HOTELS
PASSION FOR HOSPITALITY

What's the Deal By Daniel Lesser

Daniel Lesser, president and CEO, LW Hospitality Advisors, New York City

U.S.-Canada trade fight would hurt both countries

(The views and opinions expressed in this blog are strictly those of the author.)

Despite a robust U.S. economy, America depends on imports and exports from its neighbors. In fact, goods trading to Canada and Mexico rank first and second in terms of value of the goods being exported. The U.S. sends numerous hard goods to Canada and Mexico including automobiles, machinery, electronics and food products. Often, these commodities are shipped back to the U.S. for final production and/or consumption, or vice versa.

The natural market for the U.S. goods sector is its borders, and while the North American Free Trade Agreement (NAFTA) strengthened trade relationships among the U.S., Canada and Mexico, North America also enjoys a geographical economic advantage when compared with other areas of the globe.

The economies of North America have been intertwined since January 1, 1994, when NAFTA took effect. Canada and the U.S. are both affluent Western democracies whose citizens share common values, and the two nations are the world's largest trading partners. The U.S. and Canada share the world's longest border and have significant interoperability within the defense sphere. Canadian prosperity depends heavily on a successful American economy, and vice versa.

Recently, tensions have been uncharacteristically high between the U.S. and its northern neighbor. A brewing tariff fight with Canada, the U.S.'s longtime ally, has erupted over President Donald Trump's criticism of Canadian Prime Minister Justin Trudeau as "dishonest &

weak," the president's refusal to endorse the final communique at the recent Group of Seven summit, and Canada's outrage regarding tariffs have been applied under the pretext of national security. CBS News recently published an article indicating that "Canada's CTV reports angry Canadian shoppers and travelers are mounting strikes against America's pocketbook by boycotting U.S. goods and trips to the States as the summer travel season begins." CTV further reported that Canadians "are refusing to buy Kentucky bourbon, California wine and Florida oranges, and ignoring major U.S. brands such as Starbucks, Walmart and McDonald's."

Putting politics aside, while Canadian citizens are certainly entitled to retaliate and boycott American brands, invariably they are potentially harming their own nation's economy. According to the Canadian Franchise Association, a nonprofit association of more than 700 corporate members representing over 40,000 franchise business owners, "Canadian franchises contribute over $99 billion per year to the Canadian economy and create jobs for over 1.8 million Canadians." Pages 30 through 40 of the CFA 2018 Annual Accomplishments Report illustrates key findings indicating that "The Canadian Economy Runs on Franchising."

Many U.S.-based franchises, including lodging facilities, that operate across Canada do so under master franchise agreements with Canada-domiciled entities that act as brand ambassadors. Under a master franchise agreement, a franchisee is granted a much broader territory (i.e., a city, province or even the entire country). A master franchisee is typically given the right to sub-franchise a brand within its territory so that it is not responsible for operating every single location. Sub-franchises tend to be locally based unit owners that employ surrounding residents.

Headquartered in Toronto, hotel franchise company Realstar Hospitality has more than 140 franchised hotels across the country. Today, Realstar owns the Days Inn (Wyndham Hotel Group) and Motel 6 and Studio 6 (G6 Hospitality) brand master licensors in Canada. Although the referenced brands are in fact U.S.-based, Realstar and its franchisors employ thousands of Canadian citizens and purchase large sums of Canadian services and nationally produced goods. Therefore, Canadians boycotting U.S.-based brands within their own nation in some cases would be akin to a self-inflicted wound.

Furthermore, a boycott by Canadians who historically crossed the border to visit and shop in many U.S. lodging submarkets along the Canadian border will negatively impact densely populated cities such as Buffalo, New York, Detroit, Michigan, and Seattle, Washington, as well as numerous smaller American communities along the frontier.

Although momentum is building for Canadians to boycott U.S.-branded goods and services, the indignation may be hard to sustain in a nation enamored by American popular culture and hooked on consumption of U.S.-branded goods and services (lodging facilities included). This said, if relations between our two great countries continues to sour and a boycott endures, U.S. companies that do business in Canada will be challenged from consumer and public relations perspectives.

Hopefully, Canada's boycott will not persist and the nation will not end up "cutting off its nose to spite its face." With any luck the U.S. will back off industrial protectionism.

When trade between nations flourishes, peace and prosperity proliferates. A strained relationship between the U.S. and Canada represents a mutually assured threat to economic drivers that in turn will exert negative pressure on the demand for hotel accommodations within both nations.

6/25/2018