

Collective Efforts

Common Goals



Canadian Tourism Commission 2003 Annual Report



Discover our true nature

In 2003, Canada's tourism industry experienced a series of unexpected shocks – events demanding immediate and measured responses.

To make those responses, the country's tourism stakeholders combined their energies and resources, making a collective effort to bolster the industry and pursue common goals with strategic intensity.

The role of the CTC was to keep the industry informed, foster collaboration, and execute targeted marketing programs – based on research and according to the strategic direction set by Canada's tourism industry leaders.

2003 At a Glance

The Canadian Tourism Commission is a Crown corporation committed to promoting Canada as an all-season tourism destination with diverse appeal for travellers from Canada and key markets around the world.

The CTC carries out its mission entirely in partnership with public- and private-sector members of Canada's tourism industry.

Through continuous research and analysis, participation in global tourism organizations, and direct, 'on-the-ground' information-gathering in key markets, the CTC helps Canada's tourism industry identify and pursue emerging opportunities – concentrating promotional efforts where they are most likely to yield strong returns on investment.

Tremendous efforts were made in 2003 to keep the industry informed – to provide trustworthy, up-to-date information that could be used for making critical business decisions. Thus, while the Commission's research budget in 2003, was almost \$4 million and its marketing budget over \$90 million (including supplementary funding), the value of its research endeavours to Canada's tourism industry in the past year cannot be overstated.

"The industry came together when it had to. There was common acknowledgement of what needed to be done to succeed. And I'm convinced that we will be stronger at the end of this difficult period because we've gone through it together."

Pierre Labrie

Chair, Canada Working Committee

Director, Office du tourisme
et des congrès de la
Communauté urbaine de Québec

World's Top 15 Tourism Earners*

	International Tourism Receipts (US\$ billion)		% change 2002/2001	Market Share 2002
	2001	2002		
1 United States	72.3	66.5	-8.0	14.0
2 Spain	32.9	33.6	2.2	7.1
3 France	30.0	32.3	7.8	6.8
4 Italy	25.8	26.9	4.3	5.7
5 China	17.8	20.4	14.6	4.3
6 Germany	17.2	19.2	11.6	4.1
7 United Kingdom	16.3	17.8	9.2	3.8
8 Austria	10.1	11.2	10.9	2.4
9 Hong Kong (China)	8.2	10.1	23.2	2.1
10 Canada	10.8	9.7	-10.0	2.0
11 Greece	9.4	9.7	4.3	2.0
12 Turkey	8.9	9.0	1.1	1.9
13 Mexico	8.4	8.8	4.8	1.9
14 Australia	7.6	8.1	6.6	1.7
15 Switzerland	7.6	7.6	-	1.6

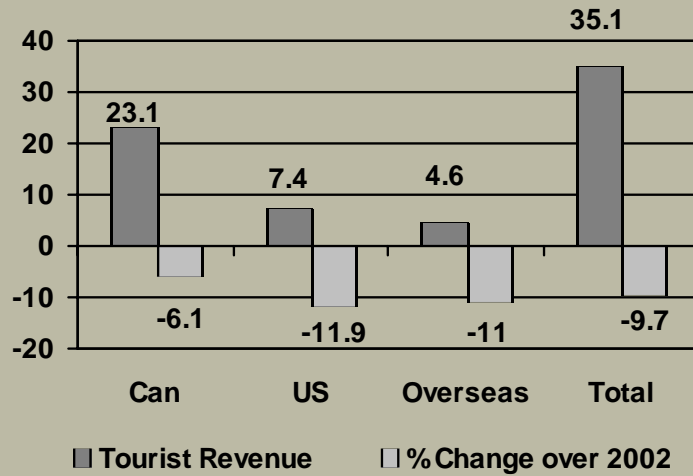
*Source: World Tourism Organization
Note: 2002 data as collected by WTO September 2003.

Canada did not perform well as an international tourism destination in 2002 – moving from 8th to 10th place on the world stage – due to the aftermath of the events of September 11, 2001 and the relative value of Canadian tourism revenue in U.S. dollars. For this reason, it is imperative that the CTC continue to increase its marketing efforts and maintain a presence on the ground in key regions of the world.

**2003 Tourist Revenue –
all markets***
(in billions of dollars)**

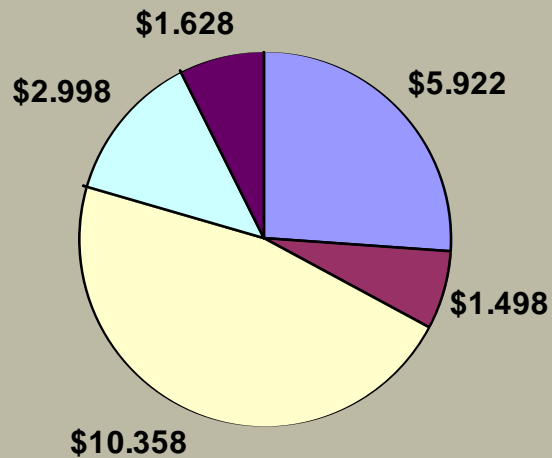
*excludes same-day visitors

**CTC preliminary estimates



**Tourist Revenue by
Program Market Areas
2003**
(in billions of dollars)*

*CTC preliminary estimates



- U.S. Leisure
- U.S. MC&IT
- Canada (inter-provincial)
- Europe/Latin America
- Asia/Pacific



A turbulent year

In January 2003, no one could have predicted the jarring course of events that the year would bring – a barrage of calamities that Canada's tourism industry faced with solidarity and agility.

Together, industry members – and particularly those leading the CTC Working Committees – responded decisively to the year's tribulations. Tough choices were made. Priorities were set. The broadest interests of the country's tourism industry were attended to.

This process of taking stock and marshalling resources included a Committee-led review of all major CTC programs. Without abandoning any market, emphasis shifted from less active regions toward those of greater opportunity such as the United States, the U.K., Australia and Mexico. The Commission streamlined its operations and adopted a zero-based budgeting approach to ensure that the total resources available were allocated with maximum flexibility.

As this report describes, a focused effort was made to provide the Canadian tourism industry with up-to-the-minute information, enabling better decision-making in the midst of flux and uncertainty. The Internet became the primary vehicle for disseminating this information as the CTC phased out its hard-copy reference and resource centre in favour of web-based publications and information updates.

Part of the Commission's effort was to provide an integrated perspective on the challenges facing the tourism industry. War, SARS, Mad Cow Disease, West Nile Virus – all were headline-grabbing events that disrupted business for Canada's tourism operators. Yet beyond these high-profile crises, the struggles of 2003 related predominantly to the state of the global economy – and specifically to that of Canada's biggest tourism market, the U.S. Entering 2004, the CTC's research programs continue to monitor the economic outlook and further refine the focus of Canadian tourism marketing activities.

Ultimately, 2003 necessitated a new way of doing business for the CTC – and for Canada's tourism operators. The industry will reap the benefits of collaboration, using the vehicle of the Commission to pursue common goals as major economies recover. For its part, the CTC will work to deliver information that is increasingly forward-looking; to provide useful analysis for strategic decision-making; and to carry out innovative and targeted marketing campaigns.

The lessons learned in 2003 will, in the end, make Canada's tourism industry stronger and more resilient than it has ever been before. Capitalizing on what's been learned, Canadian tourism operators will be able to mobilize quickly and seize upon emerging opportunities as markets recover.

Shocks to the system

- December – March: question of war in Iraq
- February – March: Repercussions of Canadian stance on Iraq
- April – May: SARS
- May: SARS 2nd cluster outbreak
- May: Mad Cow Incident
- June: West Nile Virus
- August: Eastern Canada / U.S. power blackout
- 2003: Exchange rate shifts (Cdn - U.S.; Cdn – Euro; Cdn - Yen)

Letter from the Chairman

Without a doubt, 2003 was a troubled year for the Canadian tourism industry. Yet it was a turning point and the start of a new era. The challenges of the 21st century are different from those of the past. Meeting them demands new perspectives, new modes of operation from everyone involved, including and especially the CTC.



For its part, the Commission's Board of Directors addressed this new reality last year by redoubling its strategic efforts – analyzing all available information, conferring often and at length with the various CTC Committee Chairs, and working constantly to confirm that the Commission's investments were well-planned and well-placed. By appointing a spokesperson for the Committee of Chairs, we helped ensure that they worked more closely with the Board of Directors and that communication of goals and priorities occurred, and continues to occur, at the highest levels.

Over the course of the year, we identified clearly what should be points of focus for the Board in 2004. Having reviewed successfully the U.S. marketing program in 2003 – a process that yielded a new, heavily research-based approach to achieving results – we intend to do the same for the Asia-Pacific program. We will continue in 2004 to participate actively in federal-provincial ministerial conferences on tourism and related issues. Through this participation, we aim to further strengthen the ties between the two levels of government, fostering more closely complementary approaches to marketing for the benefit of all parties.

Finally, we have made it a priority of the Board to advocate for a higher permanent level of funding for the CTC, to ensure Canada's international competitiveness as a premier tourism destination.

By maintaining its focus on research, and by developing new methods for making that research predictive, forward-looking, the CTC will continue to provide indispensable planning and strategic support to the Canadian tourism industry. By working in partnership with the industry to promote our cities, our cultural attractions and our people, we'll broaden the kind of tourism experiences Canada offers the world.

I want to thank all the members of our Board for their dedication throughout last year – and the entire Commission staff, who worked tirelessly to support and safeguard the industry. I would like especially to thank Doug Fyfe for his decisive leadership as Interim President and CEO. With the benefit of his wisdom, the CTC has come through a difficult period strengthened and invigorated. I wish him well, and eagerly welcome Michele McKenzie aboard as the Commission's new President and CEO beginning in 2004.

Ms. McKenzie is uniquely equipped to lead the CTC forward. Having worked at senior levels of the tourism industry in both the public and private sectors, she has the understanding and experience to engage Canada's tourism stakeholders collaboratively and productively. Her perspective and experience will be most valuable as the CTC pursues its goals in the time ahead.

Charles Lapointe, P.C.

Chairman

For the industry

Setting priorities

The troubles of 2003 for Canada's tourism industry were unleashed in quick succession, beginning with the prospect of war in Iraq and proceeding through outbreaks of SARS, Mad Cow Disease, West Nile Virus, and volatile exchange rates. The CTC and its industry partners recognized early on that circumstances demanded a deliberate, focused and collaborative response.

To support that response, the CTC needed to be sure it was making the best possible use of all available resources. Consequently, the Commission conducted a thorough review of its programs and priorities. Led by the CTC's industry-driven Working Committees, the review process revealed numerous ways in which the Commission could focus its efforts more precisely and capitalize on present opportunities.

As a result, the CTC streamlined its operations, transferring overall responsibility for New Zealand, Hong Kong and The Hague to neighbouring offices in Australia, China and Germany, respectively. Staff and resources were reduced in Italy and Japan, and investments in several European and Asian markets were reallocated to those with more immediate promise – namely, the United States, the United Kingdom and Mexico.

Going forward, the CTC will continue to constantly reassess Canada's markets and to direct resources toward those with the greatest potential for a measurable return on investment. At the same time, the Commission will continue to cultivate as-yet undeveloped and emerging markets with long-term potential for Canadian tourism operators.

"We made a thorough review of the U.S. program last year. As a result, we – the members of the Committee, members of the industry – were able to hold an informed debate about opportunities to focus on. And out of that debate, we made recommendations to the Board. It was proof in action that the CTC really does function as a forum for Canada's tourism industry; as a place to come together and have a practical, results-focused dialogue about where and how Canada should market itself. Even when that dialogue itself is a difficult one, everyone appreciates the opportunity to engage in it."

Christena Keon Sirsly

Chair, U.S. Working Committee

Chief Strategy Officer,
Via Rail Canada Inc.

Responding in real time

Information is the most valuable resource in times of crisis. To help Canada's tourism industry keep abreast of constantly changing market conditions in 2003, the CTC undertook a million-dollar supplementary research program and increased its capacity for real-time information delivery via the Internet.

Some 15 issue-specific research projects were launched last year to track the impact of the Iraq war, SARS and other events. Following the model it established in the wake of September 11, 2001, the CTC translated the results of its research into serialized reports that provided the industry with a clear and ever-updated picture of travellers' perceptions, attitudes and behaviours.

The Commission relied heavily on the Internet to make its research available, creating issue-specific 'mini-sites' that were linked to its existing industry-facing website. Steady progress was made in the regionalization of local websites with regard to language and content. Today, there are five such 'localized' CTC websites.

In 2004, the CTC will continue to expand its use of the Internet, refining its web presence and launching an electronic version of its monthly magazine, *TOURISM*. In future, the CTC will actively encourage members of the Canadian tourism industry to use *TOURISM* as a vehicle for communicating with their peers and highlighting their achievements.



With the industry

Trench marketing

By bringing an intensely pointed focus to its activities, and by instituting an ambitious campaign of tactical research, the CTC was able to help Canada's tourism industry compete aggressively for the attentions of travellers at home and abroad in 2003.

Given the relatively constrained resources of the Canadian industry compared to those of destinations such as Australia, the U.K., Hong Kong and even individual states and cities in the U.S., the CTC and its partners appreciated that Canada's success depended on the precision of its marketing and on the uniqueness of its message. To protect available resources, the CTC engaged in a practice of 'just in time' investment, finalizing campaigns and ad placements at the last possible moment to ensure their appropriateness and currency.

Through its industry-led committees, the CTC opted to focus principally on attracting shorter-distance 'rubber-tire' traffic from the United States. Targeting seven key metropolitan markets (Boston, New York, Philadelphia, Chicago, Detroit, San Francisco and Seattle), the CTC developed an offbeat, unconventional campaign around the concept that Canada is a great "Plan B" when it comes to vacation travel. Follow-up surveys determined that the campaign was highly appealing, one that made a strong impression on those who saw it.

To encourage tourism by Canadians within Canada, the CTC and its partners formulated the "I Can in Canada" campaign, promoting the advantages and attractions of domestic travel.

In future, the CTC will continue to break away from the conventions of tourism advertising, helping distinguish Canada by taking creative, innovative and unexpected approaches.

Given the economy
and worldwide
uncertainty, maybe
this is the summer
to stay in the U.S.
and visit those
distant relatives.



Okay, Plan B.

Let's try Canada. You need a backup plan for your vacation? Don't panic. Canada is the perfect Plan B. With its beautiful scenery and world-class amenities, it's the perfect backup plan for your vacation. It's a great place to visit when you need to get away from it all. The only backup plan you need is Canada.



Discover our first option



Collective Efforts

Common Goals

7

"When the industry can be involved in proposing strategies, in helping shape Canada's tourism marketing plans, then at 'execution time' we're willing to contribute because the plans represent our ideas, our priorities. I've met a lot of people from other places who look at this model and would like to emulate it."

Brian Richardson

Chair, Asia-Pacific Working Committee

Vice-president, Brand Marketing and Communications, Fairmont Hotels and Resorts

Joining forces

In order to maximize its marketing potential, and to increase its competitiveness internationally, the CTC depends on an intimate partnership with the Canadian tourism industry to promote the country as a desirable destination. And because committees of industry members contribute directly to the CTC's strategic direction, those industry members are more likely to support CTC activities and initiatives, allowing the organization to match its operating budget with partner contributions.

In 2003, the CTC continued to expand its partner base, establishing relationships with organizations not traditionally associated with tourism, but which deliver the industry's message to a broader and more diverse audience than would otherwise be possible. A prime example is the campaign launched jointly by the CTC and Toyota Canada last year: Go Canada Go – Drive the World's Greatest Country. With Toyota's investment totaling \$9 million over three years, this is a significant partnership, one that gives the CTC and Canada's tourism operators greater access to a domestic market that makes over 150 million car trips each year.

The CTC worked actively in 2003 to encourage closer collaboration and communication throughout Canada's tourism industry. In response to SARS, for example, the CTC joined an interdepartmental panel including Health Canada, the Department of Foreign Affairs and International Trade, Industry Canada and others to clarify available information and formulate a coherent response to changing conditions. Internally, regular meetings of CTC's committee chairs were instituted to facilitate high-level strategic consensus-building beyond the interests of any one working group.

The goal of all Canada's tourism stakeholders is fundamentally the same: to attract visitors to the country and cultivate industry growth. By helping forge open, informed and focused partnerships, the CTC strives constantly to realize that goal for the benefit of all Canadians.



The tourism industry: results in brief

For travellers, tourism is a luxury – one linked directly to personal disposable income. In 2003, all of Canada's major tourism markets continued to experience economic uncertainty, and this is expected to last for the next few years.

As a result of so many crises, people's travel patterns have changed. Today, tourists are more likely to stay close to home; to take more frequent but shorter vacations. Travel plans are made on short notice, rather than well in advance. And a growing number of tourists is turning to the Internet both as a source of information and as a means of making travel arrangements. Collectively, these factors represent both a challenge and an opportunity for Canadian tourism operators: a challenge in that they demand new ways of identifying and attracting potential tourists; an opportunity in that – if those new ways are adopted – Canada will be in a strong position to build its share of the global tourism market.

What tourism means for Canada

Canada's tourism revenues have grown consistently since the CTC was established in 1995, climbing from \$37.7 billion to \$51.8 billion⁽¹⁾ in 2002. In 2003, however, total tourism revenues fell by 2.0% to \$50.8 billion⁽²⁾ – a result attributable to the combination of a still-struggling world economy with disruptive events such as the war in Iraq, SARS, Mad Cow Disease, West Nile Virus, and volatile exchange rates.

Of Canada's tourism revenues in 2003, \$35.1 billion were generated domestically. This represents a 3.0% increase in the spending of Canadians travelling within the country in 2003. At the same time, international tourism revenues declined by 12.0% to \$15.7 billion, raising the country's travel deficit to \$4.3 billion⁽³⁾ – its worst level since 1993. Overall, tourism revenues for all levels of government in Canada fell by 3.2% to \$15.1 billion. Because tourism employment tends to lag behind revenues in its response to market trends, its level declined modestly in 2003 to 573,800 jobs.

Total Tourism Industry Revenue*

	Revenue (billions)	Change over 2002
Total	\$50.8	-2.0%
Domestic	\$35.1	+3.0%
International	\$15.7	-12.0%
Travel Deficit	-\$4.3	+126.3%
Government Revenue	\$15.1	-3.2%

*CTC preliminary estimates

It is important to appreciate the distinction between tourism revenue and tourist revenue. Tourist revenue indicates only overnight visitors' spending in Canada and therefore yields a lower figure than tourism revenue – in 2003, \$35.1 billion. Tourism revenue – \$50.8 billion in 2003 – by contrast, accounts for same-day trips

On 2003 activities of the Research Working Committee

"While Committee members all had their own specific areas of concern and interest in 2003, there was definitely consensus about the high-level issues for research to focus on. Determining the impact of external crises and threats was an obvious one; assessing the responses of key markets to those crises was another.

It was also a priority to track the impact of mitigatory marketing initiatives, and to gather data that could support strategic business decisions about markets of opportunity. The CTC's research team tackled all of these challenges vigorously. We've received a tremendous number of compliments about the quality of its work in 2003. People throughout the industry have expressed their appreciation for the speed and value of the information that the CTC gathered during what was undeniably a stressful time."

M. Marc Rosenberg

Chair, Research Working Committee

Vice-President, Sales and Product Distribution, Air Canada

(1) Source: Statistics Canada
(2) Source: CTC preliminary estimates
(3) Source: Statistics Canada

in Canada by Canadians and international tourists; international air fares to Canadian air carriers; pre- and post-trip spending by Canadians taking domestic trips; and in-Canada expenditures of outbound Canadian residents.

Total Tourist Revenue and Tourist Trips (overnight)*

	Revenue (billions)	Change over 2002	Trip volume (millions)	Change over 2002
Canada	\$23.1	-6.1%	88.0	-7.5%
International	\$12.0	-11.6%	17.5	-12.9%
United States	\$7.4	-11.9%	14.2	-12.4%
Overseas	\$4.6	-11.0%	3.3	-15.1%
Total	\$35.1	-9.7%	105.5	-9.0%

*CTC preliminary estimates

Contributing to the deterioration of the 2003 travel deficit is a 9.7% decline in tourist revenue totalling \$3.8 billion. This drop was broadly based with significant declines in U.S. (-11.9% or \$1.0 billion) and overseas tourist spending (-11.0% or \$600 million) and also in domestic Canadian spending (-6.1% or \$1.8 billion). The combination of the loss in past total tourist revenue and the foregone expected revenue gains for 2003 reveals an estimated total loss of \$5.2 billion, and a related \$1.5 billion in lost government revenue. Associated with the revenue losses is a 12.4% decline in U.S. overnight trips and 15.1% decline in overseas overnight trips to Canada, as well as a 7.5% decline in domestic overnight trips.

Domestic Tourist Revenue and Tourist Trips (overnight)*

	Revenue (billions)	Change over 2002	Trip volume (millions)	Change over 2002
Interprovincial	\$10.3	-5.8%	16.9	-10.0%
Intraprovincial	\$12.8	-6.4%	71.1	-7.0%
Total	\$23.1	-6.1%	88.0	-7.5%

*CTC preliminary estimates

Total Tourist Trips (overnight)*

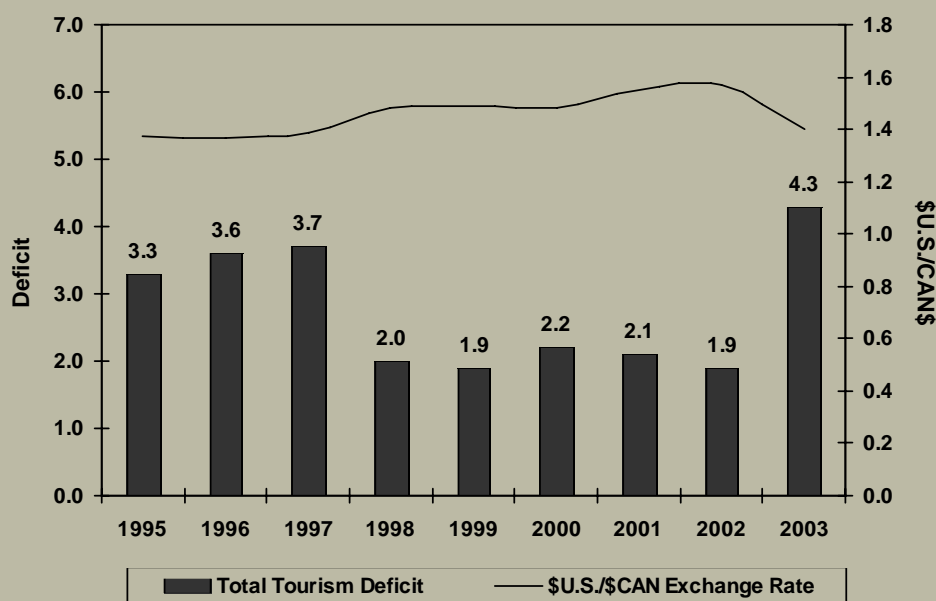
	Atlantic	Que	Ont	Prairies	Alta	BC	Canada
U.S. (000)	714.3	1,963.2	6,825.2	395.1	590.0	3,678.8	14,166.4
Change over 2002	-5.3%	-10.1%	-17.1%	-4.4%	-2.6%	-7.5%	-12.4%
Overseas (000)	83.7	596.9	1,191.4	11.4	216.3	1,202.1	3,301.9
Change over 2002	-6.1%	-10.5%	-22.1%	-10.2%	-2.7%	-12.1%	-15.1%

*CTC preliminary estimates

While overnight tourist trips declined universally across Canada in 2003, the degree of decline varied considerably from province to province. Ontario, Quebec and British Columbia suffered the greatest losses, attributable principally to the impact of SARS on travellers' inclinations to visit.

Performance indicators

Overall, tourist traffic to Canada declined in 2003. Overnight international travel fell by 12.9% from 2002: U.S. tourist visits dropped 12.4% and overseas travel dropped 15.1%. This was caused primarily by poor economic conditions globally and aggravated by the series of sudden, unforeseen challenges throughout the winter and spring. A further factor was the increase in value of the Canadian dollar, which diminishes the appeal of Canada as an international destination.



* CTC Preliminary Estimates

Outbound Tourist Expenditures by Canadians*

	Expenditures (billions)	Change over 2002
United States	\$9.4	10.5%
Overseas	\$7.5	5.6%
Total	\$16.9	8.3%

*CTC preliminary estimates

Historical evidence suggests that for every 10% increase in the value of the Canadian dollar (vis-à-vis the U.S. dollar), overnight Canadian travel to the U.S. increases 15-16%.

On the other hand, that same 10% increase in the value of the U.S. dollar (vis-à-vis the Canadian dollar) will only solicit a 3 or 4% increase in overnight U.S. travel to Canada.

However, exchange rate fluctuations can affect the performance of other sectors of the economy, notably the export sector, which can negatively impact the overall economic growth. That in and of itself can lead to changes in employment, disposable incomes, as well as consumer and business confidence. All told, these effects can have significant implications on discretionary spending which as a result can offset the sensitivity of exchange rate fluctuations on travel behaviours.

The sensitivity of exchange rate fluctuations contributed to the worsening of Canada's travel deficit in 2003.

Tourist Revenue Targets and Actuals (millions)

	2002 (Actual)	2003 (Target)	2003* (Actual)	2004 (Target)
US Leisure % change	\$6,833 6.1	\$7,236 5.9 ⁽¹⁾	\$5,922 -13.3 ⁽²⁾	\$6,348 7.2 ⁽³⁾
US MC&IT % change	\$1,578 2.1	\$1,650 4.6	\$1,498 -5.8	\$1,604 7.1
Canada (Interprovincial) % change	\$10,968 -1.5	\$11,829 7.9	\$10,358 -5.8	\$10,824 4.5
Europe/Latin America % change	\$3,220 -11.7	\$3,488 8.3	\$2,998 -4.6	\$3,118 4.0
United Kingdom % change	\$993 -3.3	\$1,044 5.1	\$953 -4.0	\$996 4.5
France % change	\$374 -14.2	\$462 23.5	\$333 -11.0	\$343 3.0
Germany % change	\$385 -15.3	\$445 15.6	\$336 -12.6	\$347 3.2
The Netherlands % change	\$130 2.0	\$132 1.5	\$129 -1.2	\$135 5.0
Italy % change	\$113 -1.6	\$120 6.2	\$75 -33.6	\$79 5.0
Mexico % change	\$229 22.3	\$241 5.2	\$206 -10.1	\$220 7.0
Brazil % change	\$50 -21.0	\$55 10.0	\$47 -5.8	\$49 5.0
Switzerland % change	\$147 -6.1	\$152 3.4	\$151 2.6	\$157 4.0
Asia/Pacific % change	\$1,948 -2.9	\$2,067 6.1 ⁽¹⁾	\$1,628 -18.4 ⁽²⁾	\$1,788 9.8 ⁽³⁾
Japan % change	\$666 5.3	\$658 -1.2	\$402 -39.6	\$494 22.9
Taiwan % change	\$134 -27.1	\$163 21.6	\$113 -15.7	\$127 12.0
South Korea % change	\$244 -7.5	\$230 -5.7	\$218 -10.7	\$237 8.7
Hong Kong % change	\$158 -9.4	\$180 13.9	\$120 -24.1	\$127 6.0
China % change	\$185 13.6	\$191 3.2	\$154 -16.5	\$169 10.0
Southeast Asia % change	\$138 18.0	\$149 8.0	\$106 -23.0	\$119 12.0
Australia % change	\$216 -11.6	\$232 7.4	\$210 -2.8	\$221 5.0
New Zealand % change	\$48 16.1	\$42 -12.5	\$46 -4.6	\$48 4.0
Total % change	\$24,547 -0.1	\$26,270 7.0	\$22,404 -8.7	\$23,524 5.0

(1) Target to 2002 Actual (2) Actual to 2002 (3) Target to 2003 Actual

* CTC preliminary estimates

Industry Partner Contributions by Program (millions)*

Programs	2002 (Actual)	2003 (Target)	2003 (Actual)	2004 (Target)
U.S.	47.4	26.0	31.9	24.0
Canada	14.2	5.9	7.2	6.1
Europe/Latin America	20.2	12.0	16.3	13.0
Asia/Pacific	12.0	8.0	10.8	8.4
MC&IT	6.7	5.0	5.3	7.6
Research	6.9	4.5	5.6	5.0
Product Development	6.2	5.5	6.1	5.0

**includes dollar and in-kind contributions*

Operational review

The CTC initially approached 2003 with modest optimism: research suggested that Canada's tourism industry would begin to rebound from the difficulties brought on by the global economic downturn and terrorist acts of 2001. The possibility of war in Iraq raised concerns, however, and the CTC commissioned the Conference Board of Canada to evaluate the potential impact of such an event. The resulting report – the first national research assessment produced on the subject – was presented to the CTC's Board of Directors in January 2003, prompting reconsideration of short-term strategic plans and ultimately triggering the Commission's internal program review.

Following that comprehensive review – which found that certain investments were too widely dispersed to achieve optimal returns on investment – the CTC shifted resources away from certain geographical markets (France, Germany, the Netherlands, Italy, Switzerland, Japan and Taiwan) and from the international Meetings, Conventions and Incentive market, and allocated money instead to programs in the U.S., United Kingdom and Mexico. Offices were re-organized and the Commission postponed or minimized plans to reach out to Japan, Taiwan and Hong Kong in favour of concentrating on more promising markets in the short term.

As in 2001 and 2002, the CTC received a one-time infusion of additional funds in 2003 to meet the demands of the exceptional circumstances. The funds were augmented by the reallocation of dollars from the CTC's existing budget, and directed towards the Commission's marketing efforts in Canada, the U.S. and Europe.

Tracking the storm

In addition to the threat of war itself, the CTC realized that Canada's position on Iraq was likely to affect the country's tourism prospects in the winter and spring of 2003, especially among U.S. travellers. The Commission partnered with the U.S. Tourism Industry Association (TIA) to track Americans' readiness to travel from March through the end of May. This focus on the tourism consumer continued to be a key feature of the CTC's research throughout the year – providing the Canadian industry with a clear profile of potential visitors and their intentions.

2003 supplementary research programs: highlights

- CTC-CTRI Scenario Study of Potential Impacts of War in Iraq (December 2002 – January 2003)
- Monthly Tourism Intelligence Bulletins
- CTC/Ontario/PKF Study of the Impacts of Iraq and SARS on Canadian Accommodation Industry
- CTC-CTRI Scenario Study of the Potential Impacts of SARS on Canadian Tourism (April – May)
- CTC-DFAIT-KPMG Study on the Tourism Impact of SARS in 7 APEC Economies
- CTC-IBM-VisitBritain study of the impacts of SARS on the American market.
- CTC-Enviro-nics study of the impacts of SARS on the U.K., France, Germany, Mexico and Japan markets
- Qualitative Ad Testing
- CTRI Exchange-rate Study
- Forecast Updates (June 2003)
- Tactical Ad Campaign Benchmark Conversion Studies (June – November)

When SARS emerged as a concern in March, issue-specific information was required by the industry on almost a daily basis to monitor the attitudes of travellers in the U.S. and overseas. Responding to the urgency of this requirement, the CTC added specific questions to its weekly omnibus surveys; the questions would go into the field on a Friday night and preliminary results would return by Monday morning.

To respond to the second outbreak of SARS in Toronto, Mad Cow Disease in Alberta, the threat of West Nile Virus and, in August, a massive, days-long power outage in the east, supplementary research initiatives were undertaken in 2003, representing a total investment of between \$1 million and \$1.5 million.

The Commission also struck a crisis-communications Task Force to field inquiries and disseminate critical information relating to the Iraq war, SARS and other events. This Task Force created a profile of the kind of information required by the industry in challenging times; its findings contributed to the development of a permanent crisis-communications plan that will be finalized in 2004.

Marketing in action

In the U.S.

Having reallocated resources to capitalize on U.S. demand for short-distance travel, the CTC worked quickly with its new advertising-agency partner, Palmer-Jarvis DBB, to create a pointed, effective and highly memorable promotional campaign. Eschewing traditional glossy photos of landscapes and tourist attractions, the campaign spoke directly to the travel-related concerns of the target audience and employed the edgy brand of humour for which Canadian entertainers are known around the world. In a post-wave survey, the CTC found that the ads enjoyed an extremely high rate of audience approval (84 percent). More than half of the people surveyed recalled specifically the key message that "now is a good time to visit Canada due to the weak economy and uncertainty overseas."

In Canada

Travel within Canada by Canadians remains the country's largest source of tourism revenue. Recognizing the challenges facing the tourism industry, the Minister of Industry announced in June that the federal government would provide additional funds to support the CTC's domestic marketing program and help combat the negative effects of the SARS outbreak on Canada. The "I Can in Canada" campaign was launched that same month, just ahead of the busy summer travel season. Including a mix of television, newspaper, online and web advertising, the campaign proceeded in two phases in 2003, with a third phase scheduled for the first quarter of 2004.

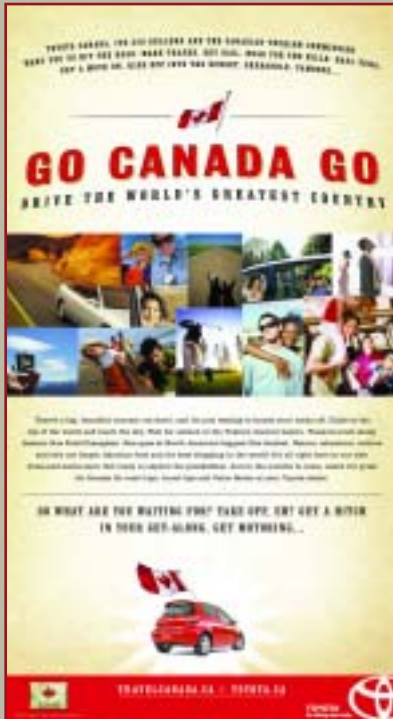
Internationally

As mentioned elsewhere, the CTC focused its international marketing efforts on the U.K. and Mexico in 2003. A major television campaign in the United Kingdom reached some 2.3 million potential long-haul travellers; roughly 1.4 percent of those booked or departed on an immediate trip to Canada in the weeks following. In Mexico, while continuing to enhance its localized viajecanada.com website, the Commission advertised in tourism magazines, engaged a Mexican public-relations representative, and carried out numerous event- and partner-specific promotional activities. Through public relations alone, the CTC was able to secure \$1.7 million in free publicity, reaching more than 12,000,000 people. At an industry exhibition, Expo-Outlet, some 489 Canadian trips were sold, amounting to more than \$500,000.

2003 marketing activities: highlights

- E-marketing via revamped travelcanada.ca website
- E-media relations via GoMedia Canada site
- Launch of *I Can in Canada* domestic campaign
- Pure Canada consumer travel magazine
- 16-page U.S. magazine insert
- Plan B U.S. ad campaign
- American Express Closer to Home campaign
- Travelocity web banner advertising
- Meetings, Conventions & Incentive travel animated meeting planner CD-ROM





New partnerships, new possibilities

The CTC continued in 2003 to cultivate non-traditional partnerships – promotional relationships with organizations outside of, but having affinities with, the tourism industry. These partnerships raise Canada's profile as a tourism destination in different venues than have been traditionally available to the CTC; the Commission is able to communicate with its target audiences via partners' information-distribution systems. And non-traditional partners are attracted to the CTC by the value of being associated with the Canadian flag and by the extent of the Commission's vast network of industry partners.

The CTC established a major, long-term partnership with Toyota Canada in 2003. Involving a total investment of \$9 million over three years, the partnership brings invaluable stability to the CTC's domestic marketing plans. Throughout the duration of the arrangement, TV, print, web and other materials will promote travel and tourism within Canada to audiences in British Columbia and the North, the Prairies, Ontario, Quebec, and Atlantic Canada.

Internationally, non-traditional partnerships also enjoyed great success. Germany's largest coffee roaster and retailer, Tchibo Kaffee, featured Canada as a tourist destination in its shops and in Tchibo magazine, which reaches 1.5 million readers. A Tchibo trekking camp on Vancouver Island is expected to draw 100 travellers, representing a total value of \$250,000 for a \$55,000 promotional investment.

The Taiwanese version of Céline Dion's latest CD included a map of Canada and personal message from the singer inviting travellers to visit her home country; Canada was simultaneously promoted as a tourist destination on Sony Music's Chinese website. Results tracking is underway for this promotion.

In Australia, a joint advertising and promotional campaign undertaken with Globus/Amex prompted travel inquiries about Canada to climb by 29 percent in May and 32 percent in June.

Other non-traditional partners in 2003 included Sears Travel Canada, Michelin Canada, the Royal Canadian Mounted Police, and, in the U.S., Lay's Chips and Clearly Canadian bottled water.

Going forward, the CTC will expand its roster of non-traditional partners to extend its market reach, targeting industry sectors and companies whose business has a logical tourism connection.

Taking an active role internationally

Recognizing that public-private sector cooperation and partnership is competitively essential for the tourism industry, the CTC joined forces with the World Tourism Organization (WTO) and the WTO Business Council in 2003 to research and publish *Co-operation and Partnerships in Tourism: A Global Perspective*. This publication examines international best practices for partnership from a tourism point of view. It features 18 case studies from six different regions of the world: Europe, Middle East, Asia Pacific, Africa, the Caribbean and Canada.



Throughout 2003, presentations on the partnership study were made at different international and Canadian conferences: ITB in Berlin, Germany; the Caribbean Tourism Organization Conference in Barbados; the General Meeting of Affiliate Members of WTO in Beijing, China; and the Tourism Industry Association of Canada National Conference on Tourism in Montréal, Quebec.

The CTC also released publications on risk management for tourism operators, and on practical approaches to securing financing for tourism products. These guides were intended primarily to support the business planning of Canada's vast number of small and medium-sized tourism operations; the online version of the risk-management guide was accompanied by an interactive tool that businesses can use to calculate their own degree of risk. Workshops on both topics are planned for delivery across Canada in 2004.

At home, the CTC continues to work with Canadian tourism industry organizations such as the Canadian Tourism Human Resource Council, the Hotel Association of Canada, as well as the Tourism Industry Association of Canada. The CTC partnered with the Canadian Academy of Travel and Tourism (CATT) to present the first Annual CTC/CATT Educator's Award in 2003, recognizing educators for demonstrating best practices in the CATT National Program.

Internationally, Canada's place on the world tourism stage was acknowledged through its election to the World Tourism Organization's Executive Council, Sustainability Development of Tourism Committee and Quality Support and Trade Committee, as well as, the Executive Council of the Organization for Economic Cooperation and Development.

Operational Efficiencies

The CTC took several steps in 2003 to achieve operational efficiencies. It established a contract with a new travel service provider, gaining the ability to make rapid and cost-effective travel arrangements by leveraging electronic booking capabilities. As well – in keeping with the fact that the majority of its publications were available and requested in electronic format – the CTC opted to transfer its print-publication resource and reference centre to a university tourism program. In both cases, the streamlined operations that resulted led to staff reductions at the Commission's Ottawa headquarters.

To keep pace with this growing use of the Internet, the CTC issued a request for proposal in 2003 seeking a contractor to manage all of the Commission's IT infrastructure. The winning bid will be selected in the first quarter of 2004. Key in the RFP were considerations of scalability: ensuring that the CTC's web resources will be able to meet demand for its web resources, however much that demand might increase.

At the same time, to further accelerate its ability to disseminate information to the tourism industry, the CTC purchased a content-management system for its www.canadatourism.com website. This new system allows authorized CTC employees to post new content directly to the Commission's industry-facing site, rather than requiring reliance on a third-party service provider. This will reduce the 'upload time' for fresh content from days to hours.

Human Resources

In 2003, the CTC prepared to migrate to its own pension and benefits program, leaving the federal government plan it had previously belonged to. This change takes effect in 2004. The new plan affords the Commission greater flexibility; it is expected to serve as an important competitive tool for attracting high-value candidates. At the same time, by maintaining a defined-benefit pension plan, the CTC will ensure retention of long-term employees.

The CTC also instated a global staff performance-management program in 2003. This program provides better metrics, helps employees plan their career paths, and is designed to encourage greater risk-taking – a culture in which ideas are put forward freely and debated seriously and respectfully. Initial feedback from staff was positive; although the process is more complex than it had been previously, it was felt to represent a better investment of individual time.

The CTC also developed a corporate succession plan in 2003; this was approved in September by the HR Committee of the Board and is expected to become active in 2004. A key item on the agenda for the coming year will be to negotiate a new collective agreement with staff.

Report on governance

Governance at the CTC

The CTC maintains a unique governance model that brings public-and private-sector partners together around the boardroom table to develop strategies for promoting Canada as a world-class tourism destination.

By law, the Board must reserve 17 seats for private-sector directors from across Canada's tourism industry; the balance of seats is held for public-sector officials from federal, provincial and territorial government bodies responsible for tourism.

Working committees play a major consultative role in the decision-making and strategic planning processes of the corporation's Board of Directors. All working committees are chaired by and comprised of industry leaders and experts, ensuring that the CTC is truly 'industry led.'

Director appointment and renewal

The Governor-in-Council appoints the Chair as well as the President and Chief Executive Officer. The Minister of Industry appoints all other Directors with Governor-in-Council approval. Directors are appointed for terms of up to three years and are eligible for reappointment. CTC Board members include CEOs and COOs of large Canadian and multinational corporations, as well as owner/operators of small and medium enterprises in the tourism industry.

An approved Board profile sets out the desired qualifications, experience, duties and responsibilities for these positions. The profile assists in succession planning and serves as a frame of reference when the government selects new Board members. The Board also periodically assesses its own composition to ensure that it possesses the appropriate mix of expertise and background to meet the strategic needs of the corporation. Additionally, in 2003 the CTC established a database of potential candidates to help accelerate the appointment of members to the Board.

Board education

Each member of the Board receives a detailed orientation manual as well as a private briefing upon appointment. Meetings are arranged with senior management in order to become fully acquainted with CTC business and affairs.

In addition, Board members also receive regular updates on trends in corporate governance and other issues relevant to the corporation through presentations from invited speakers.

Articles and studies on corporate governance best practices are also distributed to Board members on a regular basis.

Management Discussion and Analysis

This segment of the report deals with the Commissions' financial performance for the year ended December 31, 2003. The audited financial statements that follow are integral to this analysis, and should be read in conjunction with it.

Total funding used by the Commission for fiscal 2003 was \$97.5 million. Funds available included \$83.7 million of government appropriations and \$2.5 million of carry forward funding from 2002. As a result of crises such as SARS, the Iraq war and other factors, additional funding in the amount of \$12.5 million was made available to help lessen the impact to the tourism sector. The majority of these monies went directly in to marketing initiatives in the United States, Canada and Europe. Based on research and industry advice some programs were delayed until early 2004. No new monies were spent on overhead costs

The Commission also collected \$12.6 million in partner revenues. Other revenues in the amount of \$ 700,000 were earned consisting of interest income and royalties.

Expenditures

Expenditures for the year totaled \$112 million, a 10% decrease from 2002. The majority, \$90 million, was spent on marketing and sales activities both in Canada and abroad. These amounts include compensation of all marketing and sales staff, advertising and program costs, corporate marketing initiatives and general and administrative costs of offices outside of Canada.

Corporate services costs for 2003 were \$12.6 million and are consistent with 2002 costs (\$12.7 million). These costs were for overhead functions including, Finance, Procurement, Human Resources, Information Technology, Board Liaison and Planning. Items include all office rents as well as compensation for staff working in these functions.

Expenditures for Information services were \$7.4 million, compared to \$6.8 million in 2002. These include compensation and operating costs for Research, Communications, Publishing and Industry Relations.

Partnership

As previously stated, the Commission actively engages in partnership activities. Total partner programs in 2003 were valued at \$83 million (\$114 million in 2002). There are three kinds of partnering arrangements. First there are those where the CTC takes the lead role in managing the project and partners contribute financially to help fund the project. These resulting revenues totaled \$12.6 million (\$13.8 in 2002). The second form of agreements are those where the third parties or partner takes the lead. Monies paid out by the CTC to the partners totaled \$48.4 million in 2003 (\$77.4 million in 2002). The third form includes those agreements where contributions made by partners are "in-kind" - examples would include accommodation or airfare. These totaled \$22 million for 2003 (\$23 million in 2002).

Capital Assets

The value of capital assets remained steady with a value of \$3.9 million as at December 31, 2003. During late 2003 the relocation of some CTC offices resulted in expenditures for leasehold improvements and in the purchase of furniture. Work continued in 2003 on website improvement and re-design; these costs have been capitalized. Finally, hardware and software purchases were made to support the Commission's IT infrastructure.

Employee Future Benefits

Employee future benefits consist of future benefits payable to employees for pension and severance. Payments are made when employees leave the CTC or retire. These liabilities declined significantly in 2003 to \$3.3 million from \$4.4 million at the end of December 31, 2002. Upon becoming a Crown corporation, the CTC inherited opening liabilities for staff transferred from the Government of Canada. The government has now agreed to pay for certain pension liabilities as at January 1, 2001 for Foreign Service employees, thereby reducing the outstanding liability as at December 31, 2003.

Accumulated Deficit

The accumulated deficit of the CTC represents liabilities incurred by the CTC for which appropriations have not yet been received. These consist largely of employee future benefits for pension and severance. The deficit as at December 31, 2003 is (\$1.5) million and was (\$2.5) million at December 31, 2002. The decline in the deficit over the 12-month period resulted when the Government of Canada confirmed that it will assume the liability for foreign employees covered under the world wide pension plan for services rendered prior to January 2, 2001. This agreement has reduced the liability and the pension expense of the CTC by \$1 million and is reflected in this year's financial statements.

Other

Many changes took place during 2003 with respect to financial management. It was decided that the CTC would move its foreign offices out of the embassies and consulates of the Department of Foreign Affairs and International Trade (DFAIT). Additionally, financial services being provided by DFAIT outside of Canada were transferred back to the CTC.


MANAGEMENT RESPONSIBILITY STATEMENT

The management of the Commission is responsible for the performance of the duties delegated to it by the Board of Directors. These include the preparation of an Annual Report together with audited financial statements. These statements, approved by the Board of Directors, were prepared in accordance with Canadian generally accepted accounting principles appropriate in the circumstances. Other financial and operational information appearing elsewhere in the Annual Report is consistent with that contained in the financial statements.

Management maintains internal accounting control systems designed to provide reasonable assurance that relevant and reliable financial information is produced and that transactions comply with the relevant authorities.

Management also maintains financial and management control systems and practices designed to ensure the transactions are in accordance with Part X of the *Financial Administration Act* and regulations, the *Canadian Tourism Commission Act*, and by-laws of the Commission. These systems and practices are also designed to ensure that assets are safeguarded and controlled, and that the operations of the Commission are carried out effectively. In addition, the Audit Committee, appointed by the Board of Directors, oversees the internal audit activities of the Commission and performs other such functions as are assigned to it.

The Commission's external auditor, the Auditor General of Canada, is responsible for auditing the financial statements and for issuing her report thereon.



Michele McKenzie
President
and Chief Executive Officer



Karin Zabel
Vice President Finance
and Chief Financial Officer

March 10, 2004



To the Minister of Industry

I have audited the balance sheet of the Canadian Tourism Commission as at December 31, 2003 and the statements of operations and accumulated deficit of Canada and cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Commission that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canadian Tourism Commission Act* and the by-laws of the Commission.

Douglas Timmins, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
March 10, 2004

Canadian Tourism Commission
Balance sheet
As at December 31
(in thousands)

	<u>2003</u>	<u>2002</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 9,838	\$ 11,119
Accounts receivable		
Parliamentary appropriations (note 8)	6,281	6,910
Government of Canada	3,776	2,864
Other	3,213	7,414
Other assets	499	1,117
	<u>23,607</u>	<u>29,424</u>
Capital assets (note 4)	<u>3,955</u>	<u>4,131</u>
	<u>\$ 27,562</u>	<u>\$ 33,555</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 5)		
Government of Canada	\$ 1,848	\$ 1,916
Other	19,548	25,334
Deferred revenue	392	355
	<u>21,788</u>	<u>27,605</u>
Employee future benefits (note 6)	3,312	4,406
Deferred capital funding (note 7)	3,955	4,131
	<u>7,267</u>	<u>8,537</u>
Accumulated deficit of Canada (note 3)	<u>(1,493)</u>	<u>(2,587)</u>
	<u>\$ 27,562</u>	<u>\$ 33,555</u>

Commitments and contingencies (notes 10 & 11)

The accompanying notes form an integral part of the financial statements

Approved on behalf of the Board of Directors:





Canadian Tourism Commission
Statement of operations and accumulated deficit of Canada
For the year ended December 31
(in thousands)

	<u>2003</u>	<u>2002</u>
Revenue		
Partnership contributions	\$ 12,627	\$ 13,801
Other	699	855
	<u>13,326</u>	<u>14,656</u>
Expenses		
Marketing and sales	90,148	104,231
Corporate services	12,596	12,769
Information services	7,405	6,806
Amortization of capital assets	1,434	878
	<u>111,583</u>	<u>124,684</u>
Net results of operations before parliamentary appropriations and amortization of deferred capital funding	(98,257)	(110,028)
Parliamentary appropriations (note 8)	97,590	108,299
Amortization of deferred capital funding (note 7)	1,434	878
	<u>99,024</u>	<u>109,177</u>
Net results of operations for the year	<u>767</u>	<u>(851)</u>
Accumulated deficit of Canada, beginning of year	(2,587)	(1,984)
Services provided without charge by Government departments and agencies (note 12)	327	248
Accumulated deficit of Canada, end of year	<u>\$ (1,493)</u>	<u>\$ (2,587)</u>

The accompanying notes form an integral part of the financial statements

Canadian Tourism Commission
Statement of cash flows
For the year ended December 31
(in thousands)

	<u>2003</u>	<u>2002</u>
Operating activities		
Net results of operations for the year	\$ 767	\$ (851)
Items not affecting cash		
Amortization of capital assets	1,434	878
Amortization of deferred capital funding	(1,434)	(878)
Changes in non cash working capital	(1,281)	560
Services provided without charge	327	248
Change in employee future benefits	(1,094)	602
Net Cash provided by operations	<u>(1,281)</u>	<u>559</u>
Investing activities		
Acquisition of capital assets	<u>(1,258)</u>	<u>(3,579)</u>
Financing activities		
Parliamentary appropriations used for the acquisition of capital assets	1,258	2,743
Other funding used for the acquisition of capital assets	-	836
	<u>1,258</u>	<u>3,579</u>
(Decrease) increase in cash and cash equivalents for the year	(1,281)	559
Cash and cash equivalents, beginning of year	11,119	10,560
Cash and cash equivalents, end of year	<u>\$ 9,838</u>	<u>\$ 11,119</u>

The accompanying notes form an integral part of the financial statements

Canadian Tourism Commission
Notes to Financial Statements as at December 31, 2003

1. Authority and objectives

The Canadian Tourism Commission (the Commission) was established on January 2, 2001 under the *Canadian Tourism Commission Act* (the Act) and is an agent Crown corporation named in Part I of Schedule III to the *Financial Administration Act*. The Commission is not subject to income taxes.

As stated in section 5 of the Act, the Commission's mandate is to:

- sustain a vibrant and profitable Canadian tourism industry
- market Canada as a desirable tourist destination
- support a cooperative relationship between the private sector and the governments of Canada, the provinces and the territories with respect to Canadian tourism; and
- provide information about Canadian tourism to the private sector and the governments of Canada, the provinces and territories.

2. Significant accounting policies

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. A summary of significant policies follows:

a) Parliamentary appropriations

The Commission is mainly financed by the Government of Canada through parliamentary appropriations. Parliamentary appropriations are recognized in the year in which the related expenditures are incurred.

Appropriations for depreciable capital assets are recorded as deferred capital funding on the balance sheet and amortized on the same basis and over the same periods as the related capital assets. Upon disposition of funded depreciable capital assets, the Commission recognizes in income all remaining deferred capital funding related to these capital assets.

As a result of the Commission's year end (December 31) being different than the Government's (March 31), the Commission will normally have either a parliamentary appropriations receivable balance or a deferred parliamentary appropriations balance at year-end.

b) Partnership contributions

The Commission conducts marketing activities in partnership with a variety of Canadian and foreign organizations. Where the Commission assumes the financial risks of conducting a marketing activity, partnership contributions are recognized as income in the same period as the related costs are incurred. Partnership contributions received for which the related costs have yet to be incurred are shown as deferred revenue.

c) Other revenues

Other revenues mainly consist of revenue from royalties and interest.

d) Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the year-end exchange rates. Revenue and expense items are translated at average exchange rates during the year. Translation gains and losses are included in income for the year.

e) Cash equivalents

Cash equivalents are carried at cost as they are intended to be held to maturity. They are comprised of marketable securities with original maturity dates of less than 90 days.

f) Other assets

Other assets consist of prepaid expenses and inventory.

g) Capital assets

Capital assets are recorded at cost and amortized on the straight-line basis over the estimated useful life of the assets as follows:

Leasehold improvements	Remaining term of lease
Office furniture	5 years
Computer equipment and software	3 and 5 years

Capital assets transferred to the Commission as at January 2, 2001 are recorded at their historical cost, less accumulated amortization, in accordance with the above rates.

h) Employee future benefits

(i) Funded pension benefits

Canadian employees of the Commission participate in the Public Service Superannuation Plan administered by the Government of Canada. The Commission's contribution to the Plan reflects the full cost of the employer contributions. This amount is currently based on a multiple of the employee's required contributions and may change over time depending on the experience of the Plan. These contributions represent the total pension obligations of the Commission for these employees and are charged to operations on a current basis. The Commission is not required under present legislation to make contributions with respect to any actuarial deficiencies of the Public Service Superannuation Account.

Foreign employees working in the United Kingdom and the United States participate in the Department of Foreign Affairs and International Trade pension plans administered by the Government of Canada. The Commission's contribution to these plans reflects the full cost of the employer contributions. These amounts vary depending upon the plan and are based on a percentage of the employee gross earnings. They may change over time depending on the experience of the plans since the Commission is usually required under present legislation to make adjustments to the rate of contributions to cover any actuarial deficiencies of these plans. These contributions represent the total pension obligations of the Commission for these employees and are charged to the operations on a current basis.

(ii) Unfunded pension benefits

Other foreign employees are members of various local defined benefit plans. The cost of future pension benefits is recognized over the period in which the employees render services to the Commission. The cost of the benefits earned by employees is actuarially determined using the projected benefit cost method prorated on service. These benefit plans are not pre-funded and thus have no assets.

(iii) Non-pension benefits

Canadian and foreign employees of the Commission are entitled to specific non-pension benefits on or after termination or retirement, as provided for under various collective agreements or conditions of employment. The Commission recognizes the cost of future non-pension benefits over the periods in which the employees render services to the Commission. The cost of the benefits earned by employees is actuarially determined using the projected benefit cost method prorated on service. These benefit plans are not pre-funded and thus have no assets.

i) Services provided without charge by Government departments and agencies

Services provided without charge by Government departments and agencies are recorded as operating expenses by the Commission at their estimated fair value. A corresponding amount is credited directly to the accumulated deficit of Canada.

j) Accounting estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the amounts of income and expense during the reporting periods. Actual results could differ from those estimates. The most significant estimates involve the determination of employee future benefits.

3. Accumulated deficit of Canada

As indicated in Note 1, on January 2, 2001 the Canadian Tourism Commission became a Crown corporation and all assets and liabilities of the Commission as a Special Operating Agency of the Department of Industry were transferred to the Commission. The net book value of the elements transferred was then credited to the accumulated deficit of Canada.

The accumulated deficit of Canada represents liabilities incurred by the Commission, net of deferred capital funding, that had not yet been funded through parliamentary appropriations. A significant component of this amount is for employee future benefits that have not yet been funded through parliamentary appropriations.

4. Capital assets

	December 31, 2003 Cost	December 31, 2003 Accumulated Amortization	December 31, 2003 Net Book Value	December 31, 2002 Net Book Value
	(in thousands)			
Leasehold improvements	\$1,255	\$ 197	\$1,058	\$ 1,117
Office furniture	947	452	495	424
Computer equipment and software	5,052	2,650	2,402	2,590
Total	\$7,254	\$3,299	\$3,955	\$4,131

5. Accounts payable and accrued liabilities

The main components of the accounts payable and accrued liabilities consist of amounts due to advertising agencies, provincial and municipal advertising partners, and salaries and benefits payable.

6. Employee future benefits

Employees of the Commission are entitled to specific benefits on or after termination or retirement, as provided for under various collective agreements or conditions of employment. Foreign employees may receive a lump sum pension entitlement on retirement. The accrued benefit liability of these benefits is as follows:

	<u>2003</u>	<u>2002</u>
	(in thousands)	
Severance benefits	\$2,955	\$3,274
Foreign employee pension entitlements	<u>357</u>	<u>1,132</u>
	<u>\$3,312</u>	<u>\$4,406</u>

(i) Funded pension benefits

The Public Service Superannuation Plan required the Commission to contribute at a rate of 2.14 times the employees' contributions on account of current service. The Commission's contribution to the Plan during the year amounted to \$1.1 million (\$1.2 million in 2002).

The Department of Foreign Affairs and International Trade pension plans required the Commission to contribute at a range varying from 0 to 21.9 percent of employees' gross earnings. The Commission's contributions to these plans during the year were \$536,000 (\$400,000 in 2002).

(ii) Unfunded pension benefits

As they are not pre-funded, no contributions were made by the Commission to foreign employee defined benefit pension plans during the year. The net expense for the Commission's foreign employee defined benefit pension plans for the year is (\$720,000) (\$200,000 in 2002), and benefits paid under these plans during the year amounted to \$55,000 (nil in 2002).

As a result of an agreement with the Treasury Board of Canada in 2004, the Government of Canada will assume the liability for foreign employees covered under the world wide plan administered by the Department of Foreign Affairs and International Trade for services rendered prior to January 1, 2001. The impact of this agreement is reflected in this year's financial statements and results in a decrease of the pension expense and the related liability of \$1 million.

At December 31, 2003, the accrued benefit obligation for the Commission's Pension Plan represents \$402,000 (\$197,000 in 2002) and the accrued liability is \$357,000 (\$1.1 million in 2002).

(iii) Non-pension benefits

The non-pension benefits are mainly comprised of severance benefits. The net expense for the Commission's non-pension benefit plans for the year is \$412,000 (\$400,000 in 2002), and the benefits paid under these plans during the year amounted to \$731,000 (\$600,000 in 2002).

At December 31, 2003, the accrued benefit obligation of the Commission for these benefits for Canadian and foreign employees represents \$3.2 million (\$3.2 million in 2002) and the accrued liability is \$2.9 million (\$3.3 million in 2002).

7. Deferred capital funding

Deferred capital funding represents the unamortized portion of parliamentary appropriations and other funding received to purchase depreciable capital assets.

Changes in the deferred funding balance are as follows:

	<u>2003</u>	<u>2002</u>
	(in thousands)	
Balance at the beginning of the year		
Parliamentary appropriations	\$ 3,337	\$ 1,430
Funding from related party	794	-
	<u>4,131</u>	<u>1,430</u>
Funding used in the year for the acquisition of capital assets		
Parliamentary appropriations	1,258	2,743
Funding from related party	-	836
	<u>1,258</u>	<u>3,579</u>
Amortization		
Parliamentary appropriations	(1,350)	(836)
Funding from related party	(84)	(42)
	<u>(1,434)</u>	<u>(878)</u>
Balance at the end of the year		
Parliamentary appropriations	3,245	3,337
Funding from related party	710	794
	<u>\$ 3,955</u>	<u>\$ 4,131</u>

8. Parliamentary appropriations

As a result of the Commission's year end (December 31) being different than the Government's (March 31), the Commission will normally have either a parliamentary appropriations receivable balance or a deferred parliamentary appropriations balance at year-end. The schedule below reconciles the amount of funding available to the Commission during the year with the amount actually used in operations.

	<u>2003</u>	<u>2002</u>
	(in thousands)	
Amount provided for operating and capital expenditures:		
Amounts voted in 2002-03 (2001-02)		
Main Estimates	\$ 83,166	\$ 82,460
Supplementary Estimates A	3,097	5,000
Supplementary Estimates B	33	16,228
	<u>86,296</u>	<u>103,688</u>
Less: Portion recognized in calendar 2002 (2001)	<u>(55,363)</u>	<u>(48,009)</u>
	<u>30,933</u>	<u>55,679</u>
Amounts voted in 2003-04 (2002-03)		
Main Estimates	83,800	83,166
Supplementary Estimates A	12,500	3,097
	<u>96,300</u>	<u>86,263</u>
Less: Portion to be recognized in calendar 2004 (2003)	<u>(22,104)</u>	<u>(37,810)</u>
Parliamentary appropriations receivable at year end	<u>6,281</u>	<u>6,910</u>
	<u>67,915</u>	<u>55,363</u>
	<u>98,848</u>	<u>111,042</u>
Amounts used to purchase capital assets	<u>(1,258)</u>	<u>(2,743)</u>
Parliamentary appropriations used in the year	<u><u>\$ 97,590</u></u>	<u><u>\$ 108,299</u></u>

9. Reconciliation of net results of operations to government funding basis

The Canadian Tourism Commission receives its funding from the Government of Canada based primarily on cash flow requirements. Items recognized in the Statement of Operations and Accumulated Deficit of Canada may be funded by the Government of Canada in different years. Accordingly, the Commission has different net results of operations for the year on a government-funding basis than on a Canadian generally accepted accounting principles basis. These differences are reconciled below:

	<u>2003</u>	<u>2002</u>
	(in thousands)	
Net results of operations for the year	\$ 767	\$ (851)
Items not requiring (not providing) operating funds:		
Amortization of capital assets	1,434	878
Amortization of deferred capital funding	(1,434)	(878)
Services provided without charge	327	248
Change in employee future benefits	<u>(1,094)</u>	<u>603</u>
Net results of operations for the year on a government-funding basis	<u>\$ -</u>	<u>\$ -</u>

10. Commitments

The Commission has entered into various agreements for services and leases for office premises and equipment in Canada and abroad. The total commitments of the Commission as at December 31, 2003 are \$24.0 million (\$17.9 million in 2002).

The future minimum lease payments for office premises and equipment pursuant to these agreements are approximately as follows (in thousands):

2004	\$ 1,607
2005	1,432
2006	1,138
2007	1,136
2008	<u>1,122</u>
Sub-total	6,435
2009-2012	<u>3,745</u>
Total	<u>\$ 10,180</u>

11. Contingencies

In the normal course of business, various claims and lawsuits have been brought against the Commission. In the opinion of management, losses which may result from the settlement of the matters are not determinable, and accordingly, no provision has been made in the accounts of the Commission. In the

event management concludes that such losses were likely to be incurred and the costs were estimable, they would be charged to expenses.

12. Related party transactions

The Commission is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations and is primarily financed by the Parliament of Canada.

In the normal course of business and on normal trade terms applicable to all individuals and enterprises, the Commission incurred expenses totaling \$6.3 million (\$7.0 million in 2002) for services purchased and rental of space from other government departments and agencies, and received partnership and other contributions totaling \$500,000 (\$1.2 million in 2002) for capital asset acquisitions and services rendered to other departments and agencies.

During the year, the Commission received services without charge which are recorded at their estimated fair value in the financial statements as follows:

	<u>2003</u>	<u>2002</u>
	(in thousands)	
Audit services by the Office of the Auditor General	\$ 225	\$ 160
Other services by government departments	<u>102</u>	<u>88</u>
	<u>\$ 327</u>	<u>\$ 248</u>

13. Financial instruments

The Commission's financial instruments consist of cash held in a general bank account, cash equivalents, accounts receivable, accounts payable and accrued liabilities which are incurred in the normal course of business. It is management's opinion that the Commission is not exposed to significant interest, currency or credit risk arising from these financial instruments. The carrying amounts of cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair value because of their short-term maturity. There is no concentration of accounts receivable and, therefore, there is no significant credit risk.

14. Subsequent Events

The Commission was required, by legislation, to exit the pension and benefit plans of the Government of Canada with respect to its Canadian employees as at January 1, 2004. Therefore, the Board of Directors has committed to the establishment of independent benefit plans and a pension plan effective January 2, 2004. These plans replicate the plans and benefits previously provided by the government. The pension plan established for Canadian employees is a defined benefit plan and is in the process of being registered. The assets in the plan currently represent employer and employee contributions made since January 1, 2004, and are not of a significant amount. The employees will be given the option to transfer their entitlement to pension benefits and the related benefit obligations to the Commission's pension plan once a Reciprocal Transfer Agreement is in place, or to leave them with the Public Service Superannuation Plan until retirement. In the case where employees choose to transfer pension benefits and benefit obligations to the Commission's pension plan, it is expected that the obligation and the related assets will be transferred. At this time, it is not possible to estimate the value of the obligations and related assets to be transferred and their effect on the financial statements of the Commission.

Staff outside of Canada continues to be covered under plans that were in place as at December 31, 2003. In the United Kingdom and the United States, pension coverage will continue under the plans of the Department of Foreign Affairs and International Trade. In other countries new plans offering equivalent coverage will be established as the agreements in place expire. At this time it is not possible to estimate their effect on the financial statements of the Commission.

15. Comparative Figures

Some of the prior year's figures have been reclassified to conform to the current year's presentation.

Committees

Executive Committee

The Executive Committee provides direction for the assessment of the strategic planning process; reviews and recommends the Commission's strategic plan and budgets for approval by the Board; and reviews the President's recommendations, and makes recommendations to the Board, regarding the appointment of officers of the Commission. The committee also exercises all the power and authority of the Board, except in matters relating to CTC by-laws and the approval of the corporate plan, budget, annual report or financial statements required by the *Financial Administration Act*.

Corporate Governance Committee

The Corporate Governance Committee has general responsibility for developing the corporate approach to governance issues. The committee is an arm of the Board, advising and supporting directors in applying the corporate governance principles set in the Governance Manual.

Audit Committee

The Audit Committee reviews and makes recommendations to the Board regarding the CTC's processes for identifying and managing risk; oversees the internal control system and works with the internal auditors; approves all financial statements; and validates the processes for complying with the laws and regulations that govern the CCT including duties and functions mandated by the *Financial Administration Act*.

Human Resources Committee

This committee reviews the Commission's human resources policies and plans, including its compensation and benefits plans, and makes recommendations to the Board.

Nominating Committee

The Nominating Committee makes recommendations to the Minister on the appointment of private sector representatives as directors.

Ad hoc Small and Medium Enterprises (SME) Committee

This committee makes recommendations to the Board on how the CTC can develop working relationships with tourism consortia, destination marketing organizations, sector associations and provincial agencies to help SMEs develop, package and market their products and services. This is one of the committees of the Board on which non-Board members sit.

Working Committees

CTC working committees play a major consultative role in the decision-making and strategic planning processes of the Board. Five of the seven committees are geo-politically based, and the last two are specific to product development and research.

Board of Directors

Chairman of the Board

The Honourable Charles Lapointe
President and Chief Executive Officer
Greater Montréal Convention and
Tourism Bureau

President and CEO

Doug Fyfe

National Representatives

Peter Armstrong
President and Chief Executive Officer
Great Canadian Railtour Company

Jean-Marc Eustache
President and Chief Executive Officer
Transat A.T. Inc.

Daniel O. Jarvis
*Executive Vice President and Chief
Financial Officer*
Intrawest Corporation

Yvon Milette
Owner
Marina de Grand-Mère

David R. Podmore
President and Chief Executive Officer
Concert Properties Ltd.

Sandra White
Manager
FirstHost, Sandra White & Associates

Simon Cooper
President
Ritz-Carleton Hotel Company

Rod A. Seiling
President
Greater Toronto Hotel Association

Regional Representatives

Newfoundland and Labrador / Nova Scotia

Roger Jamieson
Owner and Operator
Kilmory Resort, Newfoundland

Michele McKenzie
Deputy Minister
Department of Tourism and Culture,
Nova Scotia

New Brunswick / Prince Edward Island

Susan LeBlanc-Robichaud
General Manager
Memramcook Learning and Vacation
Resort, New Brunswick

Frank Butler
*Deputy Minister and Chief Executive
Officer*
Tourism PEI, Prince Edward Island

Québec

Alexander Reford
Director
Les Jardins de Métis Inc., Québec

Ontario

Chris Cahill
President and Chief Operating Officer
Fairmont Hotels & Resorts, Ontario

William R. Allen
Deputy Minister
Ministry of Tourism and Recreation,
Ontario

Manitoba / Saskatchewan

Deborah Greening
Owner/Operator
Land of the Loon Resort and
Jacobson Bay Outfitters,
Saskatchewan

Sandra Hardy
Deputy Minister
Department of Culture, Heritage &
Tourism, Manitoba

Alberta / Northwest Territories / Nunavut

Marilyn Backman
General Manager
Varscona Hotel, Alberta

Bob McLeod
Deputy Minister
Department of Resources, Wildlife
and Economic Development, NWT

British Columbia / Yukon Territory

Nancy Huston
Co-owner
The Whitehorse General Store and
Midnight Sun Gallery, Yukon

Rod Harris
President and CEO
Tourism BC, British Columbia

Federal Government

Jean-Claude Villiard
Deputy Minister
Industry Canada, Ontario

Working Committees

All working committees are chaired by and comprised mostly of industry leaders and experts, ensuring that the CTC is truly 'industry-led'. These committees play a major consultative role in the decision-making and strategic-planning processes of the corporation's Board of Directors

Canada Marketing Committee

Pierre Labrie, Chair
General Manager
Office du tourisme et des congrès de
la Communauté urbaine de Québec

U.S. Marketing Committee

Christena Keon Sirsly, Chair
Chief Strategy Officer
Via Rail Canada

Meetings, Conventions and Incentive Travel

Penny McMillan, Chair (September
2003)
Director of Tourism
Destination Winnipeg

Barry Smith, Chair
President and Chief Executive Officer
Metro Toronto Convention Centre

Europe/Latin America Marketing Committee

Sylvie Bourget, Chair
Vice-president, Marketing
Air Transat

Asia/Pacific Marketing Committee

Brian Richardson, Chair
*Vice-president, Brand Marketing &
Communications*
Fairmont Hotels & Resorts

Research Committee

Marc Rosenberg, Chair
*Vice-president, Sales and Product
Distribution*
Air Canada

Product Development Committee

Don Monsour, Chair
President
BC Cuisine and Tourism Society

In-market Advisory Committee Chairs

Europe/Latin America

Germany

Tilo Krause-Donow
CANUSA Touristik GmbH & Co. KG

Switzerland

Rolf Weinmann
Pandora's Enterprise

France

Jacques Buchalet
JB Travel

United Kingdom

Bob Atkinson
Air Canada

Italy

Marco Cisini
Hotelplan

Netherlands

Jos Beltman
INCENTO B.V.

Mexico

Carlos Candia
TOPSA

Asia/Pacific

Japan

Tak Kitamura
JTB World Vacations, Inc.

Australia

David Mulley
Asia Pacific Travel Marketing

New Zealand

Kim Bourne
Adventure World

Taiwan

Vincent TSAI
Air Canada

Korea

Young Lee
Air Canada

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National Library of Canada

Canadian Tourism Commission
Annual Report 2003: Collective Efforts, Common Goals

Annual.
Other ed.: Commission canadienne du tourisme. Rapport annuel 2003.

ISSN 1u82-2003E
ISBN 0-662-36733-2
No de cat. C85-2003E

1. Canadian Tourism Commission – Periodicals.
2. Tourism – Canada – Periodicals.
3. Title.

GL55.C3C32 2004 338.4'79104'05

