

Standing Committee on Finance

Pre-Budget Consultations 2009



Submission of the
Tourism Industry Association of Canada

August 14, 2009

Executive Summary

TIAC's pre-budget priorities for 2009 are:

1. Eliminate Crown ground rental payments owed by Canadian Airport Authorities. Cost: \$280 million annually.
2. Institute an accountable, industry-administered GST/HST visitor rebate scheme for independent leisure travellers. Cost \$80 to \$100 million annually.
3. Make an initial \$1 billion down payment on the construction of a dedicated High Speed Rail corridor.

About the Tourism Industry Association of Canada

The Tourism Industry Association of Canada is the voice of Canadian tourism. Founded in 1930 to encourage the development of tourism in Canada, TIAC serves today as the national private-sector advocate for this \$74.9 billion sector, representing the interests of the tourism business community nation-wide. Based in Ottawa, TIAC takes action on behalf of Canadian tourism businesses and promotes positive measures that help the industry grow and prosper.

TIAC's Budgetary Recommendations

Recommendation One: Eliminate Canadian Airport Authority Ground Rents

According to the Travel and Tourism Competitiveness Report (2009) produced by the World Economic Forum, Canada's aviation cost structure constitutes a competitive disadvantage. On the specific index of *Ticket Taxes and Airport Charges*, Canada ranks 98th out of 133 countries.

In general, Canadian airports are regarded as very expensive to serve. This cost burden hampers the global competitiveness of our travel and tourism sectors and inhibits our ability to invest in new services while rendering our destinations less affordable in global terms. The 'participation' component of the rental agreements structured by the Crown at the time of devolution in the early to mid 1990s provided for it to share in the airport's future earning potential. As a result, over \$2.5 billion has been paid by the airports to the Federal Government in 'base' and 'participation' rent since 1997. These costs must be recouped by the airports from users – airlines and passengers.

Ground rents have become the greatest financial concern of Canada's major airports and, by extension, Canada's tourism industry, which must factor in these fixed costs in the overall equation of getting travellers here from long haul and cross-border source markets. None of the relevant U.S. comparison airports face any equivalent charge for rent. In fact, rent by itself is one of the largest explanations of the cost difference between Canadian and U.S. airports.

Hence, we are proposing the outright elimination of ground lease rents. Eliminating airport rents in Canada will stimulate passenger traffic growth and traveller expenditures, which in turn will have a direct positive impact on the number of jobs required to support travel

activity, particularly in those industries servicing air travel and tourism.

Specifically, a recent study done by Intervistas Consulting has found significant positive impacts for the federal government resulting from the elimination of airport rent. The returns on the investment would include 590,300 new air travellers annually generating:

- \$304M in traveller expenditures
- 5,550 person years of employment
- \$210M in wages
- \$350M in GDP growth
- \$720M in economic output

The loss to the treasury of eliminating airport rents in Canada is \$280 million annually. However, TIAC submits that this is far outweighed by the direct and induced positive impacts associated with this change.

Recommendation Two: Institute an industry-administered accountable GST/HST visitor rebate program for independent leisure travellers.

A variety of provinces have implemented or are about to adopt (i.e. Ontario and B.C.) a harmonized sales tax regime with the federal government. This is particularly worrisome for businesses and operators in the tourism and hospitality sectors in these provinces as a number of their goods and services had hitherto been exempt from the provincial retail sales tax (PST) or had special taxation arrangements in place.

Inevitably, then, for certain products such as restaurants and food services, spas, charter flights, meeting room rentals, and guide services, prices to the consumer (and guests) will rise. This is highly problematic in the context of a recession in which the incidence of travel by Canadians and foreigners alike is already on the decline. Raising prices for tourism products and experiences will logically result in less consumption of them. Moreover, if Canada and other destinations are very close substitutes for one another then a policy change in Canada, which results in a higher price for tourists &

visitors, will naturally provoke a change in expenditure patterns (people will go elsewhere).

To mitigate the impact of the introduction of the HST regimes in important tourism jurisdictions such as Ontario and B.C., it is imperative that we re-introduce a GST/HST visitor rebate system for the individual traveller in relation to the purchase of eligible goods and short-term accommodation. However, rather than having the former government-run entity (the Canada Revenue Agency) overseeing the processing of tax claims, TIAC proposes that private industry administer the new scheme in a strictly accountable fashion. A private sector solution to processing and rebating the tax claims would result in significant savings to the federal government. An individual visitor rebate scheme for GST/HST would re-assert the principle that international tourism is an export industry, earning foreign currency like any other and hence should be exempt from GST/HST. The cost to the federal government of rebating GST/HST on eligible tourism goods & services purchases is reckoned to be between \$80 and \$100 million annually.

Recommendation Three: Make an initial down payment of \$1 billion on the construction of a dedicated High Speed Rail (HSR) corridor(s)

Canada needs to provide residents and foreign visitors with a range of modern, efficient and sustainable transportation choices. The construction of dedicated high speed rail corridors would have an important nation-building component and would provide a new element to Canadian rail tourism and tourism in general. At present, France has 1,872 km of HSR, Spain has 1,594 km, Japan has 1,285 km, the U.S. has 362 km and Canada has 0 km. U.S. President Obama has allocated \$8 billion to 10 higher speed intercity rail corridors that will revolutionize U.S. passenger rail. Corridors such as Calgary-Edmonton and Quebec City Windsor are home to 50 per cent of Canadians and in some cases have population densities equal to or surpassing those of European and Asian countries where HSR has become the norm. TIAC believes it is long overdue to make a visionary infrastructure down payment on the construction of HSR in Canada. The environmental, job creation and “connectivity” merits of high speed passenger rail have been clearly established.