# International tourism and the airline industry: The challenge facing Canada

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Good day ladies and gentlemen,

I am very pleased to be here, to talk about tourism and the airline industry.

Tourism is the largest industry in the world. It generates six trillion dollars in economic activity... and more than 220 million jobs[1]. Two million[2] Canadian jobs depend on tourism, in thousands of companies and organizations in the hospitality, transportation and tourist attraction sectors... That number could grow, depending on a number of conditions that relate mainly to entrepreneurship, marketing... and the economy of course... But also in large part to public policy.

Tourism spending in Canada is more than 67 billion dollars[3] a year, about a quarter of which comes from other countries. Globally, international tourism is expanding fast and steadily. Last year, there were nearly 900 million international tourists worldwide, up 6%. But less than 18 million[4] of them came to Canada, leaving us with a declining market share of 2%.

For sure, tourism is not just an economic sideline. It is a major economic driver. And it is a pity, if not a tragedy, to see it languishing at the bottom of this country's national priorities agenda.

[1] World Travel and Tourism Council
[2] Direct and indirect
[3] Statistics Canada, National Tourism Indicators; see also Canadian Tourism Commission 2006 Annual Report.
[4] Canadian Tourism Commission: 17,974,712 foreign visitors in 2007.

## Canada's challenge

So Canada is at a turning point. Almost all countries are seeing a rise in the number of their visitors, sometimes quite steep. But here, international tourism is generally declining... due to fewer and fewer arrivals from the United States.

Some of the factors explaining Canada's peculiar fate are well documented. First, the stronger Canadian dollar has pushed prices up. And the weaker greenback has made the U.S. a more attractive North American destination. Consider also high gasoline prices, new passport rules, stronger competition from a growing number of destinations, increasingly demanding customers, insufficient marketing efforts and you have pretty much all the elements of the big challenge this industry, and this country, are now facing.

In the past, Canada had done fairly well in international tourism, and without great effort. Until 2004, we were in the top-ten destinations worldwide, thanks mainly to two things: geographic proximity to the U.S. as well as close historical ties with at least two countries—the U.K. and France.

The fact is, many countries have been on a marketing war footing for years. They are now tapping this highly attractive market, quietly eating Canada's lunch.

Our marketing efforts remain very significant by historical standards. The Canadian Tourism Commission orchestrates programs of nearly 200 million dollars per year, more than half of which comes from the private sector. But there has been a paradigm shift. Runner-up destinations are more numerous than before, they spend a lot, and often their product competes head-to-head with ours. Think of Australia, for example, or of Sweden or Scotland.

Obviously, we need to both invest more and refine our strategies.

## Air travel and open-skies agreements

Air travel is part of the solution. Or, should I say, *it can, and must be,* part of the solution. At the moment, I am afraid, it's part of the problem.

Right now, travelling by air is not the most pleasant part of the trip, to say the least. There is a dark cloud hanging over it, composed of waiting lines, congested airports, intrusive security, delays, stressful connections, lost baggage, uneven service.

Given Canada's geographic situation, this cloud is both a tourism barrier and an opportunity.

A barrier, at least potentially. Because international tourists now come from all around the world. The time when 80% of tourists came from a handful of richer countries is over. The day when we could rely on U.S. tourists coming here by car is also a thing of the past, it seems, as that market segment is shrinking. Now, the emerging source-markets are in Eastern Europe and Latin America[5].

So, if people become reluctant to fly, we have a big problem. And that's where this all becomes an opportunity.

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[5] In 2007, Mexican tourism to Canada was up 17.3% (247,106) and non-traditional, overseas markets represented 1.8 million travellers, up 10.5%. The U.S. was down 3.2%, France and Germany were up 1.4%. The UK was up 4.9%.

Canada is a tourism *product*. We must accept this notion that we are a *product*, competing against myriad other products. Dozing on the shelf, in our "great outdoors" livery, merely hoping for buyers to enter the store, won't cut it. We need to be on the sidewalk, marshalling customers inside. We need to seek the tools necessary to tap the growing pool of customers blossoming before our eyes. And a sound, world-class, competitive airline industry is one of the most critical tools.

Working on the tourist experience is also important, of course. We should obviously continue to do that too... We could easily devote an entire symposium to that one only. We are not the only country to have waterfalls, mountains, landscapes and policemen with funny hats, and there is certainly a huge need for making our product even more attractive. But we can compensate some drop in attractiveness with "ease of access". Or extended reach, if you will. In the tourism industry, this means affordability, direct international flights, and cheap domestic air travel.

The tragedy is, we are not even close to having a highly-competitive airline industry by international standards, largely due to short-sighted, if not ill-conceived, public policy. This may be politically incorrect to say, and I certainly do not want to be rude, but I want to be as clear as possible.

I would like to explain this, using Transat as an example. After all, we are one of the few Canadian companies that concentrate essentially on international tourism. Canada's fate as a destination is of great concern to us.

Today, Transat is the fifth-largest, vertically-integrated, international tour operator in the world, with 3 billion dollars in revenues, some 4,000 suppliers in 60 countries, and 6,000 employees.

We are the largest incoming tour operator in Canada. We have nearly 17 hundred suppliers in this country. Our Jonview Canada division, from its Toronto headquarters, distributes packages to Canada in more than 50 countries on all continents. It sold 250,000 such packages last year, and we anticipate even higher numbers in 2008. In these tough times for Canada as an international destination, we are doing everything we can to defend our country's market share.

Air Transat, the largest and oldest holiday airline in Canada, plays a major role in our ability as a country to bring visitors from abroad to Canada. In 2007, we sold seats to Canada to nearly 400,000 European travellers in 10 countries. Travellers who 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 players, as well as from the network carriers.

It is interesting to note, for example, that in the summer we offer services on more than 60 city-pair routes between Canada and Europe, with direct flights to Canada from as many as 32 European airports. That compares with Air Canada’s 20 direct flights from only 8 European airports. There is no better illustration of the difference in business model: we are hungry for foreign *tourists* seeking an affordable direct flight from their hometown. Air Canada targets business travellers who do not mind higher-priced flights and will tolerate connections, as long as they get frequency.

If you live in Bordeaux, or in Manchester, a Canadian vacation is much more tempting and accessible because Transat exists. We are the tentacles of the Canadian tourism industry octopus.

Bottom line: as a company, Transat is at the very forefront of the battle to make Canada a more attractive and competitive tourism destination. Not only do we market the product, but we are extending Canada's ability to put its hand in the cookie jar. Unlike the Air Canadas, WestJets or Air Frances of this world, this is our core business. There are plenty of people travelling the world. And we want Canada to be one of their top destinations.

For Transat, growth will come from our ability to service additional international locations. That's why we are in favour of open-skies agreements: we see them as the right strategy to get greater access to more markets, gain flexibility, and grow new tentacles. For example, we would like to expand our European base, be able to fly from one European country to the other, or access non-EU countries through the EU... all of which would increase our potential to attract more travellers from more countries to Canada. And we are familiar with the price to pay, which is more competition coming here from abroad.

Negotiations with the European Union are ongoing. We expect discussions to also proceed with partner countries in the Caribbean and Asia in 2008. Transat is supportive of these efforts to increase market-development potential for Canadian carriers. We are willing to take the risk of more competition.

However, to do so, we need a competitive domestic tax platform.

## Uncompetitive domestic tax platform

Before opening our skies to more competition from abroad, *we must have this level playing field. And we don't.*

The problem is that Canada sees air transportation as a cash cow. Airport rents, a form of indirect taxation charged by Ottawa to airport authorities across this country are too high. As a consequence, Air Transat pays 11,000 dollars every time it lands in Toronto[6]. In Paris, it's 3,500 dollars. We land 2,000 times a year in each of Toronto and Montreal, which is not the case for our foreign competitors. This gives them a better cost structure, and a huge advantage over their Canadian competitors.

Airport rents, the fuel excise tax and the air travellers security charge drain approximately half a billion dollars from Canada's aviation sector and our passengers every year... *over and above the regular corporate taxes paid by all companies in Canada*. That's a millstone around our neck.

Do you think foreign carriers can leverage their advantageous cost structure to impede our efforts to expand our footprint in *their* home markets? For sure they can.

At the end of the day, public policy should strive to give our industry a head start. It should aim at making Canada more competitive globally in the tourism arena, not less. Right now, we are doing exactly the opposite, concentrating our attention on network carriers that have limited ambitions geographically, because they have alliances with

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[6] Amounts are for an Airbus A330.

foreign partners. Code share services are a nifty marketing tool. It makes connecting travel a little more seamless for business travellers, but it does little or nothing to help us sell a 2-week vacation to Canada in Prague.

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-skies agreement, without a proper balance of commercial opportunities for both foreign and Canadian air carriers, could also backfire, intensify our problems and damage the tourism industry in numerous communities across Canada.

Canada is a small market and has few bargaining chips. That's why we absolutely need to be smart, if not ruthless. Anyway, at the very least, let's not give away the farm right from the start. We were astonished to learn of a recent recommendation by Canada's Commissioner of Competition to unilaterally open Canada's domestic airline market to international competition. Such talk would get our temperature taken in emerging trading powerhouses like China, Singapore, Brazil and India.

That approach would pit Canada's *overly-taxed* and *unsubsidized* aviation industry against its *heavily subsidized* – and, in some cases, *state-owned* – competitors in the U.S., Europe, Middle-East and Asia. The result of such a policy would be to tie one hand behind our backs and ask us to fight... Not exactly an attractive perspective.

The Canadian travel and tourism industry can compete against any one in the world, but we need a fair fight. While fuel and labour make up the largest segments of an airline's cost base, it is government fees and taxes that do the most damage, because passengers ultimately pay the price but get nothing in return.

The Commissioner should note that Canadian taxes in the field of commercial aviation are wildly out of line with those of our major competitors. We can only hope, at this point, that her intervention has not undermined Canada's negotiating position in its current open-skies negotiations with the European Union.

## The airline industry and air travellers as cash cow

This notion of airlines and air travellers as some sort of cash cow is popular in other countries too, although Canada is likely a world champion in this area.

In 2006, France introduced its so-called solidarity tax on airline tickets. The idea is to fund social programs in poor countries, including fighting AIDS, for example. France has called on other countries to implement a similar tax. Fortunately, few have so far followed suit.

Of course the cause is noble. But on what grounds can a country impose philanthropic donations not only on its citizens, but on all travellers? Such a mindset is rooted in the notion that air travel was once restricted to the rich. Obviously, this is totally out-of-whack with today's reality. So, the C.D. Howe Institute pointed out, the French tax is regressive. And it could even have a negative impact on developing countries, whose prosperity is dependent on global trade and tourism[7].

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[7] Excess Baggage: Measuring Air Transportation's Fiscal Burden. Ben Cherniavsky, Benjamin Dachis, C.D. Howe Institute, February 2007.

The next wave of arbitrary fees imposed on the industry has started. The pretext this time is the environment. More specifically, greenhouse gases.

Some are highlighting the growing carbon footprint of airline travel, which I suppose is fair. But some have gone further, asking for all sorts of costly measures to discourage people from travelling. *This* is irresponsible.

98% of global carbon emissions do not come from the airline industry[8], which in fact has been one of the most responsible in terms of reducing its impact.

Per-passenger emissions have improved by 70% in the last 40 years[9] and are continuing to do so. IATA member airlines achieved their goal for a 10% improvement between 2000 and 2010 ahead of schedule in 2006. And a 25% reduction in fuel consumption is forecast between 2005 and 2020.

Right now, airlines use between 3 and 4.5 litres per passenger per 100 kilometres. This is the equivalent of driving a very fuel-efficient compact car. And I am glad to report that tourism companies like ours have the best performance of all, thanks to higher load factors. For example, Air Transat, which has developed a world-class fuel-saving program, burns 30 to 40% less fuel than some network airlines on a per-passenger basis.

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[8] IPCC

[9] IATA, ATAC

As a matter of fact, the airline industry has a stellar track record of continuous improvement. No other industry is as committed to controlling and reducing emissions.

Nevertheless, this criticism is the flavour of the day. Several countries have implemented, or are threatening to implement, a green tax. In 2007, it was the UK, which doubled its so-called airline passenger duty from 20 to 40 pounds in economy class, and to 80 pounds in premium. And even if the environment was invoked as the reason, no one can, to this day, explain how it benefits from the tax. The rationale, apparently, is: since you can't order people to stay home like in North Korea, make the trip so expensive that you achieve the same end.

If governments were serious about carbon emissions, they would start addressing airport congestion and airspace management problems. It has been estimated that 12% of global aviation carbon emissions could be eliminated that way. But nope... adding another layer of taxes is so much easier, even it means slowing down a vital economic and job-creating engine.

Discouraging people from travelling is not the right strategy. And, above all, it won't work. Our civilization has thrived from cultural interaction. And from the desire of people to see and experience the world. Travel is more affordable than ever. And future generations will continue to respond to this basic human call to travel, despite misguided attempts by governments and others to do otherwise.

It seems to me to be a much wiser strategy to fully leverage the power of the travel and tourism sector. To unleash its capacity to create economic activity and wealth, so that we can fund further research and actually accelerate the fight against climate change in a material manner.

## Conclusion

In conclusion, in Canada we have what is needed 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 issues. Do we have the products people are looking for? How can better promote ourselves? 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.

Do we need to better tackle the whole sustainability issue? Of course we do.

But as Canadians, our geographic position is what it is. Our future as a tourist destination relies heavily on airline transportation, our level of "connectivity" to the world, and the reach of our tentacles. A strong Canadian airline industry is essential to helping reverse the trend in travel and tourism. Scope, direct service, frequency and affordability are, and will remain, the key drivers. To achieve this, we need sound public policy.

Thank you.

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