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Australian Chamber – Tourism's 2017-18 Pre-budget submission to Treasury

February 2017



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Chamber of Commerce
and Industry



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the voice of tourism western australia

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Executive summary

At a time when many Australian exports are struggling, tourism is booming. Last financial year the tourism sector contributed \$53 billion to the Australian economy, up 7.4 per cent from the previous year¹. And it has enormous potential for future growth – if we get the policy settings right in this highly competitive international market. The 2017-18 Budget provides an opportunity to invest in tourism so that Australia can enjoy the jobs, growth and export income that the sector can generate.

Australian Chamber – Tourism, an initiative of the Australian Chamber of Commerce and Industry, has prepared a Pre-Budget Submission encompassing tourism matters. The submission complements the Australian Chamber’s primary Pre-Budget Submission, which captures the broader concerns of the business community.

To stimulate productivity growth in a fiscally constrained environment, we must ensure that spending initiatives generate economic activity. This will support the living standards Australians enjoy through keeping Australian enterprises competitive.

Australian Chamber – Tourism recommends that the Budget support growth in tourism to contribute to economic and social wellbeing. Tourism has the potential to contribute even more to demand for services and new jobs.

Our Budget recommendations follow three themes:

- International competitiveness;
- Product development; and
- Labour and skills.

Taking action in each of these areas is essential if the Government’s tourism growth projections are to be achieved in a time of global economic uncertainty and fluctuating currency movements.

We propose that these spending initiatives be funded through reallocating existing funds or hypothecating funds from the recent increase to the Passenger Movement Charge.

¹ Tourism Research Council, ‘Tourism satellite account 2015-16’

Recommendation 1: Improve international competitiveness

- Create an Industry Growth Centre for the visitor economy within existing resources
- Accelerate visa reform, including rapid rollout of streamlined and online visa processes
Reform the Tourist Refund Scheme
- Lower visa fees
- Restore Tourism Australia's funding in real terms

Recommendation 2: Develop Australian product

- Develop a Visitor Economy Development Fund
- Commit funding to a program that develops infrastructure to drive demand

Recommendation 3: Invest in labour and skills

- Implement the recommendations of the Austrade Tourism Labour and Skills Roundtable
- More flexible and accessible labour agreement process

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1 Introduction

As the peak body for businesses in tourism, the Australian Chamber – Tourism recommends the 2017-18 Budget include initiatives to support growth in the tourism industry which will contribute to Australia's future economic and social wellbeing.

Cognisant of the significant budget repair task, the Australian Chamber – Tourism recommends investing in initiatives from existing funding or redirecting the revenue raised from the increase in the Passenger Movement Charge. Australian Chamber – Tourism notes that contrary to international agreements, the Charge is already being treated as general revenue by the Government and raises significantly more than the cost it was introduced to cover. Given the substantial additional revenue raised by growth in tourist numbers it seems logical to re-invest a portion of the revenue into increased capability, infrastructure and generating additional demand (which in turn generates additional revenue).

The \$5 increase in the Passenger Movement Charge from \$55 to \$60 is estimated to raise \$260 million over the forward estimates². If we account for the impact of the working holidaymaker reform package, there is around \$15 million which could be redirected towards tourism initiatives that will support the industry to grow more and increase government revenue collection.

The purpose is to encourage economic activity in the growing tourism industry, create more jobs and thereby reduce excess capacity in the labour market. This will also increase government revenue if there are higher profits, more sales of goods and services, workers earning more, increased workforce participation and increased revenue collected from ticket tax. This will build on the more than \$8 billion in tax contributed by the tourism sector.

Favourable terms of trade and continued positive promotion campaigns mean the visitor economy continues to grow much faster than the rest of the economy. Tourism's output grew at 7.4 per cent during 2015-16 – a \$53 billion contribution to overall GDP – driving growth in jobs and export earnings.

Government forecasts tell us that international visitors to Australia are likely to rise from 8.3 million in 2016-17 to 12.3 million in 2024-25³. By 2024-25 inbound tourism expenditure could generate \$67.8 billion in real terms⁴. With domestic tourism expenditure also expected to grow substantially, the visitor economy could be one of the biggest drivers of new jobs over the next decade.

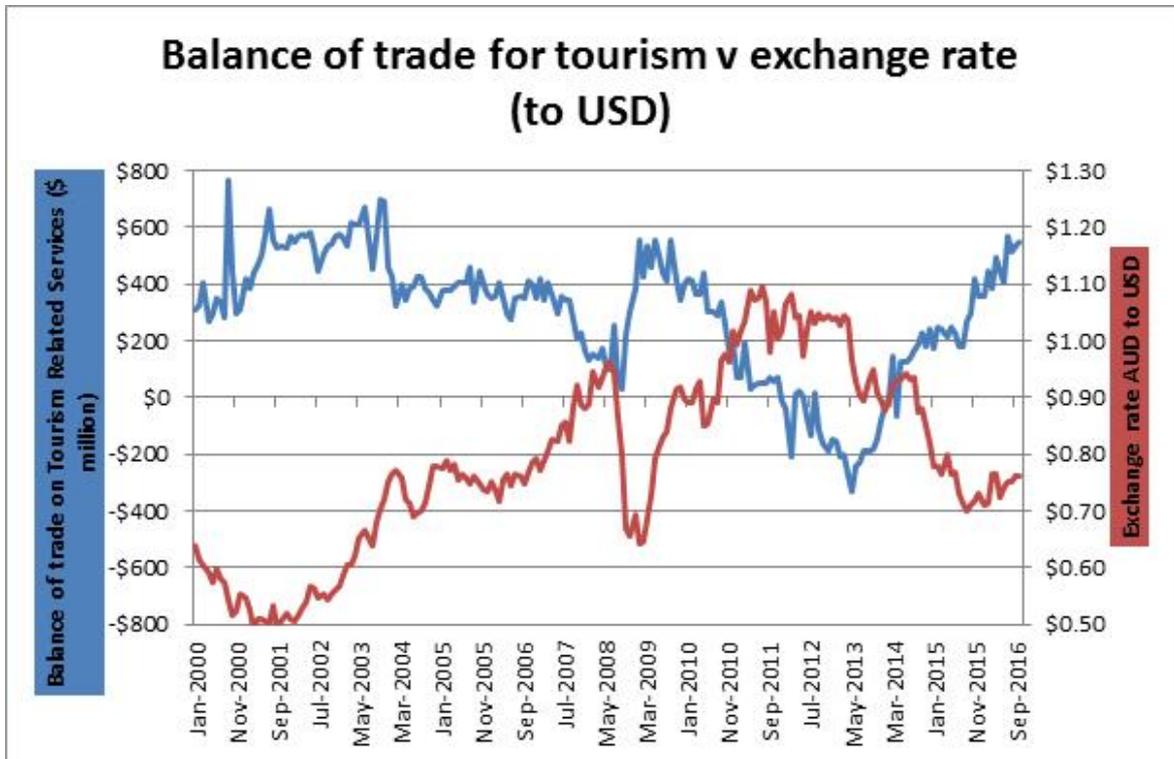
However, achieving or even exceeding these growth predictions is not guaranteed. The international tourism market is very competitive and it has medium and longer term price sensitivities. International tourists are price sensitive. As such, movements in the exchange rate are a key factor (see Figure 1).

² Treasurer Morrison media release <http://sjm.ministers.treasury.gov.au/media-release/104-2016/>

³ Tourism Research Australia, 2016, p. 3

⁴ Ibid, p10

Figure 1: Exchange rate impacts on tourism



Source: RBA Historical Data Exchange Rates <http://www.rba.gov.au/statistics/historical-data.html#exchange-rates>

2 International competitiveness

Australia is currently in a strong competitive position due to the terms of trade, competition for airfares and our natural advantages over other destinations. Unfortunately, Australia is not competitive when it comes to a number of Government processes, taxes and fees. Our position would be enhanced if the Government committed to international best practice as a benchmark.

The past year has seen positives and negatives in this area from Government. It is positive to witness an ongoing commitment to improving visitor visas particularly for key growth markets. However, it is disappointing to see an increase in the Passenger Movement Charge and a reversal of the decision to reduce visa fees for working holiday makers. The Australian Chamber – Tourism recommends that the Government consider the following initiatives to improve our international competitiveness.

2.1 Visitor Economy Industry Growth Centre

Tourism has been identified as one of five super growth sectors which offer both high growth rates and comparative advantage⁵. A study by Deloitte, found that global markets for tourism are

⁵ <https://www2.deloitte.com/au/en/pages/media-releases/articles/super-growth-sectors-worth-250b-build-australias-lucky-country-081013.html> Deloitte, *Positioning for prosperity? Catching the next wave*, 2013

expected to grow at rates at least 10% faster than global GDP as a whole⁶.

In 2014 the Government announced the creation of “Industry Growth Centres” as part of its Industry Innovation and Competitiveness Agenda which are tasked to address barriers to success in areas of competitive strength and strategic priority. Broadly it:

1. Identifies regulations that are unnecessary or over-burdensome for the key growth sectors and impede their ability to grow, and suggesting possible reforms.
2. Improves engagement between Government, specialist researchers and industry, and within industry, to achieve stronger coordination and collaboration of research and stronger commercialisation outcomes in the key growth sectors.
3. Improves the capability of the key growth sectors to engage with international markets and access global supply chains and,
4. Improving the management and workforce skills of key growth sectors.

In 2017-18 the Industry Growth Centre program has been allocated almost \$94 million. Each Industry Growth Centre is allocated \$3.5 million with the remaining funding contestable⁷. The Australian Chamber – Tourism recommends that the Government fund an additional growth centre focussed on tourism from within existing funding. Leveraging from this existing funding to enable collaboration between the three levels of Government, universities and industry towards research and development delivers on the current potential to meet industry and local authority needs. The emergence of new markets, fragmentation of larger markets into sub markets, better demographic and psychographic research, and increasing viability of some niche markets can prompt operators to examine and develop new product offerings or modifications, as well as line extensions⁸.

2.2 Visitor visas, taxes and charges

Inbound tourists are price sensitive, particularly group or package travellers and fully independent travellers. The declining value of the Australian dollar and lower fuel costs have made Australia an attractive tourist destination of late, however, they are prone to fluctuate and can affect the competitiveness of the industry. Instead Australia should focus on making its visa charges more competitive, with the added bonus that these are not subject to global market forces such as exchange rates.

Growth by Chinese visitors remains strong. In 2016, there was 20% growth in Chinese tourists to Australia, equating to 1.2 million people⁹. However, this is only a fraction of the 133 million Chinese

⁶ *ibid*

⁷ <https://www.industry.gov.au/industry/Industry-Growth-Centres/Documents/Industry-growth-centres-initiative-programme-guidelines.pdf>

⁸ <http://www.tourismexcellence.com.au/fostering-innovation/innovation-through-product-development.html>

⁹ In the year ending September 2016, there was a 22% increase in Chinese visitors to Australia, equating to 1.1 million people. Source: Tourism Research Australia <http://tra.gov.au/research/latest-ivs-report.html>

tourist making outbound trips by the end of 2016¹⁰. Chinese tourists are our highest value market, yet there remains huge potential. Tourism Australia research shows Australia ranks first on the wish list for Chinese tourists but we struggle to translate that into actual visits due to higher costs in the form of taxes and visa fees. Germany became popular among Chinese tourists as a result of simplified visa application procedures. In the first half of 2015, for instance, the number of Chinese visitors to Germany was 170% higher over the previous year¹¹. Given the growing middle class of China, Australia should undertake reforms to make our country more attractive to visit.

Australia rates poorly on government charges. The World Economic Forum's 2015 Travel and Tourism Competitiveness Index ranked Australia 127th for airport taxes and charges¹². The key component of that cost is the Passenger Movement Charge and unfortunately this year the Government increased the charge to \$60 confirming it as the most expensive short haul charge in the world and the second highest long haul charge.

As visitors are price sensitive, it is recommended that visa fees be lowered across the board to compensate for the increase in the Passenger Movement Charge which applies to all international travellers over 12 years old. In particular, Australian Chamber – Tourism is disappointed with the 2016-17 MYEFO measure to maintain the \$440 visa application charge for working holiday makers (visa subclass 417 and 462).

The Competitiveness Index acknowledges Australia's improvements in visa conditions between 2013 and 2015, but still ranked Australia below five of the top destinations for Chinese tourists. Since the index was released, the United States has added a 10-year visa for Chinese visitors costing US\$160. Germany has significantly reformed its visas and the United Kingdom has flagged reforms. In the absence of government action, Australia's 10-year visa for Chinese visitors will be more than four times higher than the US.

The Australian Chamber urges accelerated visa reform, including more rapid roll-out of streamlined and online visa processes for citizens in rapidly expanding markets such as China, India and Indonesia.

Tourism is a large labour intensive industry that is strongly impacted by payroll taxes. This significant impost on the cost of employment is a strong reminder of the need for the federal government to restate its commitment to comprehensive tax reform across a federation agenda.

2.3 Marketing Australia

Tourism Australia is a world leader when it comes to marketing Australia as an international destination and it is critical that it continues because of the highly competitive international market. Last year the Government gave a welcome funding commitment to Tourism Australia announcing

¹⁰ <http://www.scmp.com/news/china/money-wealth/article/2017633/record-number-chinese-tourists-travel-outside-mainland-year>
Research conducted by China Tourism Academy and the financial services company UnionPay International

¹¹ <https://www.travelchinaguide.com/tourism/2015statistics/outbound.htm>

¹² http://www3.weforum.org/docs/TT15/WEF_Global_Travel&Tourism_Report_2015.pdf

\$629 million over four years¹³. However, this is a decline in real levels of funding since it was established in 2004-05.

Tourism Australia has successfully marketed Australia to the booming Chinese market, attracting a record number of visitors. However, this still accounts for only 0.8 per cent of Chinese holidaymakers¹⁴. The premium and free independent traveller sectors have huge potential, along with the more established segments.

The Budget should spend funds on programs that are expected to generate a high return on investment. Tourism Australia told the Productivity Commission that its activities generate tourism expenditure in a ratio of 15:1, converting into a benefit cost ratio of 6:1 (after allowing for displacement effects, crowding out and the marginal cost of public funds).

Australia is facing increasing competition from comparator economies in attracting Chinese tourists. The NZ government for instance is spending approximately \$150 million annually on its tourism sector¹⁵. This equates to almost double Australia's tourism expenditure in GDP per capita terms¹⁶. Similarly, Thailand and South Korea continue to market aggressively to Chinese markets.

If Budget priorities allow, the Australian Chamber – Tourism believes that there is a strong case in the medium term to restore Tourism Australia's funding in real terms.

Business events produce a very well documented economic return to the Australian economy. The business events sector has been in close conversation with the Government for some time about the need for a national business events fund to match the type of assistance being provided to key competitors in Asia.

Australian Chamber – Tourism supports the creation of National Business Events Support Fund for event bid acquisition across meetings, convention and exhibitions (consistent with the submission by the Business Events Council of Australia) if the Government can find the savings necessary to fund this initiative.

2.4 Reform the Tourist Refund Scheme

The antiquated Tourist Refund Scheme is an embarrassment to Australia. Departing tourists are being delayed by long queues while they wait for paper-based manual processing of their GST refunds. The system is delaying the departure of international flights and leaves a negative final impression of visiting Australia.

Shopping is a key holiday attraction for many tourists particularly from Asia and our out-dated system is a deterrent to future visits. This issue has been discussed for many years while competitors have forged ahead with simple, quick, online processing.

¹³ 2016 Budget to drive future tourism growth

http://ministers.dfat.gov.au/richardcolbeck/releases/Pages/2016/rc_mr_160504a.aspx?w=JIVZj%2FiV%2FHILzODERE2aA%3D%3D

¹⁴ CEIC database. The latest available observation is 2013

<http://www.australiachinarelations.org/content/chinese-tourism-australia>

¹⁵ <http://www.mbie.govt.nz/info-services/sectors-industries/tourism/budget-2016-tourism-sector>

¹⁶ <https://www.cia.gov/library/publications/the-world-factbook/geos/nz.html>

Australian Chamber - Tourism strongly supports the Tourism Shopping Reform Group proposals to allow competition by private refund operators. This reform will release Border Force resources currently allocated to the government scheme to undertake frontline operations, while reducing delays at airports and improve the shopping experience for tourists.

3 Developing Australian Product

Growing the number of international visitors presents the challenge of continuing to provide a diverse range of product that will attract new and repeat visitors, along with promoting geographic dispersal of visitors and ensuring that tourism infrastructure is up to the task.

Federal governments have an inconsistent history when it comes to funding tourism-related and demand-driven infrastructure. Local grants programs appeal to governments and local members because they can produce valuable product. On occasions, they can fail to link properly with broader objectives. Despite this, the Australian Chamber recommends the creation of a Visitor Economy Development fund by redirecting a portion of revenue raised from the increase in the Passenger Movement Charge to fund new and additional visitor economy related programs, including research and development.

Further, there is an ongoing need to fund tourism-related infrastructure including smaller projects that can drive demand and develop quality product by understanding existing and potential markets.

Currently the Federal Government has the Tourism Demand Driver Infrastructure program (TDDI). The TDDI, the only tourism-specific capital program currently operating, allocated \$43.1 million over the four years from 2014-15 and funded from the previous increase in the Passenger Movement Charge¹⁷. Funding will end in 2017-18. In general this has been a positive program.

Australian Chamber - Tourism recommends that the Government continues its commitment to fund an infrastructure R&D program with the aim of driving demand, commencing in 2017-18 and running for a minimum of 5 years. This could be funded from the recent increase in the Passenger Movement Charge.

Total funding for this scheme represents only a very small portion of the tax applied to tickets via the Passenger Movement Charge.

Australian Chamber – Tourism recommends the Government consult with industry during the development of both the Visitor Economy Development fund and the infrastructure program for tourism.

¹⁷ <https://www.austrade.gov.au/Australian/Tourism/Policy-and-Strategy/Infrastructure-and-Investment/tourism-demand-driver-infrastructure-program>

4 Meeting the demand for labour in tourism and the visitor economy

The Government has acknowledged the challenge of meeting a significant projected shortfall in labour for the tourism sector. In October 2015, Austrade projected a shortfall of 150,000 workers by 2020¹⁸. Significantly this included a major gap in the skills needs of businesses and available workers.

Meeting the demand for labour requires government and industry to make a strong and strategic commitment to training and skills development, as well as attractive career paths, pay and conditions, promotion of careers in tourism and simple arrangements for skilled-entry and temporary workers. The proposals made in the Australian Chamber pre-budget submission to strengthen the vocational education and training system and better support a national apprenticeship system will greatly assist tourism in developing its future labour force. The temporary skilled migration scheme also needs to better accommodate the growing need for labour that cannot be filled by Australians, including a more flexible and accessible labour agreement process.

A significant issue for tourism is the regulatory environment for workplaces including the significant impact on penalty rates in terms of the ability for services, and the cost of those services, to be provided to tourists on Sundays and public holidays. While there is no direct federal budgetary issues around this, depending on the imminent decision of the Fair Work Commission there may well be revenue implications.

The Australian Chamber has been participating in the Austrade Tourism Labour and Skills Roundtable over the past 12 months. The Roundtable has brought together industry and relevant Federal and some State departments to look for solutions to critical labour force and skills shortages and will result in recommendations to Ministers. The Government should commit to implement the recommendations of the Roundtable including providing funding to oversee the implementation.

¹⁸ Australian Tourism Labour Force report: 2015-2020
https://www.tra.gov.au/documents/Australian_Tourism_Labour_Force_FINAL.PDF

5 About Australian Chamber - Tourism

Australian Chamber – Tourism is a part of the Australian Chamber of Commerce and Industry, Australia's largest business advocacy network. Australian Chamber – Tourism is tourism's peak industry body and represents one in eight Australian businesses engaged in the visitor economy. It brings together key participants in the tourism sector to advocate better policies, including in the areas of tax, regulation, tourism marketing, research, labour supply, visas and infrastructure.

The Australian Chamber of Commerce and Industry speaks on behalf of Australian business at home and abroad.

We are the largest and most representative business advocacy network in Australia.

We represent more than 300,000 businesses of all sizes, across all industries and all parts of the country, employing over four million Australian workers.

Our membership comprises all state and territory chambers of commerce and leading national industry associations. Individual businesses are also members of the Australian Chamber's Business Leaders Council.

The Australian Chamber strives to make Australia a great place to do business in order to improve our standard of living and sustain and create jobs.

We seek to create an environment in which businesspeople, employees and independent contractors can achieve their potential as part of a dynamic private sector. We encourage entrepreneurship and innovation to achieve prosperity, economic growth and jobs.

We focus on issues that impact on business, including economics, industry policy, trade, workplace relations, work health and safety, and employment, education and training.

We advocate for Australian business in public debate and to policy decision-makers, including ministers, shadow ministers, members of parliament, ministerial policy advisors, public servants, regulators and other national agencies. We represent Australian business in international forums.

We represent the broad interests of the private sector rather than individual clients or narrow sectional interests.

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