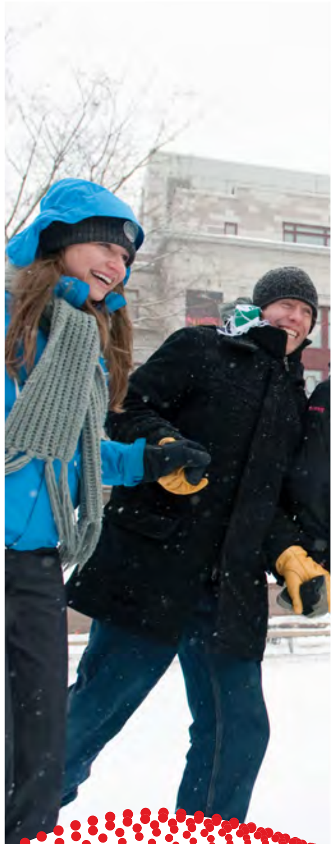




Unlocking the Potential of Canada's Visitor Economy

December 2018

Introduction

Every day, more than 57,000 international overnight[1] visitors stream into Canada, drawn by our safe, secure cities, friendly people, and remarkable natural parks and wildlife. These visitors are welcomed by hundreds of thousands of Canadians who work in our tourism sector, and who show off the very best our country can offer. From our largest cities to our most remote wilderness, and from world-class resorts and convention centres to the family-run bed-and-breakfast, there are few places in Canada that tourism does not touch.

It has been said that "the world needs more Canada." Tourism into and within our country reflects that the world *wants* more Canada—tourists describe our country as a place that they are "proud to tell people I visited." Canada is, after all, a welcoming, cosmopolitan nation made up of people from all over the world, with a country brand that emphasizes shared values of diversity, equity, optimism and safety. Unsurprisingly, then, over the past several years, the country has seen impressive growth in international arrivals and tourism spending.

Canada has also benefited from the fact that the tourism sector is booming globally. Since 2000, tourism has been growing approximately three to four times faster than population,[2] and about 1.5 times faster than global GDP[3] – a trend that is expected to continue into the mid-2020s.[4] In fact, in 2017, the travel and tourism sector posted a 4.6% growth rate[5], exceeding a global GDP growth rate of 3.7%.[6] This meant that the sector outpaced global GDP growth for the seventh successive year, even as the world observed the strongest GDP growth in a decade.

However, there is ample evidence that Canada's tourism potential remains significantly underdeveloped. Growth in Canadian tourism has lagged global growth for three of the last four years.[7] Tourism also represents a much smaller fraction of Canada's exports compared to peer countries like the United States, Australia, the United Kingdom and Japan.[8] And as this report describes, Canada is not capturing its "fair share" of the growth in the sector globally. In fact, there is an opportunity for the country to more than double its current number of international arrivals and their associated revenues by 2030.

While Canada can significantly raise its tourism aspirations, the potential of the sector cannot be achieved overnight, nor can it be unlocked through the actions of governments or the private sector acting alone. The challenges are significant, including concentrated demand, limited transportation options, labour shortages, and lack of attractive investments. Addressing these issues will require a new approach to coordinating the efforts of all levels of government, and all sizes of tourism operators.

In short, the world is ready for more Canada. Now it is time to make Canada ready for the world.

The purpose of this report

In its February 2017 report, the federal Minister of Finance's Advisory Council on Economic Growth identified tourism as one of eight key sectors where "Canada has a strong endowment, untapped potential, and significant global growth potential."[9] The Council recommended that government and businesses take a targeted, collaborative approach to building each of these sectors.

Given the outsized importance of tourism to Canada, and the substantial growth opportunity of the sector, this report is intended to stimulate discussion about the structure, performance and potential of the sector, and introduce possible avenues to grow Canada's visitor economy.

McKinsey & Company provided fact-based research and analysis to support the development of the findings presented in this report, in collaboration with Destination Canada.

Tourism is one of Canada's largest economic drivers

Canadians may be surprised to learn that **tourism is one of the nation's largest economic sectors,** generating total revenues in the order of $98 billion annually,[10] and accounting for 2% of Canada's GDP.[11] The sector contributed an estimated $27 billion in tax revenues across all levels of government in 2017.[12] It is also one of Canada's most geographically diversified sectors, with a significant presence in all of Canada's provinces and territories.[13]

Five star contribution to community

A 29-suite, luxury accommodation located off the North East coast of Newfoundland, Fogo Island Inn has supported the renewal of its community. "With the demise of the fishing industry a couple of decades ago, there was a need to reinvigorate the economy on the island in order to keep people from leaving," says **Alexandra Sklierenko**, sales manager of Fogo Island Inn. Directly employing over 150 people, Alexandra says the indirect benefits are equally significant as the Inn sources everything from food to fish to lumber from the across the community. "New industries have been created as a result of the Inn being on Fogo Island," she says, noting that every dollar of revenue generated by Fogo Island Inn has 3.9 times the impact on the GDP. "The economic benefit is huge."

Tourism is a rich source of jobs for Canadians. With a presence literally from coast to coast to coast, nearly 1 in 10 jobs in Canada is tied to tourism.[14] Many jobs in the sector are skill-intensive, high-paying jobs, including management roles at hotels and airlines, data analysts, organizational travel managers, and meeting and event planners. These jobs exist across a range of industries such as food and beverage services, accommodation, transportation, recreation and entertainment, and travel services. Most tourism jobs are also resistant to automation, requiring a high degree of human involvement for the foreseeable future. The sector also offers ample entry-level opportunities for young people looking to start their careers (see feature section below); for new immigrants, employment in tourism can be a pathway to integrating into the Canadian workplace.

From Concierge to Account Executive

Mitémo Chevalier has made a career as a tourism ambassador. He started his journey as tour guide in 2006, proudly sharing his pride for his hometown of Québec City with others. While undertaking International studies, which grew his understanding for the guests that he welcomed, he continued to guide. At that point Mitémo also under took a job as hotel concierge, deepening his skills and appreciation for the power of tourism. His education and formal experience collided when he joined the team at Tourisme Charlevoix, as a project lead for international marketing, offering a new platform to connect with travellers through stories. He is now a proud member of le Carnaval de Québec, where he works as an account executive. He describes his current role, and a common thread throughout his career, as a privilege – as he says: "We bring happiness into the lives of others".

Tourism also offers significant entrepreneurial opportunities. Small and medium-sized enterprises make up 99% of the companies in Canada's tourism sector.[15] There are further opportunities to grow tourism businesses in many communities across the country, including urban centres and rural areas, considering that there are relatively few barriers to entry. Tourism is a particularly noteworthy opportunity for Indigenous-owned enterprises, as international travellers are seeking authentic, unique tourism products tied to the land and its peoples.

Tourism, including conferences and events, also helps **stimulate trade between countries** as it enables face-to-face meetings that are crucial to overcoming linguistic and cultural barriers. Through tourism, business people develop the connections and trust necessary for trade relationships. Tourism can also build familiarity with a country's products and help boost foreign demand for these goods—for example, German tourism in Spain has helped stimulate demand for Spanish wines in Germany.

While it may seem counterintuitive to think of tourism as an export, given that the only thing that leaves the country is tourists at the end of their stays, the fact that foreign currency is used to purchase Canadian services makes tourism an export by definition. In fact, **tourism is Canada's largest service export,** worth $21.3 billion in 2017,[16] and making up 19% of total service export revenues.[17]

In Canada, **there is a clear positive relationship between international arrivals and exports in the subsequent year:** a 1% increase in arrivals to Canada leads to growth in Canadian exports by $817 million over the following two years,[18] as well as an increase in the range of goods and services exported.

One of the under-appreciated benefits of **tourism is that it can function as an economic stabilizer.** When sectors of Canada's domestic economy are down, Canada can still benefit from tourism from other countries whose economies are performing well. The fact that Canada is drawing tourists from an increasingly diverse mix of source countries also enhances this stabilizing effect.

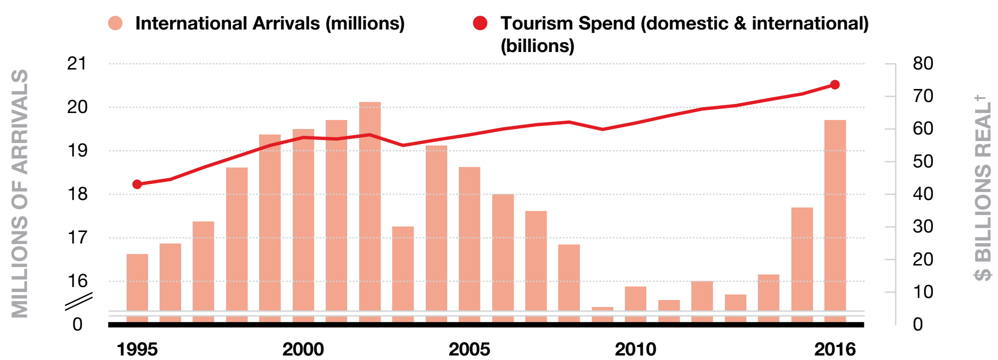
Moreover, tourism can have non-financial benefits for Canada. It **supports cultural preservation, including heritage sites and Indigenous communities.** It can introduce Canadian ideas to the world, and new ideas to Canada: convention bureaus and local communities that bring international meetings to cities build Canada's global reputation, promote innovation, and connect top thinkers, innovators and researchers.

Despite recent successes, Canadian tourism still has far more potential

After a lost period between 2003 and 2009 when annual international arrivals to Canada declined from 20 million visitors to less than 16 million, tourism to Canada has recently returned to growth.

Over the five-year period from 2011 to 2016, international arrivals grew by 25%, from 16 million visitors per year in 2011 to almost 20 million in 2016.[19] Tourism spending also increased at approximately 2% per year over the same five-year period, setting a new high for tourism spend in Canada.[20]

INBOUND TOURISM & TOURISM SPEND EVOLUTION



† Sum of business tourism spend and leisure tourism spend as reported by WTTC, this includes travel within a country by residents and international visitors.

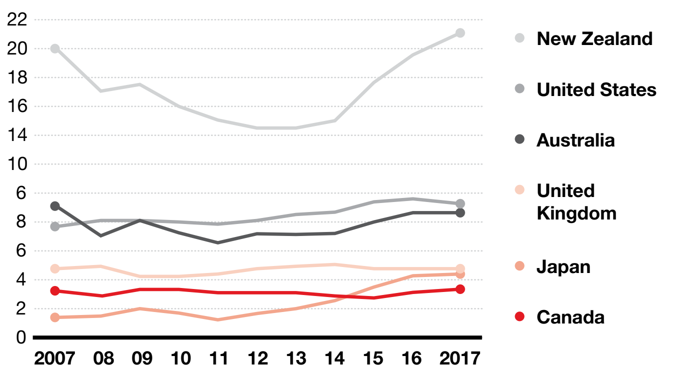
In addition, **the sources of tourism to Canada have diversified:** while Canada saw 81% of its international tourists coming from the United States at its previous peak in 2002, this has dropped to 69% in 2017. Tourists from Europe and Asia now represent over 25% of overnight arrivals to Canada,[21] while over 50% of total international tourism spend in Canada now comes from countries beyond the United States.[22]

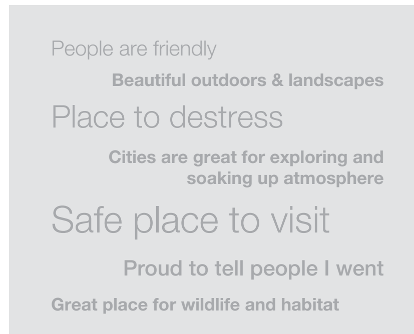
Moreover, **Canada has the brand and reputation that make it a top destination.** *Lonely Planet* named Canada its number one country in 2017; *National Geographic Traveller* magazine put "Cool Canada" on the cover of its "21 must-see places for 2017" edition; and *Travel+Leisure* magazine named Canada its 2017 "Destination of the Year." *Condé Nast Traveler* and *The New York Times* have also recently published glowing pieces about Canada.

However, **Canada's tourism sector is responsible for a relatively small percentage of the country's total exports** compared to peer countries which also have large, diversified economies including the United States, Australia, the United Kingdom and Japan (see graph below).[23]

FOREIGN VISITOR EXPORTS

% OF TOTAL EXPORTS





Potential visitors describe Canada in positive terms.

In addition, other countries are outperforming Canada in attracting tourists. From 2013 to 2017, global tourist arrivals increased 26%, while Canadian tourist arrivals increased 36% over the same period.[24] While Canada has met or exceeded global growth in recent years, other countries have done even better. In that same 2013–2017 time period, Japan saw a remarkable 182% increase, and Iceland saw a 203% increase in arrivals![25]

How tourism has transformed Iceland and New Zealand

Over the 10 years since the global financial crisis, **Iceland's** economy has recovered, driven in no small part by a huge influx of tourists who have been drawn in part by its attractive exchange rate and desolate volcanic scenery (which got substantial media coverage due to the 2010 eruption of the Eyjafjallajökull volcano, and from being featured in numerous Hollywood movies such as Prometheus, Oblivion and Interstellar). The country developed its "Promote Iceland" strategy in 2013, setting a ten-year strategy through 2023. It is "a public-private initiative established to lead the promotion and marketing of Iceland in foreign markets, and stimulate economic growth through increased exports." Because of the environmental impacts of Iceland's large influx of tourists, the strategy is particularly focused on green tourism, setting a mission of becoming "a leading global sustainable tourism destination, offering a distinct year-round product encapsulating the unique natural and cultural attributes of Iceland."

As seen in the chart above, tourism has become an increasingly important part of **New Zealand's** exports, growing from 15% of exports to 20% in just four years. This growth was driven in part by the country's "Tourism 2025" strategy, which was developed by the Tourism Industry Association with strong government backing, and initially released in 2014. The strategy was so successful that it was updated again in 2016, and is now being updated again to reflect changing priorities due to record growth, increasing investment needs to keep up with growth, and to place a greater focus on sustainability.

Canada can dramatically grow its tourism sector

While global tourism growth is expected to surpass global GDP growth through the mid-2020s, driven by the new middle class in emerging markets, increased and cheaper air services, and increased resiliency of travel to shocks like terrorist attacks, these trends are expected to taper off, with a result that global tourism will grow by an average of 2.9% per year from 2020 to 2030.[26] Tourism to North America is projected to grow more slowly, at a still respectable 1.4% per year from 2020 to 2030.[27] These growth rates set an absolute minimum at which the tourism sector in Canada should be expected to grow.

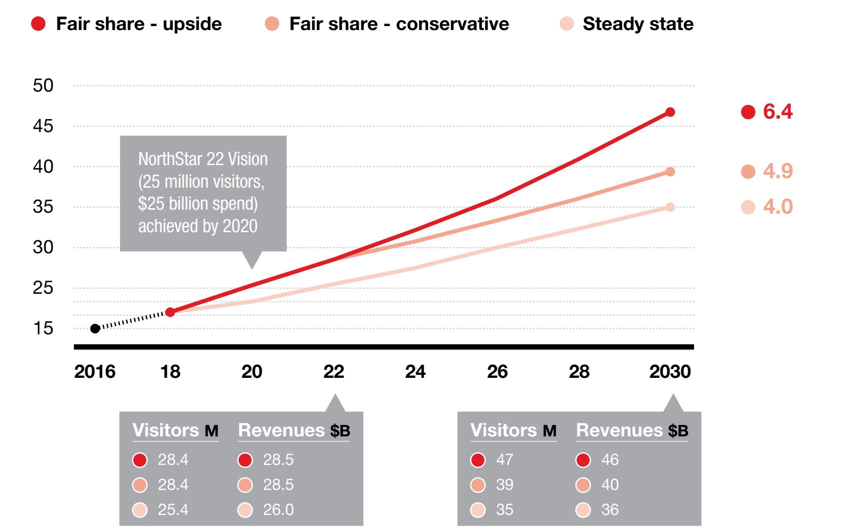
However, detailed modelling[A] shows that tourism to Canada can grow much faster than the global or continental projections—by a minimum of 4.0% per year, to up to 6.4% per year through 2030 (see exhibit below). This modeling estimates the "fair share" of travellers from 180 countries that Canada could reasonably be expected to attract. In other words, the fair share is the fraction of global tourists that Canada can attract, given Canada's characteristics relative to those of other countries, and how the behaviour of source markets is expected to evolve.

PROJECTED GROWTH BY SCENARIO*

* Does not include any additional value created by focusing on higher value segments.

SCENARIOS	
Fair share - upside	Potential growth: incorporates past market share and improving performance in individual markets where potential exists based on a median of four modelling approaches.
Fair share - conservative	Potential growth: assume reaching fair share by 2022, and return to steady state growth from 2023 to 2030.
Steady state	Assumes Canada's growth forecasted from 2017 to 2022.

ARRIVALS, MILLIONS; SPEND, $ — CAGR, %



While current sector targets (the Destination Canada-led NorthStar 22 vision[28]) aspire to 25 million international visitors with $25 billion in spend by 2022, this analysis suggests that is achievable by 2020. In fact, the analysis of Canada's fair share suggests that by 2022, Canada could see 28.4 million visitors with $28.5 billion in spend!

Under the right circumstances and with the right choices by governments and business, international arrivals could grow by 124% over 2017 levels to about 47 million by 2030. Relative to tourism export revenues in 2017 of $21.3 billion, this scenario would result in an incremental gain within Canada's visitor economy of between $15 billion and $25 billion per year attributable to tourism export growth. This would translate between 110,000 to 180,000 more jobs across the country to support this additional tourism demand.[29]

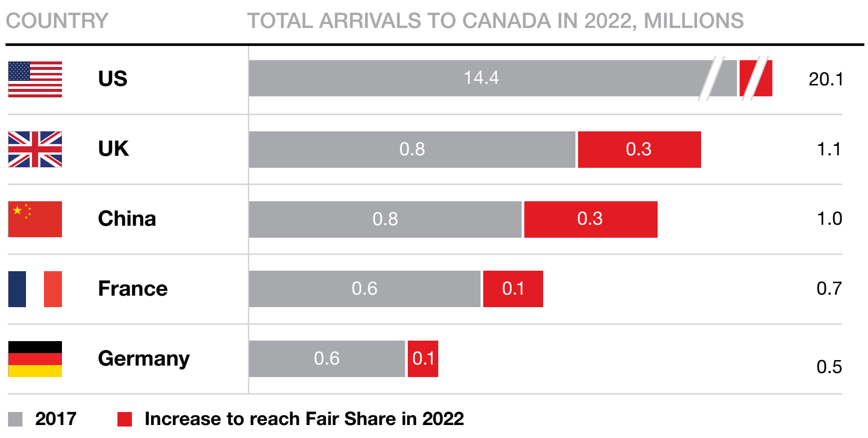
A —
McKinsey's proprietary Fair Share tourism model draws on data from Oxford Economics, including past arrival and outbound visit volume for 180 countries, and annual growth projections for each country through 2022. Using a multivariate analysis, it calculates Canada's past share from all source countries, and estimates future potential share using the median CAGR of four estimation methods:

1. The higher of each source market's historical market share, most recent annual market share, and Oxford Economics' growth projections
2. Each source market's best-in-class 5-year projected growth performance from within a peer set
3. The highest current market share within a market cluster where people have similar behaviours and are geographically proximate (for example, Denmark , Finland, Norway and Sweden form a Scandinavian cluster of similar travel preferences)
4. The same approach as in number 1 above, but applying to long haul travel only (6+ hours of travel between origin and destination)

While the United States would continue to dominate as Canada's largest source market for foreign visitors, the fair share analysis indicates that there are substantial opportunities to increase the number of tourists to Canada from the United Kingdom, China, France, Germany and Australia.

China would, in all modelled scenarios, be the fastest growing source of inbound visitors. The number of Chinese visitors (including from Hong Kong and Macao) to Canada tripled from 2007 to 2017,[30] and can grow by another 40% by 2022 based on the fair share analysis. It is difficult to overstate how important the Chinese market is: China is now the world's largest outbound travel market as measured by trips and expenditures, a market which is expected to continue to grow at 5.4% per year through 2020.[31] Over the last seven years, one in five new international tourists is a Chinese national.[32] Chinese tourists are not only numerous but valuable: more than 70% of Chinese tourists travel with family and friends, and have the highest international spend per trip among global travellers.[33]

TOP 5 SOURCES OF TOURISM TO CANADA



Source: McKinsey Fair Share Model

However, this growth potential can only be achieved if we address some significant obstacles to growth.

Five challenges must be addressed if Canada's tourism sector is to achieve its economic potential

Canada's tourism sector faces five key challenges: demand is concentrated, access is difficult, labour is in short supply, investment is lacking, and governance is not integrated.

Demand is concentrated

Demand for Canadian tourism is concentrated in three ways that constrain the growth of the sector.

First, **only three provinces, and the largest cities within them, are the destinations of the vast majority of visitors to Canada.** 85% of visitors go to Ontario, British Columbia or Quebec,[34] with 74% of visitors going to the three main cities in these provinces (Toronto, Vancouver and Montréal).[35] Consequently, though all parts of Canada benefit from tourism, four provinces see most of the benefits: Ontario, Quebec, British Columbia and Alberta account for 87% of Canada's tourism employment.

Second, **Canadian tourism is heavily driven by the summer season.** 3.5 times more leisure visitors come to Canada during the summer (July to September) than in the winter (January to March).[36] Consequently, accommodation in major cities is already hitting peaks in the summer months—downtown Vancouver and Halifax are virtually sold out. In addition, despite Canada being known for its winters, only 1% of visitor activities are winter-based,[37] which creates challenges for tourism operators trying to optimize the use of talent and capital investments.

Both **geographic and seasonal concentration can also have negative repercussions for the tourism experience:** there is seasonal crowding in and around major cities, and high prices for accommodations and attractions due to constrained capacity. Moreover, concentration risks causing a loss of "social license" for tourism activities, including in the more sparsely populated regions: an unbridled increase in the number of tourists active in a given area may cause Canadians living and working in those areas to become less supportive of the sector.

Third, **Canada is still highly reliant on the United States as a source market.** The United States drives about 70% of visits to Canada,[38] and just under 50% of the value of foreign tourism.[39] An adverse shock in the US (such as a significant recession or a major terrorist attack) or a change in the relationship between Canada and the United States has the potential to disproportionately impact tourism to Canada. However, Canada's closest customer is its best customer, and neglecting this key source market would be a mistake. Diversification aligned with growth is the optimum solution.

Access is difficult

Coming to Canada as a tourist can be a surprisingly difficult and expensive proposition. Flying to Canada, getting around after arrival (even within major urban centres), and getting to many of Canada's renowned natural areas takes more time and money compared to other similar destinations that prospective tourists may want to visit.

As Canadians themselves have likely experienced, it is **expensive to fly to and around Canada.** Prospective American tourists to Canada may be put off by the fact that it is about 30% more expensive to fly from the United States to Canada than it is to fly to American cities that are comparable to Canada's.[40]

This makes a substantial difference in demand: the Montréal Economic Institute found that "consumers are sensitive to modest price decreases, especially for tourism-related travel […] a 1% decrease in the price of a ticket corresponded with a 1.3–2% increase in demand."[41]

The Canadian air travel market is less competitive than other jurisdictions, limiting low-cost carriers' participation in the market and meaning that fewer routes are opened up to new destinations within Canada. The recent easing of foreign ownership restrictions for passenger airlines in Canada may help to bring more competition but such effects remain to be realized.

In short, tourists to Canada—and Canadians themselves—pay more to get to fewer destinations than they would have if air access costs were comparable to those in other peer countries.

Once in Canada, tourists must also confront a **lack of convenient transport in major cities,** particularly connections between major airports to cities, hotels and main attractions. Only recently have Vancouver and Toronto established light rail links between their respective airports and downtown areas; no other city in Canada has this type of link. This is a sharp contrast with virtually every major city in Europe and Asia, which have these intermodal connections.

Perhaps the hardest access challenge to overcome is the **distance from major centres to many of Canada's natural areas.** Even though our natural areas are a major driver of tourism to the country, distance limits our ability to make full use of the potential of these assets. Though the global market for nature-based tourism is exploding—from US$89 billion in 2009 to US$450 billion in 2016,[42] the vast majority of visitors' activities in Canada are urban: 74% are urban only; 24% are in and around urban areas; and only 2% are nature only.[43] By contrast, in Australia, 69% of international visitors engage in some form of nature-based activity[44] (notably, visitors to Australia must cross significant distances to visit key attractions; Canada shares this distance challenge, but Australia appears to have overcome it).

While Canada's tourism brand evokes thoughts of nature, and Canada has many highly rated natural assets (including 39 national parks), tourists visit very few of these parks: nearly 50% of national park visitors go to just three parks[45] (see exhibit below).

THREE OF CANADA'S NATIONAL PARKS DRAW NEARLY 50% OF VISITORS

PARK	PROVINCE	TRIPADVISOR RANKING	VOLUME (% OF TOTAL PARK VISITORS)	VISITATION RANKING	
Gros Morne National Park	NL	1	1%	19	
Cape Breton Highlands Park	NS	2	2%	17	
Pacific Rim National Park	BC	3	7%	4	3 PARKS ACCOUNT FOR 46% OF PARK VISITS
Banff National Park	AB	4	25%	1	
Jasper National Park	AB	5	14%	2	
Yoho National Park	BC	6	4%	6	
Forillion National Park	QB	7	1%	21	
Parc National de la Gaspésie	QB	8	—	—	
Point Pelee National Park	ON	9	3%	11	
Fundy National Park	NB	10	2%	15	
Kluane National Park	YT	11	0%	27	

Difficulty of access is the reason why other top-rated parks like Newfoundland's Gros Morne and Nova Scotia's Cape Breton Highlands see only 1% and 2% of national park visitors, respectively. Simply getting to Gros Morne from Toronto is a 2.5-hour flight followed by a 30-minute drive, costing $700 per person for the round trip.[46] Cape Breton Highlands similarly has no commercial flights and is a 4-hour drive from Halifax.[47]

Labour is in short supply

Labour shortages are already affecting the tourism sector, as they are in other sectors in Canada. This leads to significant competition for quality candidates, and thus higher costs for labour. Across all provinces, the tourism sector could face a shortage of 120,000 people by the mid-2020s, and up to 230,000 people by 2030.

One significant labour challenge often faced by operators in the tourism sector is the misalignment of the tourism season, which can run from May through October, with the standard educational calendar, where classes end in April and resume at the start of September. This makes it difficult to recruit staff who will stay through the end of the season.

Another common labour challenge is the lack of awareness, or low regard for, tourism as a potential career track. This includes the potential entrepreneurial opportunities that go untapped. Careers in the tourism sector simply do not appear to be on the radar of young Canadians the way one might expect of a sector that is responsible for the employment of 10% of workers in the country.

Investment is lacking

Another barrier to growth of Canada's tourism sector is the **lack of investment.** This means that Canada cannot achieve a critical mass of attractions, accommodations, and other enablers of the sector.

For example, with hotel occupancy rates already reaching 85–95% in summer months in major centres,[48] there would presumably be ample incentive to build new hotels. Capital is generally available in Canada for investments in accommodations, yet in major centres—particularly Toronto and Vancouver—returns on condominiums are far more attractive, and thus new hotels are not being built. At the current rate of construction, Toronto, Vancouver and Montréal will be short over 25,000 hotel rooms for international visitors during peak season by 2030.[49]

As a result, it is difficult for these centres to accommodate large conventions. And without a sufficient depth of attractions, visitors are less likely to return. Factors like these put an estimated $1.3 billion in potential annual visitor spend at risk.[50]

Additionally, most tourism businesses are small and medium-sized enterprises, the owners of which often attest that they have difficulty accessing capital. Furthermore, destination development can be an infrastructure-heavy endeavour, particularly when improved access to destinations requires new or upgraded roads and highways, marine ports and airports. This problem can be particularly acute for potential tourist attractions in Canada's rural and remote areas and in Canada's north, which could require significant infrastructure investments in order to be viable destinations.

Canada also underinvests in tourism marketing, spending less on marketing per international tourist arrival than its peers. A sample of 20 peer countries shows that, on average, those countries spent US$7.40 on marketing per international tourist arrival. Some countries spent far more – Australia spent US$11.40, Ireland US$12.30, and New Zealand a whopping US$22.30.[51] Canada, by contrast, spent US$5.70 – 20% less than the average, and 75% less than New Zealand.

Governance is not integrated

The fifth challenge for Canada's tourism sector is **leadership.** The sector to date has undertaken several efforts to coordinate an overarching national approach to tourism. Compared to international examples of national tourism strategies, however, these efforts have been insufficiently integrated and not sustained over a long enough period to have meaningful impact.

There are two major obstacles to more integrated tourism sector governance in Canada. Part of this challenge is explained by the fact that the sector is extremely diverse and made up of many destinations, all of which have different value chains. What works for one region or operator will not necessarily carry over to other operators in other parts of the country. Also, responsibility for tourism policies and programs is diffused across numerous departments within every level of government, making a well-coordinated and integrated Canadian approach difficult.

Given these underlying realities, Canada needs national leadership from both the private and public sectors that is inclusive, sustained over time and focused on long-term results. There is an opportunity in Canada for greater alignment of efforts among jurisdictions. This is already happening in the tourism marketing space, with Destination Canada taking the lead to convene provincial, territorial, municipal and other partners to leverage marketing budgets and make a more significant impact in foreign markets. The federal government could demonstrate leadership in other areas of the tourism sector by adopting a similar approach.

Opportunities for Canada

Growing tourism in Canada clearly requires action to address these five challenges that are holding the sector back. Canada can learn from other jurisdictions elsewhere in the world—including some in situations analogous to Canada's—that have succeeded in growing their tourism sectors.

For instance, Finnish Lapland has seen average growth of 4% per year since 2011, and almost 10% growth per year of foreign visitors.[52] Lapland has traditionally been a getaway primarily for Finns. However, 2017 was the first year in which Finns did not comprise more than 50% of overall visitors.[53] How did Lapland do it? The region tapped into the international market, offering a clear value proposition to the experiential traveller. The destination was ranked by travel publications as, among other things, one of the world's best places for stargazing, viewing auroras, and experiencing round-the-clock nighttime in winter. It drew in visitors by establishing non-stop connections from the UK and other markets that bypassed Finland's traditional Helsinki hub, including a new airline strategy to become more accessible to Chinese visitors. It also focused on developing high-end hotels, such as glass hotels for watching auroras, and igloos. Performance in this higher end of the market has been particularly strong.

Canada's value proposition

Canada offers—and is seen by potential visitors to offer—many attractive qualities that are foundations for the tourism sector. These include:

- **A safe, welcoming environment.** Compared to many other countries that have seen significant increases in anti-foreigner sentiment, including attacks on tourists, Canada is still a welcoming, cosmopolitan place.
- **Vibrant, livable cities.** Canada's urban areas are accessible to tourists, and each offers many unique local attractions that reflect their unique history and heritage.
- **Many natural attractions.** Canada is well-known as a place of striking natural beauty, with a wide variety of world-class natural attractions, including mountains, lakes and auroras, and their attendant wildlife. This natural environment enables a wide range of outdoor activities, including hiking, canoeing, biking, skiing, rock climbing, hunting and fishing. Those who want to experience nature near major urban centres can easily find it, while those seeking a more remote experience also have a wide range of options available.
- **Seasonal offerings.** Canada experiences four distinct seasons, offering opportunities for very different experiences throughout the year.
- **Cultural variety.** There is something for everyone in Canada, with a wide range of events taking place each year across the country. These include celebrations of Canada's Indigenous peoples, our English and French heritage, and today's multicultural tapestry.

The value proposition for increased growth of the tourism sector in Canada is just as compelling. There is potential to grow tourism in Canada in a sustainable way that creates benefits for all involved, by leveraging Canada's tourism value proposition. In 2030, success for the sector could mean:

- **A balance of year-round offerings.** While summer remains a major draw, winter is known and appreciated for the unique activities and experiences that it makes possible, such as downhill and cross-country skiing, snowshoeing, spa, and ice fishing. As a result, Canada sees more visitors, demand is more balanced, spreads out revenue throughout the year, and tourism operators have steadier incomes.
- **Attracting high-spend visitors.** Canada attracts more business visitors, more "urban plus" visitors (who visit urban areas and the attractions outside of them), more arrivals of Americans by air, and more fully independent travellers from beyond North America seeking transformational experiences. As a result, Canada gets more economic benefits from tourism, with visitors directly supporting tourism operators of all sizes, and governments indirectly benefiting from increased tax revenues.

- **More diversified and inclusive opportunities.** While the three largest urban centres remain significant draws, tourists increasingly come to experience Canada's smaller cities and attractions in rural and remote locations. As a result, the benefits of tourism are even more widely shared across Canada than today, and Canadians of all backgrounds find opportunities for employment and entrepreneurship in the sector.
- **Uniquely Canadian experiences for international visitors.** Visitors to Canada come because of experiences that are offered nowhere else—Canadian attractions, cuisine, culture, history, scenery and weather. As a result, foreign visitors are introduced to Canadian ideals and culture, and see Canada as an attractive place for immigration and business partnerships.

Opportunities for growth and diversification

Achieving the economic growth potential of Canada's tourism sector will require concerted effort to deliver on three opportunities.

The first is **elevating existing major urban centres.** Canada's major cities clearly appeal to international visitors, so the country needs to double down on their potential and expand capacity in these cities. These cities need to be convenient, affordable, year-round destinations that give visitors the opportunity to experience some of the most livable cities in the world, and easily access nearby natural activities.

Success in achieving the potential of existing major urban centres requires substantial investment, including developing more than 25,000 rooms – equivalent to building at least five luxury hotels and more than 150 upscale or midscale hotels in Canada's major cities. It also requires developing air travel options, with more flights to major and secondary airports, and improving the public transport connectivity between airports, accommodations, and major attractions in and around Canada's largest cities. Such investments would increase the supply of hotel rooms in these cities by 25–30%, raise annual visitor capacity by 1.8 million, and have $1–1.5 billion in annual direct economic impact by 2030.[54]

The second opportunity is **generating excitement around nature-based attractions,** including building new world-class developments accessible from major cities, and creating iconic luxury natural experiences. Canada's natural areas and wildlife are, after all, a major part of Canada's tourism brand, and this can be leveraged further. This also includes a greater embrace of winter, which offers relatively unique opportunities for activities and scenery.

These attractions can offer a break from everyday life with breathtaking wilderness and all-season activities supported by comprehensive amenities; at the higher end, visitors can experience ultra-luxury in nature. Such developments would help Canada attract higher-spending segments and draw tourists away from saturated attractions in major urban centres. This could also include accelerating **tourism cluster development** by establishing conditions that induce joint public, private and non-profit groups to align their resources toward building up regional tourism clusters and entirely new destinations, including supporting infrastructure like air and road access.

Success in delivering on this opportunity requires developing at least 40,000 new rooms, the equivalent of four major new tourism clusters like Whistler or Niagara Falls, and five or more luxury resorts analogous to, but much larger than, British Columbia's Clayoquot Wilderness Resort, Newfoundland's Fogo Island Inn, or Quebec's Hôtel Sacacomie. These investments would add the potential for 5 million or more visitors per year, with an impact of $5–8 billion by 2030.[55]

The third opportunity is **showcasing unique cultural experiences in Canada's smaller urban centres.** Cities like Halifax, Québec City, Victoria, Winnipeg and Ottawa can offer affordable, uncrowded and historic urban experiences, and be easy gateways to other attractions.

Success on this third opportunity requires increasing the number of luxury and mid-to-upper-scale hotels by more than 6,000 rooms, spread across three or more luxury hotels and 40 or more upscale or midscale hotels. It also requires developing international routes to these cities' airports, growing local small- and medium-sized enterprises' tourism offerings, and aligning destination marketing organizations to actively shape demand. The cumulative impact would be to raise annual visitor capacity by 300,000 annually and increase hotel room supply in these cities by 30%, with a $200–300 million annual impact by 2030.[56]

An introduction to tourism clusters[57]

An industry cluster is, in the words of Harvard Business School professor Michael Porter, "a geographically close group of interconnected companies, suppliers, service providers, and associated institutions in a particular field." The companies and other organizations in a cluster work together in a mutually reinforcing way that creates more than the sum of their parts.

In the visitor economy, clusters bring together accommodation, food and beverage, entertainment and attractions with operators and travel agencies, guides, crafts, car rentals and transport, and are supported by education and training, convention centres, consultancy and other business services.

For example, **Montenegro,** on the Adriatic Sea next to Croatia, grew from being virtually unknown with 3.7 million overnight stays in 2002 to be a destination drawing 12 million visitors in 2017. Tourism in the country grew because of the concentration of natural attractions around the seaside and mountains (such as the Montenegro fjord), and the country's heritage. In 2016, the coastal town of Kotor was named the best city to visit by *Lonely Planet.*

Another cluster example is **Louisville, Kentucky.** More than $1 billion is being invested in developments ranging from the expansion and renovation of the Kentucky International Convention Center (KICC) to the 600-room Omni Resorts hotel. These investments are due to the development of a $261 million mixed-use "Fourth Street Live!" entertainment, office and retail district, which attracts some 4.5 million visitors a year. Investments have also been made to expand the "Urban Bourbon Experience" and develop projects in new tourist-bound neighbourhoods such as Portland and Smoketown. Consequently, Louisville has come into its own as a brand and destination, with 12.7 million visitors in 2011 rising to more than 20 million in the most recent study. Over 85% of Louisville's visitors are now coming for leisure travel.

Conclusion

There are at least two scenarios for the future of Canada's tourism sector.

In the first scenario, we continue with a business-as-usual approach. Our country will remain an attractive destination, and the number of foreign tourists and their associated spend are likely to continue to grow. The sector will remain a major source of employment for Canadians and attract some new investments. But we will be left behind—other jurisdictions will continue to develop their potential, and Canada will lag further behind our own. Part of our fair share of visitors and their spending will continue to go elsewhere.

In the second scenario, government and business commit to an ambitious but achievable objective of doubling the value of international tourism in Canada by 2030. Our country becomes a premier destination, and with it we see substantial new investments from within and outside of Canada to build new attractions and accommodations, and the services that support them. Tens of thousands of new jobs are created for Canadians across the country.

This report is a starting point. The opportunities are clear; the challenges are solvable. What is required now is action.

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