

Frontier Duty Free Association

2019 Pre-Budget Submission

Recommendation: The federal government should encourage cross-border tourism and spending by implementing a traveler incentive program that rebates the GST paid by visitors to Canada on goods they take from the country.

About the FDFA

The Frontier Duty Free Association (FDFA) is the Industry Association representing the interests of Canada's duty free shops. FDFA membership includes 26 Canadian Land Border Duty Free Shops, as well as Canadian Airport and U.S. Land Border Duty Free Shops through associate membership. FDFA also serve as a voice for supplier members and other organizations interested in the duty free industry.

2018 marks the 35th anniversary of Canada's land border duty free shop program in 1982. This program is a unique partnership between the Federal government and private businesses that has allowed an unbroken chain of mutually beneficial and successful operations. Today, duty free shops are an important and integral part of the Canadian tourist industry, serving as ambassadors to visitors to Canada.

This program is a direct extension of the many services provided to tourists in Canada. It was initially intended to attract more foreign visitors by offering them significant tax and duty free savings on the purchase of a host of consumer items. It has created lasting and viable business opportunities for independent business people and generated significant employment.

As a matter of policy, all duty free shops owners deliberately foster a distinctly Canadian flavour or ambiance in their stores. From the beginning, the program has promoted many fine Canadian high quality products and stocked internationally-recognized brand name fashions, jewellery, leather goods, crystal, wine and spirits, perfumes, and a wide range of electronic and photographic merchandise.

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Tourism to Canada represents a tremendous economic opportunity, with each visitor contributing to Canada's economy and helping sustain jobs. Recognizing this, Canada has rightly worked to grow visits to Canada over the past number of years.

Canada's largest source market for international tourists is the United States. The 14.3 million American arrivals into Canada in 2017 represent almost 70% of overnight visitors to Canada¹. American tourism has continued to grow, with total visits in 2018 expected to reach nearly 15 million. More than half of American visitors arrived by car, with almost half of those coming from New York, Michigan and Washington State.

The government of Canada should look to not just grow the number of visitors to Canada from the United States but also look to policies that encourage greater spending overall while they visit. There's ample reason to believe that this is achievable. Collectively, American tourists are expected to spend nearly \$10 billion in Canada in 2018, or about \$675 per visitor.

¹ https://www.destinationcanada.com/sites/default/files/archive/312-market-highlights-united-states/us-markethighlights_en_2018.pdf

“Great Shopping” is a top desire among American tourists. Shopping is consistently a top-three reason for American tourists to come to Canada. The comparative strength of the US Dollar means that American purchasing power in Canada should make us a destination of choice for shopping getaways. However, sales taxes in Canada reduce the impact of these strengths, especially as compared to the key Border States where most American tourists originate where the difference can be as high as 15%.

To address this, Canada should pilot a traveler incentive program to rebate the 5% GST paid by American visitors to Canada on goods they purchase in Canada to take home with them when they leave. A rebate would help attract tourists thinking about trying travelling to shopping but also encourage those already visiting to spend more. The government should structure such a program so that cash rebates are available immediately as tourists leave the country. Other jurisdictions, such as France, similarly rebate local sales taxes for foreign visitors at kiosks as they leave the country.

FDFA has designed a model for such a program called Road TRIP, which would be a three-year pilot. This proposal has received substantial support from other stakeholders, including the Canadian Chamber of Commerce, the Retail Council of Canada, the Tourism Industry Association of Canada, and regional and municipal leadership across Canada.

The main objective of the program is to improve the capacity of the Canadian tourism industry to attract US tourists in a highly competitive and price-sensitive environment and to incent the US tourists to increase their retail expenditures in Canadian border communities. It would bolster existing destination marketing efforts towards American tourists and would be supported by other tourism partners, be they duty free stores or border communities, to amplify the program through their marketing efforts.

Canada’s land crossing duty free stores are an ideal place to administer such rebates. Already located at most major border crossings, Duty Free stores already have existing relationships with federal regulators which would allow for the seamless and secure implementation of such a program as a “last stop” before leaving. These stores are the only locations where export of goods can be immediately verified, and rebates can be given directly to the visitor at a time close to actual purchase when it can influence travel and purchase decisions.

Moreover, the experience of Duty Free operators has been that up to 60% of customers will spend the rebate in their shops, before leaving Canada. Realistically, this would mean that any GST rebate would remain in Canada and directed primarily through a sales channel dedicated to Canadian-made products such as wine, ice wine, spirits, beer, maple syrup, arts, crafts and souvenirs.

The land border duty free shop program was created in 1982 in part to encourage cross-border travel and spending. A traveler incentive program fits within that mold. A study by Econometrics Research Limited (ERL) found that potential Canadian economic increases from traveller GST rebate program would be \$89.6 million GDP. Including more than \$55 million in wages and salaries to almost 1,400 full time equivalent employees. Such direct economic impacts would easily offset anticipated direct government costs for such a program of between \$5 and \$9 million.

Canada is a tremendous place to live and visit. Already, programs like Destination Canada are working to make our country an even greater destination of choice for international visitors. A traveler incentive program that rebates the federal GST will compliment these, encouraging an even greater economic impact from the tourists that visit.