



International Travel and Tourism: *Canada Needs a Strategy in Light of New Forces at Play*

A speech by Jean-Marc Eustache
Economic Club of Toronto, November 15, 2007.

Check against delivery

Good day, ladies and gentlemen,

I am pleased to be here to talk to you about travel and tourism. Tourism is the world's largest industry. It generates six trillion dollars in economic activity... and more than 220 million jobs¹. In Ontario alone, the travel industry provides jobs for more than 150,000 people. Travel and tourism are major economic drivers, even in industrialized countries.

But tourism has an image problem. Its importance is underestimated. And it is seen by policy makers as an economic sideline. But in fact, it should be seen as a vital part of the future. In Canada, tourism is not on the radar screen of Bay Street... And it is at the bottom of the agenda of our governments.

But the fact is that two million² Canadians have tourism-related jobs, in thousands of companies and institutions that span the hospitality, transportation and tourist attraction sectors... That number could grow to nearly 2.5 million in the coming years³... or it could decline, depending on the future moves we make.

Tourism has its weak spots. Let me name three: Wages and margins are not very high. Seasonality is a challenge. And the sheer size of our country makes it difficult for all communities to benefit fully.

But on the bright side: The industry is almost immune to foreign takeovers, in the sense that tourism is based on the very fabric of any given country. It is a source of jobs and wealth for both cities and regions. And the biggest plus of the travel industry is that it is growing steadily, generally faster than the economy as a whole... And it will continue to do so. Are we paying enough attention to that fact? I'm not sure.

Tourism spending in Canada is more than \$67 billion⁴ a year, about a quarter of which comes from other countries. But in the most attractive market segment of international tourism, the ground is shifting under Canada's feet. Last year, there were 840 million international tourists. This is expected to grow to one billion in 2010, and to 1.6 billion by 2020. That's a solid growth rate of 4 to 5%, on average. Right now, virtually all countries are seeing a rise in the number of their visitors. But Canada is not invited to the

¹ World Travel and Tourism Council

² Direct and indirect

³ World Travel and Tourism Council

⁴ Statistics Canada, National Tourism Indicators



party. At home, international tourism is declining... No other country in the Americas is sharing that same fate⁵. Our situation is unique.

Most countries have been on a war footing for years, tapping this highly attractive market. And right now, several of them are quietly eating Canada's lunch. We have been too complacent. And we are being outspent on the promotion front.

In the past, Canada had done fairly well in international tourism, and without great effort. Let's be frank: we have been a tourism fat-cat. Until 2004, we were in the top-ten destinations worldwide, thanks mainly to two things: First, geographic proximity to the U.S. The Americans have been historically slow to travel overseas. When they decided to venture past a border, Canada was the natural choice. The second reason is that most overseas tourists to Canada come from Western Europe. And Canada has close historical ties with at least two countries—the U.K. and France—that still today, along with Japan and Germany, represent the bulk of overseas tourists in this country⁶.

But in 2005, international tourism was down more than 2% in Canada. The fall continued in 2006, and again this year⁷. Numbers for Germany, Japan and the UK⁸ were all down in 2006.

But above all, Americans have turned their attention to other destinations. In part due to the exchange rate, gasoline prices, new passport rules... but also because Canada doesn't seem to click with them anymore.

U.S. travel to Ontario peaked in 1998. Since then, it has fallen by nearly 50%⁹. In the coming years, it is expected to continue to drop, almost 2% per year on average. This may be offset in part by a rise in visitors from overseas, but not in a major way, because the U.S. market segment is much bigger¹⁰. 3.2 million Americans visited Toronto in 2001. Only 2.5 million did last year¹¹.

Regaining ground should be our top priority, and it should be a key element of our vision for Canada's future economy. I don't know to what extent we will be exporting oil, or pulp and paper, or lumber 50 years from now... but I am sure of one thing: there will be plenty of people travelling the world. And I want Canada to be one of their top destinations.

The tourism industry is special in many respects. It's big. It's diverse. It involves the private sector, the public sector, and not-for-profits. At first glance, golf courses don't have much in common with jazz festivals or bicycle trails. Same thing for five-star resorts and the corner bakery.

⁵ Based on numbers published by the World Tourism Organization (UNWTO) (last full-year data available 2005)

⁶ In 2005: 14.4 million visitors from the U.S.; 888,000 from the UK; 398,000 from Japan; 351,000 from France; 311,000 from Germany. Source: Tourism Snapshot 2005 Year Review, Canadian Tourism Commission

⁷ UNWTO preliminary data indicate a fall of 2.8% for 2006, and another decline in 2007 (YTD).

⁸ Germany by 4.2%, Japan by 8.7%, UK by 5.2% (Statistics Canada, International Travel Survey).

⁹ Including same-day travel. Ministry of Tourism of Ontario.

¹⁰ Ministry of Tourism of Ontario. It is expected that visits from the U.S. to Ontario will fall 1.7% per year on average for the 2006-2011 period, with significant decreases expected in 2007 and 2009. Expected number of visits from the U.S. expected in 2007: 17.3 million total, 6.7 million overnight; from overseas: 2.3 million total, 2.0 million overnight.

¹¹ *Toronto Star*, June 16, 2007.



But over the years, the industry has put in place networks, structures and resources—locally, regionally, provincially, and nationally—to encourage co-operation. It is going well. People are working hard, but of course it will never be over. For example, despite the fact that we spend much less than other countries, the Canadian Tourism Commission plays a pivotal role in promoting Canada as a destination.

Transat is one of the few Canadian companies that concentrate essentially on international tourism. So Canada's fate as a destination is of great concern to us.

We are a tour operator: that is, a buyer and distributor of travel services. We book hotel rooms, bus transportation, city tours, car rentals in more than 60 countries, with thousands of suppliers. We then bundle these services in packages that we sell in approximately the same number of countries. We are also the largest travel agent in Canada, with 400 outlets, and a large web presence. Today, we are the only major vertically-integrated international tour operator in North America, and the fifth-largest in the world, with \$3 billion dollars in revenues, and 6,000 employees. 20 years ago yesterday, we operated our first-ever Air Transat flight, from Montreal to Acapulco. Since then, Air Transat has flown more than 35 million passengers.

Right now, our three main markets are Canada, the UK and France. These three countries are also key destinations.

We are the largest incoming tour operator in Canada. We have nearly 2,000 suppliers in this country, including 400 in Ontario. Our Jonview Canada division, from its Toronto headquarters, promotes and distributes packages to Canada in more than 50 countries.

Air Transat, with nearly 60 city-pair markets¹² between Canada and Europe, plays a major role in our ability, as a country, to bring foreign visitors to Canada. Hundreds of thousands of Europeans fly here with Air Transat. They like our direct routes, affordable rates, on-time performance and world-class in-flight service. All of which set us apart from the low-cost, cut-rate players.

So, Canada has a challenge. But we have what it needs to make this country a winner again. Now is the time to take the bull by the horns. Of course, we have to resolve some marketing one-o-one issues. Do we have the products people are looking for? Who are our competitors? How can we do better in promotion? How can we transform our weaknesses into opportunities? But first, we must understand that the root causes of our problems are here to stay: intense competition, shifts in source-markets, and geography.

In the good old days, a handful of countries attracted 80% of international tourists. Today, travellers contemplate thousands of destinations. Asia and Africa are now growing faster than anywhere else. And Canada ends up beside Australia, Nepal or Scotland on travellers' shortlists.

Source-markets are also shifting. Future growth will not come from Europe and North America. These are mature markets. Tomorrow's tourists will come from South America, Eastern Europe and Asia.

¹² There were 57 Air Transat active city-pair markets, or direct routes, between Canada and Europe in the summer of 2007, more than any other operator.



In other words, non-traditional markets that we do not know well. In 2006, tourism from South Korea and Mexico to Canada was up 9% and 13% respectively¹³.

Obviously, Asian travellers will tend to visit other Asian countries or Australia before thinking of Canada. But long-haul travel will grow faster than intra-regional travel. In 2020, almost 25% of all international tourism will be long-haul, compared with 18% in 1995¹⁴.

Therefore, we have to reflect on target audiences, the kind of “experience” they are looking for, and what makes them click. And not forget that for any such experience, competition is global, and easily visible and accessible on the Internet.

As Canadians, our geographic position is what it is. Our future as a tourist destination relies heavily on airline transportation and our level of “connectivity” to the world. A solid Canadian airline industry is essential to help reverse the trend in travel and tourism. Scope, direct service, frequency, affordability are, and will remain, the key drivers.

At the moment, the federal government is seeking open-skies agreements, most notably with the European Union. Discussions will be underway soon, and whatever the outcome, they will have an impact on the future of our tourism industry. Open-skies agreements can indeed pave the way for increased “connectivity” for Canada. They are part of the solution, and we are fine with that overall policy direction. But a bad open-sky agreement could also backfire, intensify our problems and damage the tourism industry in numerous communities across Canada.

Transat currently offers direct international service from more than 20 gateways in Canada, including mid-size markets. No major foreign carrier will ever be interested in doing that. There are two major Canadian players right now on the Canada-Europe market. Air Canada and us. Our business models, our objectives, are different.

Air Canada is a scheduled airline, member of a carrier alliance, and running after business travellers with a classical hub-and-spoke approach. It has no assets in Europe. And mass tourism is simply not at the heart of its strategy, period.

Our case is entirely different. We are a tour operator in France and the UK, and we operate as a wholesaler in 10 European countries. For years, we have expanded our portfolio of direct routes between Europe and Canada to nearly 60 — that’s more than Air Canada. We operate point-to-point — not hub-and-spoke — because that’s the best way to attract tourists. From that standpoint, we provide Canada with far more leverage to boost its tourism industry.

There is surely a way to protect and promote both Air Canada’s and Transat’s interests in any open-sky agreement. A way that would allow each of us to leverage commercial opportunities, in Canada and in Europe. A way that provides Canadian carriers with access to both intra-EU markets AND third countries. Our national interest, at minimum, demands that we avoid playing by yesterday’s rules, when

¹³ Statistics Canada, International Trade Survey

¹⁴ UNWTO Tourism Highlights 2006 Edition. Long-haul travel worldwide will grow faster, at 5.4% per year over the period 1995-2020, than intra-regional travel, at 3.8%. It is expected that in 2020 there will be 1,183.3 million intra-regional international tourists, versus 377.9 million long-haul.



the industry amounted to a closed circle of flagship carriers. This is of concern to Transat, and it should be of concern to all of us. Today, some players benefit from various forms of state backing to aggressively compete on a global basis. I would love to be sure we have that same backing.

Second, before opening our skies to more competition from abroad, we must have a level playing field. Right now, Canadian carriers are at a disadvantage compared to their competitors, because Canada sees air transportation as a cash cow. Airport rents charged by Ottawa to airport authorities across this country are too high. Especially here in Toronto. As a consequence, here, Air Transat pays \$11,000 dollars every time it lands¹⁵. In Paris, it's 3,500 dollars. We land here 2,000 times a year, which is not the case for most of our direct competitors. Do you think they have a better cost structure than ours? You bet they have. That said, I would like to applaud the GTAA, which recently announced that landing fees will be reduced in 2008 by about 4 percent. That's certainly a step in the right direction.

In the same spirit, another example of the "Canadian way" is security. In Canada, security charges are among the highest in the world. The problem is that a good portion of the money collected does not go toward security. Air travellers cannot be faulted for feeling like an ATM for Ottawa...

In this day and age, only agile airlines can succeed. And agility—at the very least—means a competitive cost structure.

Indeed, airline travellers are an easy target. A few days ago, the Minister of Transport said he would regulate our GHG (green-house gas) emissions. Well, the Minister should note a few things. The burning of fossil fuels, including coal, for electricity, heat and transportation, represents more than 70 percent of Canada's emissions¹⁶. This compares with 2 percent for the whole airline industry¹⁷. And emissions per jet passenger have improved by 70 percent in the last 40 years¹⁸, and continue to do so.

So, there is much work ahead, but we can afford to be optimistic. All over Canada, even in the smallest and most remote places, people are perceiving the power of tourism. And they have started taking things into their own hands. There is a discreet driving force in tourism. That's the vitality of Canadian communities.

Just a few days ago, Transat announced its support for the Frontenac Arch UNESCO Biosphere Reserve, which covers 7,000 square kilometres north of Kingston, including a portion of the Thousand Islands region. This is a great tourism destination. But what we have found here, above all, is a vibrant and dynamic community, willing to combine economic development and principles of sustainability with a major Green Accreditation Project. Transat is proud to partner with people who have a vision and want to make a difference.

We have seen other initiatives elsewhere. Indeed, communities are at work, sometimes looking for help and leadership.

At the end of the day, entrepreneurs like me, and communities around the country, cannot do it all.

¹⁵ Amounts are for an Airbus A330.

¹⁶ Hot Air, Jeffrey Simpson, Mark Jaccard and Nic Rivers.

¹⁷ IPCC

¹⁸ IATA, ATAC



Governments—all of them, but mainly Ottawa—have critical roles to play. In fact, government contributions are an absolutely essential piece of the puzzle, because tourism is a bit special. A large number of issues need to fit together: Tourism is about the environment. It's about the protection of sites and landscapes. It's about culture, heritage, institutions. Food and hospitality. It's about education, training, standards, languages. Roads and bridges. Airports. It's about safety. Clean streets, parks. It's about taxes and gasoline prices. Companies, people, communities, NGOs. It's about passports, customs, no-fly lists.

Only governments, and especially Ottawa, have the power to orchestrate so many instruments, and make a winning strategy emerge from them. On all these fronts we need to meet international standards, before turning our attention to outsmarting competition in the marketplace.

Governments, communities and tourism companies must all play an active role. No one can stay on the sidelines. But the burden of leadership can only rest on governments' shoulders. We must then work together and become strategic partners... not only when comes time to plan some advertising campaign, but also in the actual management of all issues that impact on travel and tourism. That's called destination management. To achieve this, we must listen to each other. And I can't wait to see our political leaders pay more attention to what the industry has to say. Canada needs a global strategy for tourism, and strong leadership.