Mr. McKay, please.

**Hon. John McKay (Scarborough—Guildwood, Lib.):** I think I'm on Ms. Nash's side on this one.

I want to direct this question to Mr. Williams or Mr. Allan—probably both of you, for that matter. I was having a breakfast last week with representatives of the Taiwanese economic and cultural office, and if my memory serves me correctly, they are anticipating welcoming 3,000 Chinese visitors a week into Taiwan. I could stand to be corrected on that number. These were countries that were at war not too long ago and still have missiles pointed at each other, yet there does seem to be a significant thaw in the relationship.

The American tourist is not coming back any time soon. The structural difficulties in the U.S. economy are going to preclude Americans from travelling for the foreseeable future, which means essentially that if Canadian tourism is to pick up it's going to have to be Asian tourism, and we are not in the game as far as the Chinese are concerned. When Mr. Emerson was a Liberal, he pretty well had this a done deal. It seems to be stalled now, and stalled in a major way.

I would be interested in your view as to what is going to move the approved destination agreement off the stall point that it currently is on and move it forward so that your industry can get the proper fruits of its labours.

● (1155)

**Mr. Randy Williams:** That's the $64,000 question. We're not on the front line of the negotiation. It's frustrating to us. Back in 1999 when the lineup started in order to get ADS status with China, Australia was the first country to get it and we were second or third in the queue. Now if we got ADS status we'd be 135th in the world to get it. It's frustrating for our industry. It's the fastest-growing outbound market in the world, and we're not there, as you indicate.

We're still growing at about 20% per year from China—and Michele may have some better numbers—so it's still growing for us, but that's the business travel and independent travel. ADS would give us leisure group travel and the ability to market into that huge potential.

**Hon. John McKay:** Presumably you guys have thought about this a lot. What would it mean to you in terms of numbers of planes landing or numbers of tourists coming to Canada?

**Mr. Randy Williams:** Do you want to handle that one, Michele? You're aware of a couple of research projects on that. Some of the numbers are pretty scary, so we don't want to be overly optimistic.

Please go ahead, Michele.

**The Chair:** Ms. McKenzie.

**Ms. Michele McKenzie:** Thank you.

We have been working hard to compete for the China market and we have been experiencing growth. Up until last year, growth was in the mid-teens to 20% per year. That growth slowed last year to less than 10%, and we expect that will be our situation in 2008.

There are a number of factors driving that, including the fact that the world is competing for outbound business in China. Because we do not have ADS, we do not have the ability to market in the free marketplace in China. We can do specific promotions, we can do promotions working through other partners, but as a country we do not have the unfettered ability to market in China. From the CTC's point of view, that's the main attraction of approved destination status—the ability to market freely in that marketplace.

**Hon. John McKay:** What difference in numbers does that make?

**Ms. Michele McKenzie:** Our target with ADS is a 25% to 30% growth rate per year, year over year.

**Hon. John McKay:** From what base does that start?

**Ms. Michele McKenzie:** Our base right now is about 180,000 visitors from China. As I said, our growth now has slowed to about 7% to 10% per year, but we think that with ADS we could increase it to around 25%.

**Hon. John McKay:** So you would be up to a million visitors a year?

**Ms. Michele McKenzie:** We'd like to be. Of course, what the overall capacity would be depends upon airlift. We often benchmark ourselves against Australia in terms of our competition in other markets. While the math could get us up to close to a million visitors, we think the potential for Canada in the foreseeable future is in the range of 400,000 to 500,000 outbound visitors to Canada.

**The Chair:** Thank you.

Thank you, Mr. McKay.

We'll go to Mr. Van Kesteren.

**Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC):** Thank you for visiting with us.

Very quickly, what are the total tourism dollars, Mr. Williams?

**Mr. Randy Williams:** They're $70 billion.

**Mr. Dave Van Kesteren:** What is the deficit for our own travellers? What are Canadians spending abroad?

**Mr. Randy Williams:** We're at a $10 billion travel deficit. We are spending $10 billion more than visitors to our country spend.

**Mr. Dave Van Kesteren:** There's all this talk about China, and I agree that we have to open that market up. But you made a point, sir, about Canadian travellers. You said this is not the Windsor auto industry, and something just struck me. I beg to differ. What you're telling me is exactly like the case with the Windsor auto industry. They are complaining to us that their numbers are going down, but Canadians are buying foreign cars.

Should you not be concentrating more on Canadians? We can do all these great things and get the Chinese in, but isn't the biggest key to keep the Canadian tourist back here in Canada?

**Mr. Randy Williams:** Most of the $70 billion Canadian market, 60-odd percent of it, is from Canadians travelling within Canada domestically. The ability to incrementally increase that percentage faces a question mark, and it is a lower-yield market. In other words, a Canadian traveling in Canada is a lower-yield traveller than one from further away. The Canadian Tourism Commission and others in Canada, such as Ontario Travel and so on, are promoting more to the mid- and long-haul U.S. markets, those that are less price sensitive, because the close-in border just isn't coming back.

● (1200)

**Mr. Dave Van Kesteren:** Prior to when I was in private business, I had a boss who introduced me to the spreadsheet, and he always used to tell me, “It's in the numbers, it's in the numbers.” I wish I had more numbers, because I think it's in the numbers. I wonder whether you could get this committee that—all the numbers, as many numbers as you can find, concerning what the travel has been, where it's going, what type of travel it is.

I suspect there's another story here too, and I think you can probably substantiate this: that the taste for travel has changed. We've become more affluent. We're no longer camping, and Americans are no longer camping—all those things. I really think we need to have some numbers.

I want to ask another question too—maybe we should go to Mr. Facette—on airport rents. Years ago, didn't we need to make major improvements? Wasn't it deemed necessary by the industry that these improvements be made and agreed that they would be paid for by rents?

I guess my first question is, wasn't that an agreement? Aren't we going back on that agreement when we ask for rents to be...? The public has a right to....

**Mr. Jim Facette:** The agreement in 1992, when the operation of the airports was transferred to local airport authorities, was that the federal government didn't have the money to upgrade the value of the asset, so that you would take it, you would upgrade it, and for the privilege of operating it and paying for the upgrades. "Oh, by the way, you're paying us airport rent." Over time, the airport authorities looked at it and said, we have a gun to our head here, which was: either take it the way it is and upgrade it, or else you ain't getting it and you won't be able to operate it on behalf of your community—and you have to pay us rent.

They took the rent deal early on, and the lease, the legal document that exists for the airport authority that operates the airport, is between the airport authority and Transport Canada. That legal document, that type of lease, has changed. The first four that went—Vancouver, Calgary, Edmonton, and Montreal—have what was called a local airport authority lease. They eventually became Canada airport authority leases, over time.

Right now we have a changing business environment. At the time of transfer, airports were being operated very differently from how they are today. Airport authorities operate a business. They market the community in the same way as a local tourist destination does, or anything else. We ourselves, even CAC, market Canada, believe it or not.

**Mr. Dave Van Kesteren:** I hate to interrupt. I have one more question.

**The Chair:** I'm sorry, you're running right out of time. You have five seconds.

**Mr. Dave Van Kesteren:** If you could provide this committee with a little bit more documentation on the original agreement and where it's gone, I think that would be helpful too.

**The Chair:** Thank you, Mr. Van Kesteren.

Mr. Facette, if there is any information you want to provide to the committee, we'll distribute that to all members.

Monsieur Vincent.

[*Translation*]

**Mr. Robert Vincent (Shefford, BQ):** Thank you. Hello, everyone.

I looked at your report on the tourism industry. I will continue on the topic of airports because it is interesting. It is one of the most blatant problems. As concerns figures, the report says: "On the specific index of Ticket Taxes and Airport Charges, Canada is ranked 122 out of 130 countries." These figures show that we lag well behind.

I also see that you must pay $300 million annually in airport fees. How can we address these two elements, that is, airport fees and the fact that the tourism industry could encourage tourists to come to Canada, by no longer paying these $300 million? What is another way that we could do this? I know that a brief of the Standing Committee on Finance of the House of Commons makes two proposals in this regard: the elimination of airport rental costs, and the amendment of the Excise Act to authorize the purchase of duty-free products upon arrival.

Do you think that this proposal would help us stimulate tourism here?

● (1205)

**Mr. Jim Facette:** Simply, yes. As the CEO of Air Canada said today, if these kinds of fees can be reduced, then that paves the way to lower flight costs. It's as simple as that. Canadian airports have promised that if their rental costs are reduced, these savings will be passed on to airline companies. It's simple.

**Mr. Robert Vincent:** Do you think that the recommendations made before the finance committee should be taken up here, at the committee on industry, science and technology, and implemented rather than be left to gather dust? What do you think?

**Mr. Jim Facette:** That's a good idea. Thank you.

**Mr. Robert Vincent:** Mr. Allan, do you have anything to add?

[*English*]

**Mr. Randy Williams:** I agree 100%.

**Mr. Steve Allan:** I think that's a complete answer. Thank you.

**The Chair:** Do you have anything to add, Mr. Williams?

Monsieur Vincent.

[*Translation*]

**Mr. Robert Vincent:** I have a second question. If we continue in the same direction, what do you think will happen in future years because of gas prices? What direct impact will those gas prices have on your industry in the summer? People say that they will be spending more time at home, travel less, and spend less. What direct impact could that have on the tourism industry? We've focused a lot on airlines, but the domestic tourism industry must not be forgotten. It will be directly affected during the summer if gas prices keep going up.

What are your predictions?

[*English*]

**Mr. Randy Williams:** Obviously we don't have any scientific way of knowing what the direct impact will be. Fuel prices are changing by the day. The response we're hearing from our industry is not positive. Air Canada's announcement of less capacity in itself will cut travel.

Increased cost has an effect on tourism. We've seen it in the past. Fuel prices, plus our Canadian dollar, plus the slowing U.S. economy—those three factors alone are going to hurt our industry tremendously. We had projected minimal growth again this year, earlier on, six months or so ago. Obviously that's at risk. We may see negative growth this summer and by the end of the year, certainly with domestic tourism and travel to Canada. We're hopeful that we'll see maybe a maintaining of past numbers for this year, but that might be optimistic.

[*Translation*]

**Mr. Robert Vincent:** Why is the government taking so long in opening its doors to China? We have a trade deficit with China, but we can't open the doors to them so that their citizens come spend their money here.

Why is the government dragging its feet on this? In your view, what should we do to wake the government up and shake it into doing something tangible?

[*English*]

**The Chair:** Mr. Facette.

[*Translation*]

**Mr. Jim Facette:** That is a difficult question.

In fact, this is something we have been trying to achieve for several years now. However, it may be time for our Prime Minister to do something. But I don't know whether there is any particular way of reaching that goal. Two or three former governments have tried to deal with the issue, and so far, nothing has been achieved. It's a political and diplomatic issue. It is time for our Prime Minister to state his position.

[*English*]

**The Chair:** We have a brief time.

Mr. Williams, do you want to comment briefly?

**Mr. Randy Williams:** Obviously that's another very important question. We need open skies agreements with a number of countries. As Jim said earlier, we only have five open skies agreements. We need them with the European Union. That is under way now. We need that desperately. After 1995 when the Canada-U.S. open skies agreement was signed, there was an immediate impact on our industry in Canada. We need to see that with China, South America, and Europe. That's desperately needed. It's in our report as well.

● (1210)

**The Chair:** *Merci, monsieur Vincent.*

We'll go to Mr. Carrie, please.

**Mr. Colin Carrie (Oshawa, CPC):** Thank you very much, Mr. Chair.

We hear a lot about the volume of U.S. travellers going down, but the level of tourism revenue seems to be increasing. I was wondering if you could explain the discrepancy. Is the reduction of volume reflective of the U.S. tourists or cross-border shoppers? I was wondering if you talked to CTC with that question—and maybe TIAC, to follow-up.

**Mr. Steve Allan:** Michele can answer that.

**Ms. Michele McKenzie:** Yes, the U.S. numbers you see have been going down quite dramatically. The greatest decrease is in the day travellers who have been coming across the border historically. That number has dropped quite dramatically, about 40% over the last five or six years. The number of air travellers coming in from the U. S. to Canada, on the other hand, has remained flat or is just about even with where it has been. So while the numbers overall in the U. S. have been going down, what's been affected primarily is closest to the border and primarily the day traffic, followed by border car traffic. Air travel from the U.S. is still pretty healthy.

So when you look at the overall numbers in terms of what's happening with international travel to Canada, travel to Canada is increasing from seven of the nine countries we market in. It's decreased from the U.S. and Japan. But with the U.S. it's important to note that in the areas that are specific targets of our marketing, which is primarily the air traveller, that performance has been relatively good. What has been driving growth in terms of revenue in Canada for tourism is the fact that the domestic market has been very strong and last year alone grew by 6.6%

**Mr. Colin Carrie:** Very good.

I wanted to ask a question about the market, because it seems that here in North America and Europe it's a mature market for tourism. We have this potential in Asia, and it's really an untapped market. There are new opportunities there.

I was wondering what TIAC is doing to enhance the industry's performance in these other markets. Are you developing partnerships with our own provinces or elsewhere? What are you doing for product development research and marketing in these new markets?

**Mr. Randy Williams:** The realm of marketing and research is within the Canadian Tourism Commission's purview, so I defer that question to Michele and Steve.

**Ms. Michele McKenzie:** We're focused on a number of markets in Asia-Pacific, specifically China, Japan, South Korea, and Australia. We've been doing ongoing research to determine how best to attract visitors from those markets, and we've been doing very well out of the markets of South Korea and Australia in particular. We've been experiencing growth there of over 10% last year. We talked a little about China already in terms of what's happening to our growth rate there, and we're struggling, as I said, in Japan.

One of our biggest challenges out of the Asia-Pacific market is air access. It's one thing for a marketing organization to create demand, but we have to have the supply to fill that demand if someone has the idea that they do indeed want to come to Canada. We have seen some air capacity increases out of China, but our capacity is more strained in markets like Japan and South Korea. We've had a little increase out of Australia.

So to the extent that we've been able to have increased air capacity, we've been able to succeed in attracting more visitors.

The other market that is a very strong growth market for Canada in terms of tourism is Mexico. It's leading the pack, with growth rates close to 20% year over year.

**The Chair:** Mr. Jones, did you want to respond?

There's about a minute left.

**Mr. Christopher Jones (Vice-President, Public Affairs, Tourism Industry Association of Canada):** I'd like to point out that Canada is up against a number of other destinations in the world that have made a very serious commitment to attracting international visitors. I'm thinking, for example, of Dubai, which has made massive investments in its tourism and travel infrastructure. We're also up against a number of exotic new destinations around the world that are increasingly attempting to attract the middle classes of emerging countries, who are beginning to travel for the first time and who now have some discretionary income.

I think it's important to underscore that for the modest investments we're trying to make to the park systems, the museums, and so on, we're up against countries that in some cases are equipped with significant financial resources.

● (1215)

**The Chair:** Very briefly, Mr. Carrie.

**Mr. Colin Carrie:** You mentioned strategic investments, but you really didn't give a lot of examples. This government feels tourism is so important that they actually appointed a secretary of state for small business and tourism. I was wondering, are you are prepared to work with the industry and the government to advance a national tourism strategy and to give us input?

**Mr. Randy Williams:** We found the Secretary of State for Small Business and Tourism to be very helpful, accommodating, and accessible. She has shown a willingness to work with us. In our report we haven't been prescriptive in terms of what those strategic investments would be yet. Obviously it takes a public and private sector consultation process to go through that exercise.

**The Chair:** Thank you, Mr. Carrie.

We'll go to Ms. Nash, please.

**Ms. Peggy Nash:** Thank you.

My question is about the layoffs that were announced today at Air Canada. Normally at this time of year we're heading into peak season in the airlines. Normally April, May, and June are a hiring period, and the summer months are the busiest months of the year, when airlines, certainly, and other related industries make their money.

How significant is the announcement today of a layoff of 2,000 Air Canada workers, and is that creating shock waves in the tourism industry in Canada?

**Mr. Randy Williams:** Certainly the announcement is reflective of the tone of our competitive report in that we're on the verge of a crisis. It's just one signal that this report is right on the mark.

Be aware, though, that the Air Canada announcement is for this fourth quarter and the first quarter of next year. This summer there won't be any change in the staffing because it is a peak season for tourism. Those changes are for six to nine months from now.

**Ms. Peggy Nash:** Thank you.

**Mr. Jim Facette:** Mr. Chair, if I might add, it is symbolic of an important message going forward. There are some things that business cannot control. The price of fuel now consumes about 33% of Air Canada's costs. I think it's more than labour.

What's important is that in times like this, regulators like the federal government need to do whatever they can to give as much wiggle room as possible to enable the industries to compete. You can't solve all the problems, but you can do some small things to help them go a long way. I think that's what the CEO of Air Canada said this morning. Fuel is a big part of it. I've heard him speak before on this. It is a big deal going forward in this fourth quarter and the first quarter of next year. They don't know what the numbers are going to be in terms of their volumes, but there are some things that can and should be done to help them going forward.

**Ms. Peggy Nash:** Thank you.

It must be a period of a lot of uncertainty for the companies involved, but also for the people who work in these industries. Of course, a year ago no one was predicting the extent of the spike in oil and gas prices. It's something our committee is going to be studying over the summer period.

But if we are in a scenario where oil prices remain, maybe not permanently high, but high for the foreseeable future, are there structural changes that you believe are necessary to avoid this kind of crisis that appears to be looming? You have made specific tax recommendations and trade recommendations, but this is a very important sector of our economy. Is it one that perhaps Canada has taken for granted because we have so many natural attractions, and maybe we haven't really seen it for the important economic engine it ought to be?

**Mr. Randy Williams:** For once I think our industry is ahead of the curve here. We have provided the government with seven strategic areas that will soften the blow and mitigate the challenges we have going forward with fuel, the Canadian dollar, and so on. Our recommendations result from a year-and-a-half consultation process that involved the most senior in our industry, including the heads of hotel companies, airline companies, railway companies, and so on. So the government now has our recommendations on what needs to be done. Some of them are public sector policy changes, some involve tax changes, some are private sector changes, and some are both.

This report was initiated because we saw two years ago that these single-off occurrences like SARS, 9/11, fuel prices, and the war in Iraq were always used to blame why we weren't doing well. Finally we said, listen, there must be something beyond this, because once this one-off issue is behind us we're still not growing to the level we should be, so what are the structural issues? They're described in this report. So those are our recommendations, from a collective industry.

● (1220)

**The Chair:** Thank you.

Thank you, Ms. Nash.

We'll go to Mr. Eyking, please.

**Hon. Mark Eyking:** Thank you, Mr. Chair.

Michele, you alluded to some of the strategic markets you're looking at. The industry is growing, and there's no disputing the product we have here in Canada from coast to coast to coast. But then you start finding out the numbers. I think I heard correctly that Las Vegas spends just as much on promoting as Canada does; and Australia, with just over two-thirds of the GDP of Canada, is spending way more than we are in promotion and marketing.

So I guess my question is twofold. Is there new clientele out there? Should we be changing our marketing? Do we need more money for marketing, not just from government but from the stakeholders out there—whether it's the bed and breakfasts seeing the relevance of putting a few more dollars into the pot, etc.?

It seems that the provinces all have their own different strategies, and a lot of them are chasing the same dollar. So on the marketing side, if there were more money available from all the stakeholders, would we be able to do better marketing? Should we be looking at marketing Canada differently in this century—maybe from the green side? The whole thing is a different product than we've been marketing before.

**Mr. Steve Allan:** Let me take a stab at that.

I was appointed chairman of the CTC just over three months ago and was unfamiliar at that time with their marketing approach and the effectiveness of the organization. Certainly these past three months have proven to me that what we have in Canada is a very effective and state-of-the-art marketing arm for tourism in Canada, and really, too, into our international markets.

Our budget in 2002 was $100 million, and that has been gradually reduced to the point now where it's $75 million. I personally believe that if there was an addition to the budget, it would be spent effectively. We have very sophisticated mechanisms for focusing on certain markets and how much can be invested in a specific market, and then an assessment as to how effective a particular program has been.

So I do believe that if there is an increase in the budget, it can be spent effectively.

The other thing I have noted since my appointment is how effective the CTC is in working in partnership with the provincial marketing agencies. There is consensus—and I think the TIAC report mentioned this—that it is important for everybody to be working under one Canada banner, particularly in our international markets. I think we do that fairly effectively. It could be more effective, but that's something we can't force. We do the best we can to convince our partners that we are effective when we go into international markets.

In terms of product, the TIAC report addresses that, I think, under the banner of animation. It's certainly something that I think we need to address as well. I personally believe that if we create the right climate in Canada for tourism, and if we address issues such as air access and the kinds of things that the other fellows are addressing today, that will create a climate for further investment in Canada from industry as well.

● (1225)

**The Chair:** Thank you.

Mr. Williams, you have about a minute to comment.

**Mr. Randy Williams:** Our report alludes to the fact that we need more money in emerging markets. The CTC addresses nine countries, as Michelle and Steve talked about earlier. That's great, and they're doing a good job in those nine markets. Seven of them are growing. Japan and the United States are problems. But there are markets with a growing middle class that is starting to go outbound that we're not even into yet. We have to create awareness of Canada in those markets or we'll never be visited. There are other countries, as Christopher was saying earlier, that are eating our lunch in those markets.

We have no money. We just have enough to barely service the nine markets we're in. We have no money, and neither do the provinces, to go into these other markets, such as Brazil, India, China, and so on. If China ever opened up, where would we take the dollars from the market there, let alone the airlift?

So that's a big challenge for us. I would say directly that I know the industry wants the CTC to be in those emerging markets, but I understand they don't have the dollars right now. If we had the dollars, we'd love to be in them.

**The Chair:** Thank you.

We'll go to Monsieur Arthur.

[*Translation*]

**Mr. André Arthur (Portneuf—Jacques-Cartier, Ind.):** Thank you, Mr. Chairman.

Good afternoon, Ms. McKenzie.

Last weekend in Quebec City, over 200,000 people took part in one of the most spectacular air shows in North America. For the first time in aviation history, teams comprising over three countries simultaneously performed in aerobatics shows. The extraordinary success of the event was made possible by the cooperation of a number of partners, particularly Aéroport de Québec.

What effort did the Canadian Tourism Commission make to promote the event in the New England market, which is such a good one, to publicize the event? New England is less than a five-hour drive away from Quebec City.

[*English*]

**Ms. Michele McKenzie:** We work very closely with marketing partners in Quebec, both at the City of Quebec and at the City of Montreal. The Province of Quebec is very invested with us.

In terms of our focus in New England, we're primarily in the Boston market. Our marketing in that market would include reference to the types of international events that are going on, and this year in particular we're featuring those events happening in Quebec as part of the 400th anniversary.

We've been doing a lot of—

**Mr. André Arthur:** I understand your answer to mean that you meant to do things, but you didn't do anything about this event.

**Ms. Michele McKenzie:** No, I said that we are marketing. We did market that event as part of our overall campaign, working with our partners in Quebec, yes, and in New England, primarily in the Boston area.

**Mr. André Arthur:** So if I were a reader of *The Boston Globe*, I would have seen things related to that event some time in advance so that I could plan a visit to Quebec City. Did you do anything concrete about that, or are you just thinking that maybe it was done?

**Ms. Michele McKenzie:** We do not place individual ads for Canadian events independently. We work with the events in those areas. In the case of this air show, we were working very closely to get media stories as well, not just paid advertising.

**Mr. André Arthur:** Did you get any results, any concrete things, in the New England newspapers? It was a tremendous event. Everybody was quite proud of it, and anybody who discovered it by accident was very happy to be there.

**Ms. Michele McKenzie:** I certainly can get you information on what media coverage we helped generate on that event, yes.

**Mr. André Arthur:** Okay.

Mr. Williams, tour operators out of Japan tell us that their market to Canada is stagnating because of the bottleneck in the number of seats on Air Canada between Japan and Canada. Could you tell me if that is right? What can we do to convince this quasi-American company to serve Canada better?

● (1230)

**Mr. Randy Williams:** The Japanese market certainly has been affected by the number of seats available. The flights from Japan have been running at close to capacity. As we said earlier, we need more lift, more capacity, out of all the Asia-Pacific countries.

**Mr. André Arthur:** Why don't we get more seats on Air Canada from Japan? Their planes are full; they don't add any service. What's going on?

**Mr. Randy Williams:** I can't answer that question. Maybe that's best directed to Air Canada. They have so many aircraft in service, and they will allocate them to the most profitable routes. I'm sure we'd expect that of any company, and I'm sure their shareholders are looking to them to put them on the most profitable routes. They just don't have enough aircraft. That's why we need more open skies agreements with other countries. Then we can get other air carriers to also service markets.

**The Chair:** Monsieur Arthur, Mr. Facette wanted to respond.

**Mr. Jim Facette:** The air service agreement Canada has with Japan is a traditional bilateral air service agreement. Traditional bilateral air service agreements dictate the number of seats and the destinations carriers can go between states. So the limitations put on any carrier, be it Air Canada or anybody else, are dictated by the air service agreement.

Canada just recently renegotiated its air service agreement with Japan. And I don't know that Japan is ready for an open skies agreement yet. I'm not sure. I believe that this government, given its new blue sky policy, probably proposed an open skies agreement with Japan. I don't know whether Japan is ready for it yet. But if there were an open skies agreement, all the capacity would be driven by the market. It would not be driven by an air service agreement. So any carrier from Japan could fly anywhere it wanted to in Canada.

The other thing we know, though, is that Air Canada recently suspended its flight between Vancouver and Osaka.

The cost of flying distances now, with the aircraft we have available, is increasing because of fuel costs. There's a point at which, on a flight, you actually have to fuel the airplane just to have fuel to get far enough. That is, you fuel to carry fuel. So the price of fuel is becoming a major issue on long hauls.

**The Chair:** Okay, thank you.

*Merci, monsieur Arthur.*

We'll go to Mr. Eyking.

**Hon. Mark Eyking:** I've talked to quite a few international travellers over the last few years, and one of the things they say they notice, they appreciate, is getting the value-added tax back. You alluded to it already. Here it's called the GST, of course, and we don't give it back.

Many craft shops across the country—and we have substantial artwork in this country, and some of the pieces are worth $3,000 or $4,000 easily—are telling me that this GST rebate is really having an effect on them. A person would get $200 or $300 back on a substantial piece of artwork—it could be native artwork, it could be local artwork—and they're not buying it. So some of them are feeling that they almost have to go back to the people who are making the crafts and say, “We're going to have to give them the GST back, because they're not going to buy it knowing they don't have it.”

I had a couple of questions. Was there any consultation with your groups—consultation on the numbers, the impact it had—when the government decided to do this? How important is it that this rebate comes back?

**Mr. Randy Williams:** Well, it's important that it comes back, firstly. There was no consultation. Initially it was a decision that was made that surprised us all. Obviously it is important. We're one of the only countries in the world with a value-added tax that doesn't give it back to their visitors.

Tourism is an export industry. All other exports have their foreign end user not pay GST. But in tourism you decided to penalize us at the worst possible time by having our foreign customer pay the GST.

It's just wrong. In principle, it's wrong. So it is important.

I talked to a Montreal storekeeper who sells Inuit carvings. His business is down dramatically, because foreign visitors don't come in and buy product anymore because they don't get the GST rebate back again.

The government did give us back the volume ones—the convention—which is working perfectly, and it's fine. We congratulate the government for at least hearing us and giving us the convention side back.

The tour operator or tour package side was given back to us, but the program to manage that is too difficult, too bureaucratic, too administrative, so that most tour operators are just charging the GST. So the FCTIP, the government program, is meant to be an incentive program, but it's a disincentive for foreign tour operators. That has to be fixed, and Diane Ablonczy is aware of that, and she's committed to helping us fix that.

It's the individual program. We need that back again as well. We should look at broadening it. We should go beyond products and hotels. Let's do what other countries are doing and look at other ways to incent people to come to Canada.

● (1235)

**The Chair:** You have about 45 seconds.

**Hon. Mark Eyking:** You mentioned the other countries. We're one of the last countries standing without this. So it would be a detriment.

For an average tourist from, say, Sweden or Europe coming here, how much would it total? If you took all their value-added tax for, say, a two-week visit to Canada, what is the average amount of money they would be getting back?

**Mr. Randy Williams:** I'm trying to recall the average. I think the average rebate was just over $100, the refund. We have those numbers and we can submit them to the committee.

**Hon. Mark Eyking:** My sense of it is that it's not just the money, it's a token. It's a token to say, “You're welcome here, thanks for coming.” It's a token that means a lot to them, especially if they travel a lot, because they see it in other countries and all of a sudden they come to Canada and they say, “Well, what's this?”

**Mr. Randy Williams:** The government came out, when they made the decision, and said that only 3% of visitors were using it, which was wrong. They were counting babies and couples in that. Two-year-olds don't fill out rebate forms.

It was 13% when you do it properly, and that's 13% of a program that was really very, very hidden. It wasn't marketed. If you go into some countries, you can get it right at point of purchase. They advertise it.

In Canada we kept it a secret, and we don't do it conveniently at airports for other people, and we still had 13% of people claiming it. It took them two months to get the refund cheque, and we wouldn't give it in their own currency, we'd only do it in Canadian currency. All those kinds of things were done wrong, and we still had 13% of people wanting it back.

**The Chair:** Thank you, Mr. Eyking.

I'm going to take the next spot, and then we'll finish with Monsieur Vincent.

First of all, thank you for being here. Thank you for the information you're presenting.

Mr. Facette, I wanted to just make sure I had some of the numbers correct. You're saying the airport rent is $300 million per year.

**Mr. Jim Facette:** Approximately, yes.

**The Chair:** Approximately. The tax on aviation fuel, is that the 4¢ per litre on jet fuel and diesel?

**Mr. Jim Facette:** It is.

**The Chair:** On the airport rent issue, I certainly have in the past, and do today, have some sympathy on that issue. On the fuel issue, it's more challenging—and I think you can appreciate that—in the political sense for a government or a politician to recommend eliminating that tax when consumers themselves are paying a federal excise tax of 10¢ per litre. It's a challenge. So I don't know if you want to comment on that, but for us to say on jet fuel or recommend it for diesel fuel, because there's a fair amount of diesel in Canada as well.... But it's tough for us to sort of pick gasoline to have 10¢ per litre but eliminate it on jet fuel.

**Mr. Jim Facette:** I acknowledge the challenge in having to be strategic in some of the recommendations, Mr. Chair, but I think when you add all the little pieces up together, it makes a big difference in the long term.

And on the jet fuel side, it's only this one particular industry that uses it, and it's not just the large carriers, be it Air Transat, WestJet, Air Canada, or anybody else, that are going to benefit from that. You're also talking about some of the smaller carriers, the regional carriers, even some private operators, who will also get the net benefit of that. So the benefit of it is that it goes beyond just one particular market.

**The Chair:** And what's the revenue of that each year?

● (1240)

**Mr. Jim Facette:** I don't have those numbers in front of me. We can get them to the committee.

**The Chair:** I know you want the elimination of airport rent. Obviously you'd want it yesterday, but have you proposed a phase-out period that the committee can look at?

**Mr. Jim Facette:** We have given Transport Canada various options to phase it out, including even possibly turning the rent payments into something against the asset value over time, where it would be realized that we actually own the property. We looked at a passenger number. At the end of the day, if they were to say they would reduce the airport rent over the next three, four, or five years, all that would help in planning. At the end of the day, airports plan ahead as any other business does, so if there's any opportunity to reduce over a three- or four-year period, we'd welcome that.

**The Chair:** I appreciate your comments about open skies agreements. My understanding is that the government is totally on board and working very actively on that. I certainly think members of this committee would work with all your associations and industries on that issue.

I wanted to follow up, Mr. Williams, on some of the numbers Mr. Van Kesteren was pointing out. There's $80 billion that Canadian travellers spend on tourism outside Canada; the $70 billion is the tourism number within Canada. Of the $70 billion, how much is domestic Canadian travel and expense and how much is foreigners travelling to Canada and spending here?

**Mr. Randy Williams:** Michele, do you have that number? I think it's about $50 billion out of the $70 billion. It's about two-thirds of the amount.

**Ms. Michele McKenzie:** Yes.

**The Chair:** Go ahead.

**Ms. Michele McKenzie:** I'll just clarify. Of the $70 billion, it used to be two-thirds and now it's about three-quarters of that amount that is domestic spending. So $16.6 billion is coming from international markets. So we have $16.6 billion coming into our economy, and Canadians are spending about $26 billion outside our economy.

**The Chair:** Following up on the marketing issue, there's always a discussion about whether CTC should have more money for marketing. But following up on Monsieur Arthur's question, I think where he was going was to ask whether we, as a committee, can perhaps see some effectiveness in saying, here is the type of advertisement and marketing the CTC or other organizations actually do and here's a way of judging its effectiveness. Perhaps you can comment on it.

Do most people decide to travel...? Do they see an article in a newspaper? Do they see a TV ad? Do they see something online? Does someone tell them as a friend that they've been to this place and they should go? Is there a way for us to judge the efficacy of spending now, so we can then make an argument and say CTC should get more money because look how effective this has been in a very specific way?

**Ms. Michele McKenzie:** Measuring the effectiveness of our programs against the overall tourism performance in Canada is a very big focus for CTC, so we can certainly get you the information on what we are doing to measure the specific effectiveness of our programs and also the programs we implement with our partners.

One of the recommendations the TIAC report makes, which we agree with, is to also provide the information that helps benchmark Canada's marketing performance against the marketing performance of other countries. So that's also something we will be working on and we'd be happy to provide to the committee.

**The Chair:** Thank you. I have more questions, but I am out of time.

Monsieur Vincent.

[*Translation*]

**Mr. Robert Vincent:** Thank you.

It's fascinating to see the government being put on trial because it is asking for a bit more money for access to airports, among other things. On the other hand, we will also have to monitor your efficiency, your performance. If I understood your answer to my colleague's question on New England correctly, you do some advertising in Boston. With regard to the Quebec International Air Show, which is held at Jean Lesage Airport, it seems that New Brunswick and Ontario are not close enough to Quebec City.

Ms. McKenzie and Mr. Williams, Quebec City's 400$^{th}$ anniversary is coming up, and I would like to know what your overall strategy is for that event. I imagine that you have already made plans.

● (1245)

[*English*]

**The Chair:** Ms. McKenzie or Mr. Williams.

**Ms. Michele McKenzie:** Yes, we do. We've been working very closely with Quebec 400 for a numbers of years now. Last year we brought our major international marketplace, Rendez-vous Canada, to Quebec City. This year we're bringing our media marketplace to Quebec City, which is called GoMedia. We're bringing in international travel writers to write stories about what's happening in Quebec and bring those stories out to the world.

The federal government has invested millions of dollars in helping to present Quebec 400. We've been very much involved with the committees to ensure that we're telling the world about these events, and we're working very closely with the Quebec 400 organization.

We are not doing marketing independent of the Quebec 400 organization. We are working closely with the organization and with the Province of Quebec to tell that story to the world. My focus is primarily on the markets of France and the U.S.

**The Chair:** Mr. Williams.

**Mr. Randy Williams:** The committee should appreciate that the Canadian Tourism Commission is responsible for presenting Canada's brand in foreign markets in nine countries. But they do that with leverage and with collaboration with other marketing organizations in Canada, including Tourisme Québec, Québec City Tourism, even private operators, the regions in Quebec, and so on. Their involvement is not specific, where they would take one event and market it unilaterally; they are working in cooperation with other marketing interests in the Quebec area, specifically around this one event.

[*Translation*]

**Mr. Robert Vincent:** That's not as clear as I would have thought. I didn't hear you talk about an action plan either. Moreover, I was struck by the fact that you're bringing in tourism copywriters from abroad. I think we have enough people here, and that we don't need to have others write about what happens here. It seems to me that those best placed to describe an event are those who experience it, or create it. What they produce can then be distributed in other countries.

Why doesn't it work that way? Why do you bring in copywriters from abroad? Please explain that, because I really have to understand.

Ms. McKenzie.

[*English*]

**Ms. Michele McKenzie:** We're not hiring travel writers. These travel writers are hired by the publications they work for. What we are doing is working with Quebec to host these writers in Quebec City during the 400th celebrations, specifically July 2 to July 6. They are not people who work for CTC. We are not hiring them. They work for newspapers and magazines around the world, and they are being hosted by the CTC and our partners in Quebec to come and see the celebrations and take the story back out to the world.

**The Chair:** *Merci.*

*Merci, monsieur Vincent.*

Ladies and gentlemen, I have to go and present on behalf of the committee at the Liaison Committee. The clerk and I have to leave. Madame Brunelle could volunteer to chair the committee for five minutes, but then we wouldn't have a clerk. There's obviously a lot of interest in this topic, and the committee may decide to do a second or third meeting on this.

We want to thank you all for being here before us today. Thank you for your presentations, and thank you for being in Toronto.

Mr. Facette, you were going to provide something further. If any of you have anything further, please provide it to the clerk. We will ensure that all members get it.

Steve, I didn't recognize you at first without your white cowboy hat, but welcome to you as well.

He was president of the Calgary Stampede, the second best rodeo in Canada next to the Canadian Finals Rodeo. I'm just kidding.

This will be our last meeting, so have a wonderful summer. We will see you back here in September. Thank you.

This meeting is adjourned.

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