ROAD TRAVEL REBATE INCENTIVE PROGRAM FOR INCREASED TOURISM REVENUE

Canadian border towns face serious economic challenges in an era of expanding online commerce and a significant sales tax percentage differential between Canada and the United States. However, a simple and cost-effective Road Travel Rebate Incentive Program (Road TRIP) such as the one championed in recent years by a broad range of political leaders and industry stakeholders could increase Canadian revenue and employment considerably. These economic benefits would accrue overwhelmingly to the Canadian border towns where they would make the maximum positive impact.

Over the past decade, these border communities have suffered the consequences of high gas prices, increased competition from American and online retailers charging lower sales taxes, a depressed American economy, and tightened border security following the September 11th terrorist attack on the World Trade Center. The combined effect of all of these factors has been disastrous for the Canadian border towns that depend on the jobs and revenue stimulated by American tourists.

Since 2002, Canada has experienced an overall 23.9% decline in American visitors. If that statistic were not troubling enough, the picture darkens considerably when it focuses on the specific experience of Canadian border communities during that same period. Same day visitors, who are understood to be mainly road travelers, have declined by a full 55.9%. Furthermore, depressed border tourism tends to affect small and medium-sized businesses severely. Using Duty Free retailers as an example, these tourism-dependent outfits have experienced an approximate 40% decline in sales since 2002.

However, the conditions are currently ripe for reversing this trend. The US economy is recovering from its long recession with a stronger dollar, lower gas prices, and Americans who are ready to travel again. In fact, the number of Americans carrying passports today has doubled since 2008 to reach 100 million. Despite declines over the past decade, the US remains Canada's largest source of tourism and shopping ranks among the top three reasons for traveling to Canada, so these travelers are predisposed to enrich the Canadian economy. The Canadian tourism industry is poised to capitalize on these promising conditions by mounting robust new marketing initiatives. In particular, the Tourism Industry Association of Canada's industry-championed 'Connecting America' initiative is reaching out to Americans living within a four-hour drive of a border crossing in order to increase Canada's gross receipts from tourism by a projected $1.5 billion.

In this context of serious challenge and emergent opportunity, Road TRIP has the potential to reinforce positive trends with little to no government cost and a simple plan for implementation and monitoring. Initially proposed by the Frontier Duty Free Association, this 3-year pilot program would provide cross-border visitors with a rebate of the 5% Goods and Services Tax (GST) on goods verified as exported from Canada. These 'traveler incentive' rebates would be processed in the Canadian land border Duty Free shops where the Canadian export status of the goods can be verified. If implemented, Road TRIP would be aggressively marketed to American tourists with a 'Take 5' (5% tax rebate) campaign that would work in tandem with the overarching 'Connecting America' initiative. With this approach, Canada could stand to once again become an attractive destination for American shoppers who have been dissuaded by large sales tax differentials of as much as 15%.

Econometric Research Limited's (ERL) 2014 study of Road TRIP's projected economic impacts led the esteemed consulting firm to offer its unqualified endorsement of the program. They found that demand for tourism exports appears to be generally price elastic, meaning that a 1% reduction in the cost of Canadian export goods causes a larger than 1% increase in demand for such goods. Given this elasticity of demand, they determined that the 5% rebate could cause tourism flows to rise incrementally by up to 620,000 visits annually. In this scenario, Canadian Gross Domestic Product could rise by up to $89.6 million; workers could experience wage and salary increases of up to $55.6 million; and up to 1,374 Full Time Equivalent

Jobs could be created. Struggling border communities would capture the lion's share of these gains, experiencing transformative and sustained benefits.

While Road TRIP represents a potentially game-changing deal for border communities, its cost to the government is projected to be negligible. ERL estimates that cost to fall between $5.2 and $9.0 million in GST rebates, a sum that is handily offset by increased tax revenues from economic growth. In fact, in a high elasticity of demand scenario, those tax revenue increases could exceed $40 million. Even according to the most conservative calculations and under the most adverse conditions, Road TRIP would remain revenue neutral.

Finally, Road TRIP promises to be lucrative without being administratively onerous. Duty Free retailers can easily and effectively implement the program since they have the existing capacity to verify export goods and award rebates at a time close to actual purchase. Also, they are well positioned to recapture a good portion of these rebates and increase sales of Canadian products. Duty Free operators report that up to 60% of customers who are awarded rebates will spend them in their shops, where Canadian-made goods like wine, ice wine, maple syrup, and crafts predominate. Furthermore, the Duty Free industry is able to track the data the government will need to conclusively assess the program's cost and benefits.

Since the benefits of a tourism-boosting initiative like Road TRIP are so clear, it should come as no surprise that many of Canada's competitors in the global tourism market have already adopted similar programs. Rivals such as Great Britain, India, and the European Union are already enjoying a competitive advantage over Canada thanks to their tax rebate programs for international visitors. Given the exponential changes taking place in the global tourism market—25 years ago, only 10 countries were contending for tourism dollars, while today over 100 countries are vying for market share—the Canadian tourism industry needs to secure competitive advantage whenever and wherever it can. For this reason, members of Parliament, several chambers of commerce, municipal politicians, industry stakeholders such as the Tourism Industry of Canada and the Retail Council of Canada, and scores of key duty-free supplier companies are strenuously championing the Road TRIP 3-year pilot program.

THE CHAMBER RECOMMENDS:

That the Federal Government:

1. launch a 3-year pilot project for a Road Travel Rebate Incentive Program that would make international visitors eligible for a rebate of 5% GST on goods exported from Canada;

2. authorize Duty Free operators to process these rebates, and track the data necessary for assessing the program's costs and benefits.