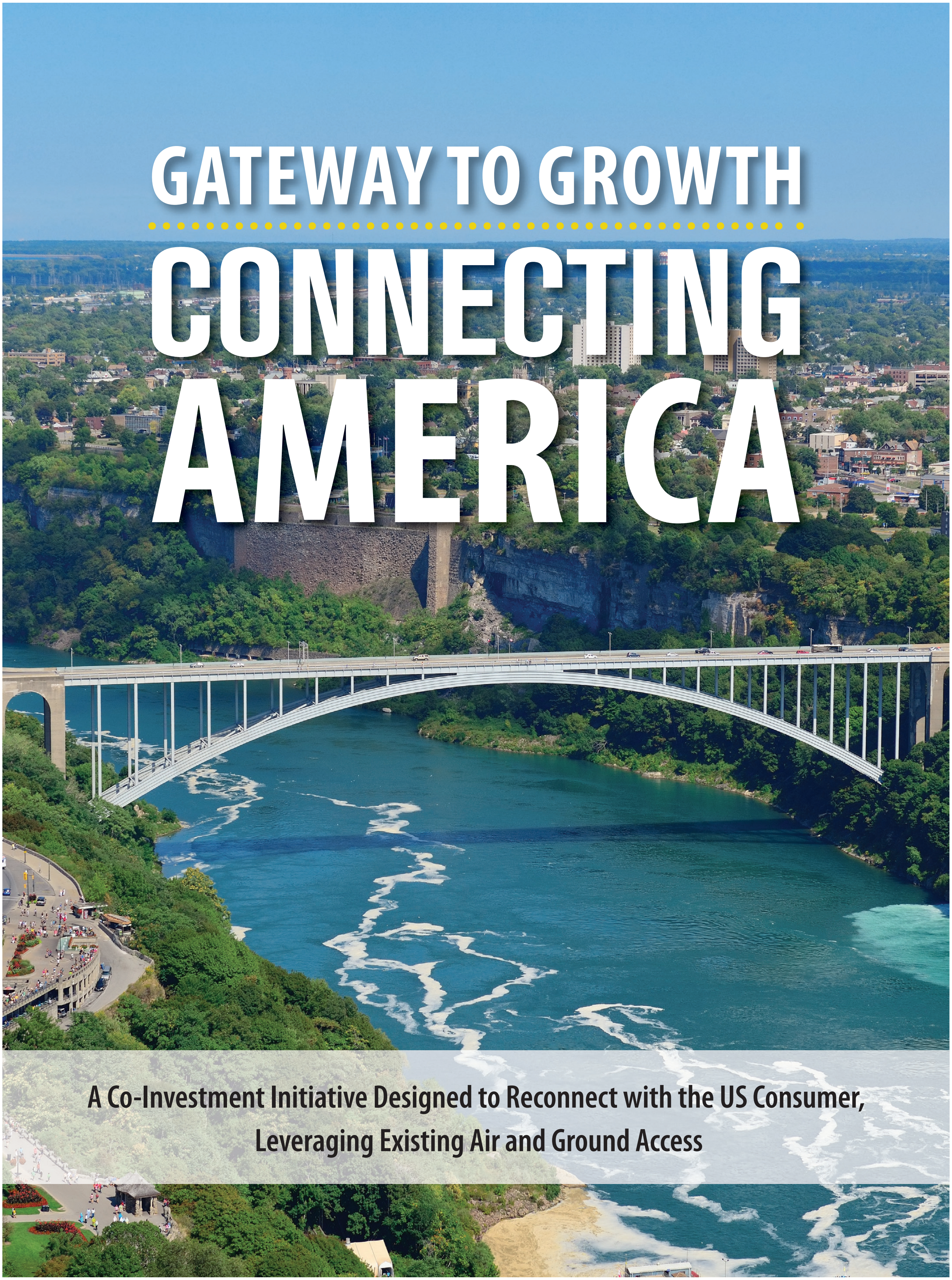
GATEWAY TO GROWTH

CONNECTING AMERICA



A Co-Investment Initiative Designed to Reconnect with the US Consumer, Leveraging Existing Air and Ground Access

INTRODUCTION

Connecting America is an industry sponsored proposal for a new three-year coordinated, targeted and measurable tourism marketing co-investment initiative. This unprecedented CTC- lead campaign will re-energize the US consumer, utilizing existing air and ground access:

» Proposed federal marketing investment of $105M (3 years x $35M) will be matched 1:1 by Provincial, Local and Private sector investment = $210M campaign over three years

» Generating $210M in federal tax revenue alone

» Providing or sustaining over 6,000 direct jobs from coast to coast

BACKGROUND

Canada's tourism product is spectacular, consistently regarded as one of most desired destinations in the world with one of the most respected and valued country brands. Yet international visitation to Canada contracted over the last decade by over 3 million visitors annually while our competitors experienced double digit, year-over-year growth.

Successful businesses have a few key elements in common; a quality product, a respected reputation, a competitive voice in the marketplace and a reliable delivery/distribution system. Tourism is an export sector with a unique distribution model; rather than bring its product to market product, tourism brings the market to the product by air, land and sea.

Travel and tourism is among the highest performing sectors of the global economy, experiencing average growth of 4% and generating over $1trillion of annual revenue. Over the last decade tourism has experienced a global monumental transformation. There are now millions of travellers from countries with emerging middle classes who were previously unable to or couldn't afford to travel abroad.

The emergence of affordable air access to new exotic destinations, social media commentary from first person experiences, and increased investments in national marketing initiatives have made the competition for global market share extremely fierce.

Through the Global Commerce Strategy, Canada has expressed its commitment to market diversification and some progress has been made through recent government actions and investments to open new markets, improve visa facilitation and air access agreements (Brazil & China). However, in 2012, Canada's inbound growth was only 1.7%, just less than half the international average. This under-performance – due, in many cases to fixable policy barriers – is contributing to an innovation and investment deficit that, if unaddressed, will further erode future competitiveness.

International visitors provide incremental growth to the economy and generate greater yield (longer stay and higher spend). On average, visitors from Canada's top 10 international markets spend $1,547 per trip compared to $260 for domestic visitors. Moreover, tourism has been definitively linked through international studies to the advancement of other export industries.

Since 2001, international incidents have drastically changed the operational and policy reality of global tourism. Despite these obstacles tourism continues to be a global economic leader. However, Canada has not kept pace with global practices thereby resulting in a reduction in international tourism from 35% to 20% of total demand.

The Canadian travel and tourism industry is over-reliant on domestic travel. Over 80% of its revenue is derived from Canadians travelling within Canada, up from 65% just a decade earlier. Furthermore, the domestic market is at risk as Brand USA and other countries' tourism marketing boards significantly increase their marketing investments to lure the lucrative Canadian traveller outside of Canada's borders.

KEEPING PACE WITH THE WORLD-TARGETING 4% GROWTH

Over the past decade Canada's international arrivals have dropped by nearly 2% - far below the global average growth rate of 4%. If Canada were to just keep pace with the global average growth of 4% it would increase annual international inbound visitation by over 650,000 and generate significant economic benefits across several economic sectors in every region of the country including $150+ million in additional government revenues.

	1.7% Decline[1]	4.0% Growth	7.0% Growth
Change in Arrivals[2]	-267,060	638,880	1,118,040
Change in Spending[3]	$-205,102,241	$490,659,840	$858,654,720
Change in Room Nights[4]	-218,504	522,720	914,760
Government Revenues Attributed		$151,368,561	$264,894,981

1. Based on the average annual change from 2000 to 2012
2. Decline/Increase from 2012 level.
3. Based on 2012 spend per overnight visitor of $768.
4. Assumes 45.0% of overnight visitors stay in paid accommodation; an overnight visitor stays (on average) 5 nights; and a hotel room accommodates 2.75 persons.

Source: HLT Advisory Inc.

The diversification of our export markets is critical to long-term sustainability and Canada has made strong gains in markets like China, India, Brazil and Mexico. These markets are exclusively long-haul, higher yield but lower volume driving only a certain band of demand. While time and maturity will enhance their performance, these markets continue to have structural barriers like visa requirements and air access issues. In other words, marketing alone cannot drive these markets; a concerted and coordinated approach to improve travel documentation and air lift are required to drive international visitation.

Canada's path to 4% annual growth requires a competitively resourced national marketing agency that balances key markets (including the US), a reduction in the cost of air travel to and within Canada and a modernized traveller documentation process.

From a national marketing perspective, consecutive budget cuts have resulted in a re-prioritization of investments into emerging markets and traditional overseas markets and a complete withdrawal from US leisure marketing. An adequately funded and balanced marketing strategy between emerging and traditional markets is needed for Canada to realize its competitive potential and achieve a minimum of 4% annual growth in the short- to medium-term.

A CASE FOR RE-ENGAGING THE US MARKET PLACE

The public policy barriers currently impeding Canada's competitiveness will not be resolved overnight. In the interim Canada remains vulnerable to heightened domestic marketing competition from the US and from unexpected challenges such as the recent strike action taken by federal employees responsible for processing visitor visas.

There is strong support across the tourism industry for supplemental measures to attract international visitation from visa waiver countries. In fact, conditions have improved in the United States making this an opportune time to re-engage the US traveller with a concerted marketing program designed to return significant economic benefits to Canadians.

Inbound US visitation has been on the decline since 2001, but is poised for a rebound with the right connectivity strategy. US travelers have adapted to the post-911 policy reality which included mandatory passport ownership for citizens seeking re-entry into the United States under the Western Hemisphere Travel Initiative. Today, over 120 million Americans own passports, US outbound travel is up 3.4%, the US economy is recovering, US currency is at a premium to the Canadian dollar, Americans are visa exempt and there is interest in establishing new routes if demand exists.

A recent Canadian Industry Survey conducted by Nanos Research, reported 57% of respondents list the United States as their top marketing priority, placing six times greater than the next second place market of China. As well 54% respondents chose the US as their top priority country for growth.

PROPOSAL

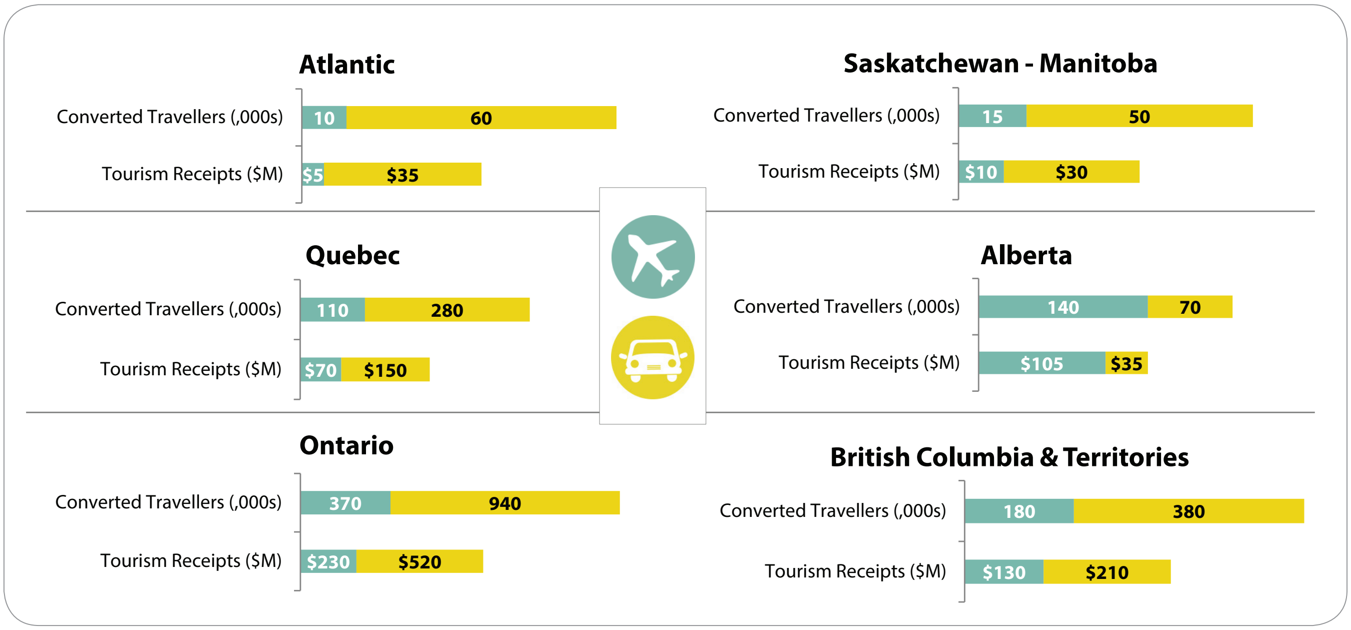
Canada's travel and tourism industry is committed to diversifying its marketing investments into emerging markets which hold high long-term potential for Canada, but offer short-term challenges in immediate return on investment and overcoming policy issues that impede performance. While TIAC is confident that this approach will yield strong benefit for Canada in the medium-term, to achieve more immediate return and impact to Canada's tourism economy, it is recommending a new, fully matched private/public national marketing partnership campaign in the US lead by the CTC. This campaign will help to reverse the significant loss of US land arrivals and leverage the growth in outbound US air travellers.

To augment existing CTC campaigns in developing markets, Canada's tourism industry is recommending the creation of a co-investment model marketing initiative into the United States to increase international visitation in the immediate term. *Connecting America* would be a new 3 year, $35+M/year federal investment to lever matching funds from the tourism sector in a fully aligned, fully matched private/public CTC-lead national marketing campaign in the US to provide immediate returns for Canada's tourism economy. The initial $35M will be matched by industry, generating $210M in federal tax revenue over a 3 year period. This campaign will utilize "city pairs" to increase visitation from key regions across the US directly into almost every key Canadian international airport.

CANADA'S TOURISM POTENTIAL	YEAR 1	YEAR 2	YEAR 3	TOTAL
Converted Travellers (,000s)	440	850	1,360	2,650
Tourism Receipts ($M)	250	500	810	1,560
Federal Government Revenue ($M)	30	70	110	210
Jobs Supported	1,900	3,700	6,000	---

A strategically aligned, well-funded 3 year campaign, *Connecting America*, will radically change how Canada approaches the US Market. The program will introduce them to wide-range, interesting, international exotic experiences, including natural vistas, world-class cuisine, cultural and historic adventures, hunting and fishing within a few hours' flight or drive from home.

Travel and tourism is economically important to every region across Canada. *Connecting America* will target high-yield travelers from key US regions within a four hour drive of a border point, or an airport offering direct or one-hop access into every province in Canada. These travelers act as influencers, whose habits trend to the mainstream fairly quickly. Early research suggests that marketing in regions that support six key US airports will reach 17 key Canadian airports in almost every province with one hop to the Territories and Newfoundland. American travelers will then be encouraged to explore regional experiences.



Connecting America will drive an estimated $1.56B in incremental tourism revenue, 2.650M incremental visitors and sustain an additional 6,000 Canadian jobs over 3years. This added demand is the impetus for investments in hotel real estate, product innovation, infrastructure renewal, additional flights and airlines to Canada and overall increased competition. These are all factors that drive real and sustainable economic development, jobs and prosperity for Canadians.