BARRIERS TO SERVICES EXPORTS

TTF submission to the Productivity Commission

MAY 2015

TTF AUSTRALIA
Tourism & Transport Forum

Tourism & Transport Forum Australia (TTF)

The Tourism & Transport Forum Australia (TTF) is the peak national body for the tourism, transport and aviation sectors. We are a CEO forum representing some of the most prestigious institutions and corporations in the Australian visitor economy. Our membership spans accommodation and transport providers, restaurants and retailers, business and major events organisers, property developers and land managers, amusement and cultural attractions, and professional services.

TTF utilises its expertise and networks to develop and advocate public policy for the sustainable long-term growth of the visitor economy.

For further information please contact:

Bianca Tomanovic | Manager, Tourism Policy | Tourism & Transport Forum (TTF)

P: (02) 9240 2005 | M: 0404 078 611 | E: btomanovic@ttf.org.au | www.ttf.org.au

TTF AUSTRALIA Tourism & Transport Forum

Contents

Introduction

Tourism is a service export and an important driver of growth and jobs for the Australian economy. Against the backdrop of a transitioning economy, with a declining manufacturing sector and a waning mining investment boom, tourism offers strong employment opportunities, a rapidly expanding base of potential customers and a strong competitive advantage. Tourism is already Australia's largest service export, employing almost twice as many people as the mining industry, and generating expenditure of over $100 billion every year – more than all our primary industries combined.

The potential of Australia's visitor economy, which includes tourism, events and other activities undertaken by a visitor, was highlighted in the Deloitte Access Economics report *Positioning for Prosperity*. The report identified tourism as one of Australia's five super growth industries capable of collectively delivering an additional $250 billion to the national economy over the next 20 years.

A key component of achieving this potential is to maximise engagement and visitation from a broad range of markets. This includes traditional markets, such as Europe and North America, and newer markets such as Asia, the Middle East and South America.

Australia's position in the Asia-Pacific presents an unparalleled opportunity to respond to the increasing number of Asian visitors who want to come to Australia for holidays, to visit friends and family, for business or for education – and increasingly have the financial capacity to do so.

The Australian government, together with states and territories, has endorsed an aggressive tourism target as part of the Tourism 2020 strategy. Rapid growth in Asian visitor spending, the fastest growing segment of Australia's visitor economy, underpins the target of doubling nominal overnight visitor spending from $70 billion in 2009 to between $115 billion and $140 billion by 2020.

Unfortunately, current overnight visitor expenditure trends mean Australia is not even meeting the lower end of the Tourism 2020 target range, and without a change in policy settings that reduce barriers to services exports, this trend threatens to continue.

As at June 2014 overnight visitor spending was $84.4 billion. However, to be tracking towards the lower target, spending needed to be at $87.7 billion (i.e. $3.3 billion higher) by June 2014. To be tracking to achieve the higher target, spending needed to be at $95.9 billion (i.e. $11.5 billion higher).

While growth in visitor numbers from emerging markets like China has been unprecedented, Australia cannot become complacent. At the same time as some of Australia's key policy settings are sub-optimal, our competitors are moving ahead. Key competitors for the long-haul Asian traveller match their well-resourced marketing campaigns with government-wide efforts to cut red tape on business, streamline visa processes, and improve the transport experience for visitors. It is clear that it will require effort across many areas of government if Australia is simply to maintain its market share of Asian visitors, let alone grow market share and reach the Tourism 2020 targets.

Although Chinese arrivals continue to rapidly grow to Australia, our market share against rival long-haul destinations is declining. As an indicator of the challenge, both Canada and the USA are seeing significantly faster growth in Chinese arrivals than Australia, with the USA up 23 per cent in 2014 and Canada up more than 30 per cent, compared to 15 per cent growth to Australia.

This submission identifies the key barriers that are impeding growth in tourism services exports and suggests the actions the Federal government can take to mitigate their impact or remove them entirely, to ensure Australia meets its Tourism 2020 target and does not concede the competitive advantage it has over other destinations throughout the world.

Taxation

Tourism services exports are subject to a range of taxes, fees and charges, which form a significant barrier and reduce Australia's competitiveness as an international destination. Border fees and charges increase the cost of coming to Australia and act as a demand dampener at the decision-making phase of a trip. The most obvious of these is the Passenger Movement Charge (PMC), a $55 tax on all international travellers over 12 years of age. Tourism is also the only export industry subject to the Goods and Services Tax (GST).

For a large proportion of inbound visitors, there is also a visa application fee, while all outbound Australians pay a tax in the form of a passport application fee in addition to the PMC.

The impact of these charges cannot be underestimated. Air travel is price-sensitive and the cost of an airline ticket is the first trigger in the decision process that leads to travel. This in turn makes government-funded promotion of Australia as a destination harder and leads to a reduction in the potential growth of the industry.

While TTF is providing a submission into the Federal government's Tax White Paper, it is important to consider taxes impacting on tourism services exports as part of the current work of the Productivity Commission.

1. Passenger Movement Charge

Modelling by the International Air Transport Association (IATA) suggests that holiday visitors (as distinct from those travelling to visit friends or relatives) are most sensitive to departure taxes such as the PMC, with every price increase of 10 per cent estimated to generate a decline of 5 to 7 per cent in the number of leisure passengers travelling globally[1].

Using the average return airfare paid to Australia in early 2014 of $1,628, IATA calculates the removal of the PMC would represent a decrease in total fare of 3.3 per cent. This in turn would drive an increase in passenger traffic of around 2.3 per cent annually, leading to 348,000 additional international passenger return journeys each year[2].

Many countries are moving away from departure taxes, as the impact on tourism is becoming more widely understood. Malta led the European movement away from taxing tourists, becoming the first country to repeal its departure tax in 2008. Another country to repeal its tourism tax is Ireland, which abolished its Air Travel Tax in 2014 after economic modelling showed losses to the economy of around €482 million. Ireland has had a number of new international air services introduced from the United Kingdom and long-haul routes following the zero-rating of the tax.

Even the United Kingdom government announced that from 1 May 2015, the Air Passenger Duty (APD) will not apply for young children on flights that depart from the United Kingdom. The tax costs £13 for short-haul flights, covering all of Europe, plus Turkey and North Africa. It can be as much as £97 for longer journeys. While the abolition of the tax initially only applies to under-12s, from March 2016 it will be extended to all children under 16.

[1] International Air Transport Association (2013)
[2] International Air Transport Association (2014)

The PMC is the second highest departure tax among the member countries of the Organisation for Economic Cooperation and Development after the United Kingdom's APD. But unlike the APD, the PMC is not distance-tiered, making it the highest in the developed world for journeys under 3,220km. For example, a passenger flying from London to Istanbul – about 2,500km – would pay around $22 in tax under the APD, whereas a passenger on a comparable journey from Sydney to Auckland (2,200km) pays $55.

The price sensitivity of air travel is most pronounced on short-haul routes. This is where the PMC, as a flat tax, makes up a larger overall proportion of the fare. Analysis by TTF shows, for example, that the $55 PMC represents around 18 per cent of the cheapest low season return air fare to New Zealand[3].

Darwin and Cairns are particularly sensitive to the PMC due to the relative short distance they sit from Asian source markets. The PMC is not distance tiered, so Australia's shortest international sector, from Darwin to the East Timorese capital Dili, some 700km over the Timor Strait, is taxed at the same rate as Australia's longest sector from Sydney to Dallas-Fort Worth, which is more than 13,000km further away.

Looking at another sample ticket, from Darwin to Denpasar on the Indonesian island of Bali, the $55 departure tax is equal to almost half of the airline base fare of $126. As Darwin competes for short break and long weekend tourism from expatriates based in Singapore and other parts of Asia, its appeal is weakened at the 'intention to travel' stage of booking by the virtue of being $55 more expensive than Australia's Asian counterparts, most of whom do not charge a departure tax.

The Taiwanese city of Taipei, for example, is approximately the same distance from Singapore as Darwin, yet lead-in fares are S$70 (AU$60) cheaper.

Although further from the core cities in Asia, Cairns too could benefit from a lower PMC, especially in attracting the price-sensitive Chinese market. Although the market is moving away from organised package tours, Chinese consumers still seek out value for money, including for lower-priced tickets, which in turn places pressure on airlines and airports. A reduction in the levy for flights departing any northern Australian airport would help Darwin, Cairns and potential international airports in Queensland and Western Australia to level the playing field and offer attractive fares to Asian travellers.

Australian leisure destinations like the Gold Coast and Cairns in particular, compete with Pacific beach resorts such as the Cook Islands, Fiji, Vanuatu and Hawaii for family holidays in the New Zealand market. So for New Zealanders, the impact of the PMC is more immediate: at the decision-making stage of a potential visit to Australia. For every New Zealand family of four with teenage kids who take a holiday in Australia, the tax represents an additional NZ$250 hidden in the airfare or in the holiday package deal.

The additional $55 charged by the Australian government is a substantial barrier to tourism services exports and a serious demand inhibitor. In economic terms, the PMC is a per-unit tax on a price-elastic good, passed through and thus the burden is borne by consumers[4]. On a $440 return air fare, the $55 tax represents a 12.5 per cent price increase over base fare, suggesting a dampening of demand of around 9.3 per cent on leisure fares, based on the industry-accepted air fare price elasticity modelled by InterVistas for IATA[5].

---

[3] TTF (2014) - Australian Tourism Industry Submission to Joint Review of Border Fees, Charges and Taxes

[4] Griffiths, A. and Stuart, W. (2008) – *Economics for Business and Management,* Financial Times Prentice Hall, Harlow

[5] InterVistas Consulting (2007) – *Estimating Air Travel Demand Elasticities – Final Report*, International Air Transport Association

Further, TTF calculates that an additional 110,000 New Zealanders would have visited Australia last year had there been no PMC[6], while Air New Zealand calculates that a halving of the PMC would increase demand on trans-Tasman flights by four percent, adding a further $1 billion in expenditure in Australia[7].

As the government continues to reform its suite of border fees and charges through the joint review, TTF would urge the government to take a holistic view of all new potential revenue sources from new products and policy changes, and offset them against the existing taxes on international travel (see section on Border Processing).

TTF recommends that the Federal government reduces the PMC for short-haul air travel (such as to New Zealand) to $25 and recommits to no further increase in the PMC for other destinations.

2. Tourist Refund Scheme

Australia's retail offering is a key attraction for international visitors, particularly those from the growing Asian visitor markets. It is also a key part of achieving the yield targets associated with growing overnight visitor expenditure. To increase competitiveness in this area, Australia needs to reform its Tourist Refund Scheme (TRS). The TRS is the program under which departing travellers can claim back either the GST or the Wine Equalisation Tax (WET) on purchases.

However, the current system, administered by the Australian Customs and Border Protection Service can be a barrier to tourism services exports because it is cumbersome and time consuming. It also costs the Australian taxpayer some $14 million per year to administer, funded from the Customs budget.

TTF believes that if the TRS scheme was easier and more heavily marketed to international tourists, total spend in Australian stores would rise. Economic modelling, undertaken by KPMG on behalf of the Tourism Shopping Reform Group, estimates that by 2017 such a reform could attract an extra 18,000 international visitors to Australia[8], increasing international visitor shopping spend by $226 million.

TTF believes that opening up the Australian TRS to a private provider would deliver even greater benefits, including promotion of Australia as a shopping destination in key source markets and an improved visitor experience. This is the model adopted very successfully by rival destinations in our region, such as Singapore, and used in more than 40 countries worldwide.

TTF recommends the Federal government commits to allowing private operators to provide refunds through the TRS.

---

[6] TTF (2014) - Bringing our neighbour closer – Four reforms to maximise tourism from New Zealand
[7] Air New Zealand (2014)
[8] KPMG (2012)

Regulatory arrangements

3. Secondary 'international light' airports

The combination of a growing mass of travellers, a strong preference for direct flights and the lower operating costs for new long-range aircraft, means point-to-point traffic is set to be a growth area in aviation globally[9]. Given the nature of accessibility to a destination such as Australia, simplifying access intrinsically supports the growth of tourism services exports.

In Australia, the opportunity presented by this trend is in opening up regional airports to direct services from neighbouring countries such as New Zealand and Indonesia, where the operating economics of opening new short-haul routes are favourable. One of the main barriers to this expansion is the cost associated with upgrading the infrastructure and agency staffing for customs, immigration and quarantine facilities at these regional airports. These costs, however, assume that the same level of facilities is required at each international airport.

This could, however, be avoided by undertaking two reforms:

- Introduce a new limited international airport designation – this would particularly suit those airports seeking to focus on flights only to and from New Zealand. These sites would not require the same level of staff as needed at full international airports.
- Improve cross-training of border agency staff – at smaller airports with only a few international flights per day from a low risk country such as New Zealand, it would be possible to have staff trained in customs and quarantine procedures. In most instances these would be straightforward and technology could be used to deal with more difficult cases.

These reforms would be an important first step in opening access to regional airports for a wider range of markets. In the decade to 2012, European airports with fewer than five million passengers saw traffic jump by 79 per cent, while larger airports grew by just 29 per cent.

The potential for this growth also exists in Australia. As an example, Newcastle Airport has the potential to service a large part of regional NSW where local passengers currently have to travel to Sydney or Brisbane to fly internationally. Modelling done by TTF indicates that allowing just four flights per week between Newcastle and New Zealand could generate an additional 18,900 visits by New Zealand residents. Spread across the ten east coast airports with international potential identified in a 2012 Federal government study, some 120,000 additional visitors from New Zealand would fly to Australia if secondary airports were opened[10].

While this would require funding from the Federal government in additional border agent staffing at regional airports, the benefits to regional Australia would far outweigh these costs. For example, border agency expenses charged $120,000 for a 20-week trial of direct New Zealand services to the Sunshine Coast in 2012. This was dwarfed by the contribution to the local economy that these flights created, with some $14.5 million in additional tourism expenditure in 2012 rising to $24 million in 2014. This contributes over $2 million in GST receipts.

TTF recommends the Federal government introduces a new limited international airport designation and funds small, mobile teams of border agents to process arrivals at regional airports accepting international flights.

---

[9] Bronski, Peter & Ruskc, Greg (2013) - *Getting to the Point: Why air travel is ripe to migrate from hub-and-spoke to point-to-point,* Outlet Rocky Mountain Institute

[10] GHD (2012) - Trans-Tasman Final report for the Department of Infrastructure, Transport and Regional Development

4. Sydney Airport

Capacity constraints at Australia's key transport gateways are a substantial barrier to the growth of services exports, especially tourism services. Convenient, easy and economical access to a destination has a large impact on a visitor's destination choice for both leisure and business travel. While Australia has good air connectivity, capacity constraints at key gateways affect the convenience of services, especially from key visitor markets such as the Middle East, and thereby restricts the growth potential of tourism services exports.

Regulatory reform has the potential to deliver more aviation capacity. This is principally evident in the application and imposition of the Sydney Airport movement cap of 80 take-offs or landings per hour. As an arbitrary number reflecting none of the advances in aircraft noise output in recent years, this typifies an old-fashioned approach, holding back Sydney Airport from its maximum efficient potential.

Furthermore, its enforcement in 15-minute blocks triggers delays across the entire Australian national aviation network that are avoidable if international best practice of an annualised target were followed. The cap should be lifted to 90 take-offs or landings per hour and restructuring its enforcement would increase Sydney's flexibility to manage and reduce delays.

TTF recommends the Federal government increases the hourly movement cap at Sydney Airport from 80 to 90 movements per hour and change the 15-minute slot management system currently in place to an annualised target.

5. Cruise ship access to Garden Island

Cruising is the fastest growing part of the tourism industry. In 2013-14, the direct economic contribution of cruise tourism in Australia consisted of $1.28 billion in direct output, $660 million in value added and 4,994 full time equivalent jobs paying $437 million in employee compensation. The indirect and induced economic contribution was estimated at an additional $879 million in output and 3,007 full time equivalent jobs[11].

As NSW accounts for approximately 75 per cent of the national economic contribution of the cruise ship industry, the Federal government should ensure NSW is equipped with the best possible cruise ship infrastructure to support this fast-growing industry.

Sydney Harbour is one of the world's most popular destinations for cruise ships and this has placed serious constraints on the harbour's cruise ship berthing facilities. This is exacerbated by the worldwide trend towards larger cruise ships. Within five years, 85 per cent of new cruise ships constructed will not be able to fit under the Sydney Harbour Bridge and access the White Bay cruise terminal. In addition, the Overseas Passenger Terminal is now at capacity for much of the summer cruising season.

To ensure the growth of the lucrative cruise ship sector is not curtailed, the Federal government needs to provide regularised and increased shared access for large cruise ships to Garden Island. TTF recommends increasing cruise shipping access from three visits to a base of 20 visits per year, in the peak of the cruise season.

---

[11] AEC Group (2014), Economic Impact of the Cruise Shipping Industry in Australia 2013; international passenger figures only.

The Federal government should also develop the ability to process passengers at Garden Island rather than ferry passengers from Garden Island to the White Bay cruise terminal to go through customs. This would greatly improve the customer experience and increase the competitiveness of Sydney as a global cruise destination. The additional time given to visitors will also maximise the benefits of the cruise sector to Sydney's, and more broadly Australia's, visitor economy.

TTF recommends the Federal government increases cruise shipping access to a base of 20 visits per year and implements passenger processing facilities at Garden Island.

6. Rental vehicle industry

The car hire sector plays a critical role in visitor mobility. Whether for domestic or international travellers, or residents who don't own a car, it is often the favourite transport mode to escape the city and visit regional destinations. However, red tape is impeding the efficiency of the rental vehicle industry and thereby impacting on the growth of services exports, especially tourism services.

The rental car industry is a unique and often overlooked component of Australia's transport and tourism sectors. Generating more than $3 billion in economic activity, the industry serves more than 400,000 international customers and purchases up to 40,000 new vehicles every year[12].

In 2013, ten per cent of inbound visitors used a rental vehicle during their trip to Australia[13]. The domestic market also represents a large share of the rental vehicle market with 73 per cent of vehicle hires.

However, the full potential of the industry is not being realised due to inconsistent and inadequate regulatory frameworks. The rental industry abides by eight different state and territory regulatory and tax regimes. Of these jurisdictions, only Tasmania has regulation specifically designed for the rental car industry. In other jurisdictions, rental vehicles are often inappropriately categorised with other services such as hire cars and taxis, which have little resemblance to rental vehicles in terms of vehicle type, regulation, risk profile or vehicle working life.

With regulation working solely at a state and territory level, the current regulatory framework is only effective for operators who act within jurisdictional boundaries. With 70 per cent of annual turnover in the sector generated by national operators, this framework impedes the growth of the industry nationally.

TTF advocates tax and regulatory reforms to reduce inefficiencies and improve the customer experience. These critical changes can be implemented through one of two mechanisms:

- **Option 1** – Harmonisation of state and territory taxes and regulation through an intergovernmental agreement; or
- **Option 2** – The introduction of national regulatory regime administered by a single national body.

TTF believes the Federal Government, through the Department of Infrastructure and Regional Development, should undertake a comprehensive cost benefit analysis of both options, assessing the most viable option in regards to the cost impact on government and industry against the status quo.

---

[12] Figures derived through consultation with TTF rental vehicle members and Ibis World Australian Industry Report, Motor Vehicle Hiring in Australia, 2012

[13] Tourism Research Australia (2014) – International Visitor Survey, December quarter 2013 edition

Reform in the rental vehicle industry will involve transition costs and requires political will, arising from the possible transfer of powers from state and territory governments to the Federal Government. However, the success of the Standing Committee on Transport and Infrastructure and the Council of Australian Governments in delivering outcomes for national transport reform provides a strong foundation for conducting this much-needed reform.

There is a considerable weight of evidence, both in Australia and abroad, demonstrating that national harmonisation of transport regulation delivers significant economic benefits. Building on the success of the introduction of national regulators for heavy vehicles, rail and maritime safety, the rental vehicle sector is a logical next step in the push to build a more productive and integrated transport sector.

TTF recommends the Federal government leads tax and regulatory reforms to harmonise the car rental regulation framework nationally.

Visa and passenger processing

7. Visitor visa reform

Visa costs and processing times can act as a barrier to tourism services exports if travel to Australia for international tourists is more complex and expensive than travelling to another destination. Australia's visitor visa programme contains both business and tourism visa classes. The tourism stream is made up of three subclasses that each attract different fees and have different characteristics. The current system reflects a simplification that took place in March 2013 as part of the deregulation agenda. TTF proposes the Federal government continues its programme of visa simplification with the goal of allowing as many potential visitors easy and affordable access to Australian visas as possible.

As outlined in TTF's research paper *Visitor Visa Reform: Reducing Barriers For Travel To Australia*, Australia risks falling behind other countries in our visa reform agenda unless urgent steps are taken to make our visitor visas easier, cheaper and quicker to obtain.

TTF recognises that significant reform has happened in the visitor visa regime for Chinese citizens in the past three years, notably the simplification of documentary requirements. While further progress has been achieved by the measures recently announced by the Federal Government, including three-year, multiple-entry visas for approved tourist and business applicants from China and pilots for online visitor visa lodgement for China and India, with full roll-out by the end of the year; more still needs to be done to ensure Australia remains competitive in the global marketplace.

Competition for leisure visitors is strong and many of Australia's rival destinations are already taking steps to make it easier for visitors to travel, especially for fast-growing target markets, such as China. For example, Canada, the United States and the United Kingdom have implemented policy changes that enable Chinese leisure tourists to lodge their visa applications online.

As a further competitive advantage, the US usually processes applications in two to nine days compared to Australia's 15-day standard.

This difference in visa application process is contributing to stronger growth in visitors from China to the US than to Australia. In 2013-14, Chinese visitors to Australia grew by an impressive 15 per cent, but this was dwarfed by the impressive growth of 23 per cent to the United States and even more impressive 30 per cent to Canada.

However, in the recent 2015-16 Budget, instead of supporting tourism services exports, the Federal government announced increases to visitor visa charges resulting in $437 million in additional revenue over four years. The cost of a visa from China increased from $130 to $135, while work and holiday maker visa application fees increased from $420 to $440. Coupled with the removal of the tax-free threshold for visitors on a work holiday maker visa, this is sending the wrong signals to the international marketplace and imposes additional barriers to tourism services exports.

It is therefore imperative that the Federal government stays committed to reforming the current visa system, in the short, medium and long-term, so that Australia keeps up with competitors and doesn't continue to lose market share.

As part of the visa initiative, TTF would call on the government to reopen the expansion of the Electronic Travel Authority (ETA) programme, dormant for over a decade. The benefits to tourism services exports and the economy would be immediate. A recent study by the World Travel and Tourism Council found that from the G20 countries, those who had moved from traditional visa applications to electronic visa waivers enjoyed additional visitor growth of 8.9 per cent per year for each of the three years after the change[14].This analysis takes into account not only the current leisure visitor numbers but also estimates the positive impact a drop in visa costs would have on visitor arrival numbers.

Set in the Australian context, Tourism Australia is focusing the majority of its global marketing resources on markets which represent the greatest potential for tourism growth to the year 2020. Of these markets, only China, Indonesia, India, Brazil and the Middle Eastern countries still require traditional visas. It would make sense to focus expansion of the electronic visas on these countries. If a similar growth rate to the 8.9 per cent experienced in other G20 countries were repeated as the result of an expansion of the ETA to Tourism Australia priority markets, we could expect to see an additional 140,000 Chinese tourists, 37,613 additional Indian visitors and 22,300 additional visitors from Indonesia.

Introducing a user-pays premium visitor visa processing model into the Australian visa application process, as another initiative, would provide a faster option for passengers willing to pay for this service. A number of competitor destinations are introducing this service responding to shifts in trip planning behaviour and visitor demand. Australia already has priority visa application product for the Skilled Migration class of visas. This could provide the model for a new, similar product in the visitor visa space.

Responding to growing demand from China, already their largest visa market, the United Kingdom government recently announced that 24-hour Super Priority Visas would be available to potential visitors from Beijing, Shanghai and Guangzhou[15]. The fee for this service is £600 (AUD$1,090) and is in addition to the 3-day Priority Visa application process costing £150 (AUD$271), thus creating a three-tier visa product that responds to consumer demand. Similarly, the New Zealand government is aiming to introduce three-hour visa processing for high net worth individuals by the end of 2015, starting in China[16].

New Zealand is often viewed as a complementary destination to Australia, particularly among long-haul travellers. In total, around 40 per cent of all non-Australian visitors to New Zealand are dual-destination visitors to both Australia and New Zealand[17]. For the Chinese, this rises to 54 per cent of visitors cross the Tasman when the two are brought together, despite Asian visitors requiring separate visas for each country.

The tourism industry on both sides of the Tasman welcomed the announcement by Prime Ministers Abbott and Key in February 2014 to allow Cricket World Cup visitors to apply once for a visa to visit both countries. Replacing two visa applications with a single process represents the major reform that would induce demand for dual destination itineraries in the trans-Tasman context. The inducement could be greater if the cost of this common visa were also significantly cheaper than the $270 applicable today through the two sets of visa processing fees.

[14] WTTC (2012) - The impact of visa facilitation on job creation in the G20 economies
[15] UK Government (2014) - Home Office, “Immigration fees and charging Consultation 2013 - responses”, London
[16] Bickle, N. (2014) - “What are government agencies doing to enable Tourism 2025,” in Tourism Industry Association New Zealand Summit, Wellington
[17] Carboni, A. and Schiff, A. (2010) - “NZ Aviation Operational Environment: Selected Analysis” Covec, Auckland

A conservative estimate by TTF of the impact of a move to an affordable common ETA valid in both countries shows such a product would lead to an additional 132,000 Chinese arrivals to Australia and New Zealand by 2020, and 190,000 additional visitors from all target Asian countries whose citizens currently require a full visa to complete a trans-Tasman itinerary[18]. Once the formal evaluation of the Cricket World Cup visa experience is completed by both governments, TTF would like to see a permanent joint visitor visa partnership established.

Key factors often cited by governments in opposition to implementing simplified and improved visa and passenger processing are national security, immigration and biosecurity. However, TTF strongly supports that maintaining national security and offering easier visa and passenger processing do not have to be mutually exclusive; and there are many international best practice examples proving this case. The most prominent example is the development of the 'Jobs Originated Through Launching Travel Act' (JOLT Act) in the United States, which aims to leverage the benefits of inbound international travel to the United States to increase economic growth.

The JOLT Act is geared towards expanding and preserving the Visa Waiver Program (VWP), a critical program that maintains national safety in the United States while also attracting high-spending foreign visitors. VWP travellers are carefully screened through multiple intelligence watch lists and thoroughly vetted, however are also able to pass through customs and immigration with greater ease. The VWP is a cornerstone program for attracting travel to the United States, having attracted more than 20 million international travellers in 2014. The United States Congress has recognised the value of the visitor economy in supporting 15 million jobs in the country as well as boosting its diplomacy efforts, and has taken steps to marry the preservation of its national security with the growth of its tourism services exports.

TTF recommends the Federal government follows the Chinese and Indian market roll-out with online lodgement for all priority tourism markets; continues to review and simplify documentary requirements of visitor visas; offers visa applications in languages other than English; reverses the visa application fee increases announced in the 2015-16 Budget and instead reduces visitor visa application charges to produce a more equitable fee structure; commits to a reopening of the ETA expansion programme; introduces a user-pays premium visitor visa processing model into the Australian visa application process for key source markets, including Asia; publishes the formal evaluation of the Cricket World Cup visa experience and investigates the establishment of a permanent joint visa partnership with New Zealand for key source markets; and considers international best practice initiatives in visa and passenger processing.

8. Border processing

Attracting international visitors to Australia to grow tourism services exports is not just about competing on price. It is also about providing a high level of customer service, particularly for high-wealth visitors who value premium-level service.

TTF has identified two opportunities for Australia to improve its offering of premium processing services at Australia's international airports to support the growth of tourism services exports. Other destinations in Asia and the Middle East are already offering these services, making it critical to adopt them to ensure Australia does not fall behind its competitors.

[18] TTF (2014) - Bringing our neighbour closer

These services are currently provided on an ad-hoc basis, but without any cost recovery process in place. Implementing a more structured program of premium processing services that are fully cost recoverable could also have a net positive impact on the Budget and generate a revenue stream for government.

Several destinations, including Singapore and Dubai, offer high-wealth visitors the opportunity to clear customs, immigration and quarantine from premium lounges rather than via normal queuing channels. This is done via either existing airline member lounges or in dedicated premium lounges. Airlines either charge members for this service or cover the costs themselves as a way of attracting high-wealth individuals to their airline program. The separate dedicated lounges are operated by private companies that recoup their costs through service charges.

This private lounge model is a proven success in other destinations around the world. For example, JetQuay in Singapore, which has operated from Changi Airport since 2006, offer various arrival and departure services that are paid for by travellers. Prices range from around $120 to $800 per person depending on the level of service passengers request.

Using similar pricing models in Australia for these premium services, 600 passengers paying the $120 service fee would be needed to cover the cost of a customs officer's annual salary of around $80,000. Under the $800 service fee, only 100 passengers would be needed to cover the same salary.

There are currently 36 million passengers passing through Sydney Airport per year[19], suggesting that with the lower service fee only 0.002 per cent of all passengers would need to be willing to pay for this service to cover the annual salary of a customs officer. While any private business would have additional costs associated with this service provision, this simple example, together with proven track-record of businesses such as JetQuay, indicates that such services would be viable to meet this type of demand at major Australian airports such as Sydney and Melbourne.

Similar premium services could also be implemented at jet terminals that receive private planes. Under this model, a private jet terminal company would be able to offer its arriving or departing passengers off-terminal clearance for customs, immigration and quarantine. This is likely to be attractive for operators at terminals that have a larger volume of international arrivals through private facilities, such as Sydney, Melbourne and Brisbane.

As with the premium lounge processing model, customs, immigration and quarantine staff are provided on a contract basis to the jet terminal operator with full cost recovery for government and a potential revenue stream that is currently not utilised.

TTF recommends the Federal government works with private operators to deliver premium processing services, at terminals and off-terminal locations, and introduces a new charging mechanism that allows new premium processing options to offset reductions in the existing taxes on international travel.

[19] Deloitte Economics (2012) - The economic value of Sydney Airport

9. Trans-Tasman processing

More than 1.1 million New Zealanders visit Australia each year[20]. This represents over one fifth of total arrivals into Australia – almost the same as the next two biggest markets combined. While the aviation market between Australia and New Zealand is open, liberalised and very competitive, with prices for airline tickets half that of comparable international flights, there are opportunities to further streamline travel between the two countries to strengthen the growth in tourism services exports from one of Australia's key visitor markets.

In a paper entitled *Bringing our Neighbour Closer,* TTF advocated for four key reforms to maximise visitation from New Zealand. The guiding principles behind these reforms centred on shortening the total journey time, opening up new points of arrival, and creating a domestic-like travel experience with technology and passenger profiling behind the scenes to ensure Australian borders remain secure.

In order to create a domestic-like travel experience, TTF further proposed specific measures for the Federal government's consideration, including the introduction of automated outbound border controls at major Australian airports, prioritising trans-Tasman flights. This would require the government to work with the New Zealand government to prioritise the conclusion of intergovernmental treaties covering criminal records, data sharing and x-ray bag screening. While automated departure gates were trialled in Brisbane in 2014 predominantly for trans-Tasman travellers, the government should establish New Zealand as the trial market for all technology reforms considered by Australian border agencies.

Reforms to the biosecurity regime in both countries have already led to significant reductions in time for most trans-Tasman travellers. Much of this has been achieved as customs and biosecurity agencies on both sides of the Tasman have moved away from mandatory screening towards risk-based profiling. Risk typically covers those areas of interest for national security, immigration or biosecurity.

New Zealanders and passengers of other nationalities who have previously spent time in New Zealand (as opposed to transit passengers) are considered low-risk by biosecurity authorities. Consequently, most arrivals from New Zealand now currently get a free run, avoiding the baggage x-ray machines. However, this is officially still a trial.

There is an opportunity to make a permanent change to Australia's biosecurity checks without having to invest in redesigning baggage halls to accommodate the change towards risk-profiling – and this is through the introduction of a dedicated exit channel for all arrivals from New Zealand. Auckland Airport has already begun a similar trial for Australian and New Zealand passport holders to exit through a dedicated biosecurity channel. Since Australian and New Zealand biosecurity rules are largely harmonised and neither country imposes import restrictions on each other for food, the barrier towards such an approach would be trust in each other's systems. Greater use of data sharing should help to inform officers on each side of the Tasman of potential risk.

TTF recommends the Federal government automates outbound border controls at major Australian airports, prioritising trans-Tasman flights; works with the New Zealand government to prioritise the conclusion of intergovernmental treaties covering criminal records, data sharing and x-ray bag screening; establishes New Zealand as the trial market for all technology reforms considered by Australian border agencies; and introduces a dedicated self-declarant direct exit channel from quarantine control for flights from New Zealand.

[20] International Visitor Survey, September 2014, Tourism Research Australia

Labour and skills

10. Flexible working arrangements

Government figures show that around 56,000 job vacancies exist in tourism and hospitality across Australia, with that number set to further grow over the coming years. Despite the significant investment many tourism businesses make in training, many struggle to find staff and also have trouble retaining them, especially in regional and remote destinations. The challenge of finding and retaining the right staff has a negative impact on the ability of businesses to offer an appropriate level of service, thereby hampering Australia's tourism services exports potential.

Tourism businesses are further hamstrung by a workplace relations regime which does not recognise the 24/7 nature of the industry and therefore does not offer the flexible working arrangements required by the industry. This has a significant impact on the growth of tourism services exports and the wider economy. For example, some tourism and hospitality businesses choose not to open on Sundays, because their labour costs are simply too high to make an operating profit on that day. This not only has an impact on tourism services exports, but also on the broader visitor appeal of a destination as well as its economic performance.

Although TTF appreciates that the currently four-yearly review into modern awards is being undertaken by the Fair Work Commission, it is important that the current Productivity Commission review also considers workplace arrangements as they apply to tourism and hospitality operators, particularly penalty rates. As service industries, such as tourism, are labour intensive, it is vital to consider the impact of workplace arrangements on curtailing the growth potential of tourism services exports.

TTF recommends the Federal government establishes an effective system of workplace regulation that recognises the 24/7 operating nature of the tourism and hospitality industry.

11. Addressing labour and skills shortages

The highly seasonal nature of the visitor economy in many regional areas creates significant challenges for businesses, which face an often desperate need for staff during peak periods. This problem has been heightened by demands from the resources sector. For example, the challenges faced by Queensland island resorts and Australia's North in attracting seasonal staff have been a key factor in the financial problems confronting these regions.

Further, the tourism industry requires staff with specific skills which are, at times, in short supply in Australia. TTF is urging that consideration be given to expanding the skilled occupation lists to include more tourism and hospitality jobs to ensure the adequate supply of appropriately trained staff.

Many tourism and hospitality businesses utilise skilled visa programs to source and retain staff to fill specific positions as a means of alleviating the labour and skills shortages being experienced in Australia. TTF therefore supports government efforts to expand the skilled visa streams to assist their use by tourism and hospitality businesses. For example, 457 visas are commonly used by tourism and hospitality businesses that are unable to find suitable staff within Australia. Making the application process for 457 visas less onerous would see a greater take up rate among small to medium enterprises, which could derive significant benefit from such a scheme. The tourism industry supports the 457 visa regime and is opposed to amendments which would add further burden to tourism businesses.

Working holiday makers (WHM) also provide a flexible workforce for tourism businesses, especially the many seasonal operators in regional and remote areas. Since 2005, a second-year extension of the WHM visa has been available for some individuals who, in their first year, undertake three months of work with a regional employer in the agriculture, mining and construction industries, among others.

TTF believes WHM visa holders who spend three months or more working in regional tourism and hospitality businesses should also be able to apply for a second-year WHM visa. This would boost the labour supply of these regions and improve their competitiveness.

In line with the focus of Tourism Australia's expanded activities in Asia and aligned with the Federal government's efforts to engage more broadly with Asia, TTF recommends the expansion of the WHM scheme to include India, Vietnam and the Philippines. The scheme should also include our other key international growth markets and current caps on countries like Indonesia and Malaysia should be lifted. In addition, TTF believes that the requirement for such arrangements to be reciprocal is unnecessarily restrictive.

The scheme can also be improved by raising or removing age limits to allow older workers with valuable skills and experience to come to Australia and lifting the 6-month cap on employment, recognising the significant investment in training required before new employees are job-ready. These improvements would be particularly valuable in regional and remote destinations which experience more difficulty in sourcing and retaining staff than businesses in metropolitan destinations.

However, instead of improving the WHM program, the recent tax changes announced in the 2015-16 Federal Budget, will work in reverse for tourism services exports. While raising $540 million over four years for the government, TTF has serious concerns that the removal of the tax-free threshold for visitors on a working holiday visa will significantly reduce Australia's attractiveness as a destination for this important segment of the market. This in turn will increase the burden of labour and skills shortages experienced by the industry. Not only does this impact tourism services exports, it will also have a flow-on impact on other services exports that rely on working holiday makers as a source of labour, especially in regional and remote destinations across Australia.

TTF recommends the Federal government expands the skilled visa streams, including 457 visas, WHM visa and seasonal worker programs, and reverses the removal of the tax-free threshold for visitors on the Working Holiday Maker visa.

Investment

12. Tourism marketing

The Commonwealth plays an essential part in funding the marketing of Australia as a tourist destination, benefiting not only tourism services exports but the broader services exports industry. Tourism marketing funding by government addresses a case of market failure. The fragmented nature of the industry and the wide dispersal of visitor expenditure across industry sectors necessitates government playing a central funding and coordinating role in the overarching marketing of Australia to international visitors, rather than each individual business trying to attract international tourists themselves. Australia is primarily marketed to international visitors through the Commonwealth tourism agency, Tourism Australia, which spends 85 per cent of its resources on attracting visitors to Australia.

Tourism marketing spending represents good value for public funds. Analysis undertaken by Tourism Australia estimates its return on marketing investment (ROMI) is around 15:1. This means that for every $1 million spent by Tourism Australia on promoting Australia, $15 million is generated in additional tourism expenditure in Australia. Furthermore, when taking into account other potential uses of these funds and possible ‘crowding-out’ impacts of private investment, the benefit to cost ratio is 6:1. This means that across the whole economy for every $1 million spent on tourism promotion by Tourism Australia, the living standards of Australian’s are increased by $6 million.

This high ROMI is a positive for tourism services exports when Commonwealth spending is growing, but also has an amplified negative impact on the industry when government spending is declining or stagnant. While the recent 2015-16 Budget provided funding for Tourism Australia to compensate the agency for currency fluctuations, which impacts on its overseas marketing purchasing power, it did not include any increase in real terms despite industry calls for a boost in marketing funding and the recognised benefit for the exports industry.

Without a significant injection of funding for tourism marketing, Australia will continue to lose market share to competitor destinations and put further pressure on Australia’s capacity to reach the target of doubling overnight visitor expenditure by 2020. Failing to simply maintain funding for Tourism Australia in real terms will see the agency lose out on $61 million in the four year period from 2014-15 to 2017-18, with a gap of $21 million in 2017-18 alone.

Failing to maintain funding in real terms will also see the nation fail to realise the returns on investment in visitor expenditure and corresponding jobs and GDP growth. Applying the ROMI of 15:1, having $61 million less in resources to spend on marketing activities will result in a loss of $915 million in tourism expenditure in Australia that could have otherwise been realised if the real funding base had been maintained. In the context of efforts to reach the Tourism 2020 target and the high rate of return on investment, the government should not be turning its back on almost a billion dollars in benefit to the economy.

TTF recommends the Federal government maintains and increases funding for Tourism Australia.

13. Export facilitation

The Federal government plays a holistic coordination role in facilitating a range of initiatives that support the export industry. It is important for the government to continue its facilitation role, not only for the benefit of tourism services exports, but the broader services exports industry including professional services and education, as well as the exports industry more generally.

The government currently provides assistance to the services exports industry through funding and coordination of research, business training and education, grants programs, in addition to negotiating Free Trade Agreements and arranging Ministerial/industry-led missions and events. Given the importance of the services exports industry to the economic prosperity of Australia, it is paramount that the government continues its efforts in export facilitation, and adapts its efforts to align with industry requirements.

TTF recommends the Federal government provides assistance through research, training and education to build capacity in Australian services exports businesses; funds the export grants programs, including for tourism services exports businesses; continues to arrange and support Ministerial and industry-led missions and events to key and emerging international markets; and proactively negotiates Free Trade Agreements with Australia's key international markets for the benefit of Australian services exports businesses.

14. Research

TTF strongly believes that robust and timely national statistics and data are essential for generating informed policy, outcomes and investment decisions for the tourism industry. Without bodies like the Australian Bureau of Statistics (ABS) and Tourism Research Australia (TRA), the industry would not have the capacity to invest in these statistics and data.

TTF is a strong supporter of the ABS and TRA and the need for robust and well-supported statistical programs. While the temptation to reduce sample size, scope and frequency of collections will always exist, we urge the Federal government not to sacrifice the overall quality of its tourism-specific programs in the name of relatively minor financial savings. For this reason, TTF is calling for the Federal government to commit to maintain funding support for the ABS and TRA.

The ABS conducts invaluable research to produce the Tourism Satellite Account, which is the only definitive measurement of tourism in the Australian economy. The monthly Overseas Arrivals and Departures is also conducted by the ABS, and with the quarterly International and National Visitor Surveys conducted by the TRA, forms the foundation of visitor data that is of integral importance to the broader visitor economy.

Another key tool for the tourism sector is the Survey of Tourist Accommodation (STA) conducted by the ABS. This survey provides extremely valuable information on accommodation, including occupancy rates, room rates and revenue, as well as a measure of accommodation supply for destinations across Australia. This has delivered a comprehensive picture of Australia's accommodation sector performance since 1998 that has been critical to enabling informed tourism investment decisions.

The ABS reduced the survey from a quarterly to an annual collection and report, and then discontinued the STA altogether, to meet budgetary targets. While the Federal government has provided funding to produce the STA for 2013-14, the future of the STA moving forward is uncertain and this is an unacceptable level of uncertainty for Australia's $110 billion tourism industry.

TTF is calling for the Federal government to commit to permanent, continued funding to maintain this very valuable dataset, and reinstate its collection on a quarterly basis, to provide the industry with timely accommodation information. Reinstating the funding for the STA would also demonstrate the government's commitment to supporting tourism as a services export growth industry that can help to deliver prosperity as mining and heavy manufacturing exports decline. TTF is also calling for additional funding to support the industry's tourism research agenda, enabling TRA and the industry to address the identified gaps in research.

TTF recommend the Federal government maintains research funding to support the continuation of tourism-specific statistical programs conducted by the ABS and TRA, and commits to permanent and continued funding for the Survey of Tourist Accommodation to support accommodation investment decisions.

15. Natural and cultural assets

While investment in tourism assets like convention and exhibition facilities, entertainment centres and precincts, recreation and public spaces, and sporting stadia falls to state government, federal funding can help expedite projects that assist in strengthening tourism services exports. This includes, for example, funding for visitor infrastructure in federal national parks and national cultural institutions. In addition, the federal government can help facilitate visitation to key destinations through the provision of strategic infrastructure, like roads, ports, airports and other transport infrastructure.

A large part of Australia's international brand appeal and the backbone of tourism services exports are its natural assets, many of which are under the management of Parks Australia. Tourism also contributes to broader environmental and social outcomes, providing funding and engagement for our natural and indigenous heritage.

A recent study by Tourism Australia found consumers from some of Australia's key inbound markets viewed Australia's world-class beauty and natural environment as the third most important factor in selecting a holiday destination, behind only safety and value for money[21]. Capitalising on the potential benefits of our natural assets requires a supportive legislative framework and strategic public investment in critical infrastructure. In addition, consistent funding for Parks Australia is required to ensure continued visitor engagement in national parks.

The 2015-16 Budget allocation for Parks Australia saw a slight decrease over the forward estimates, starting with a $575,000 cut in 2015-16. While it is pleasing to see that additional funding was allocated to the Reef Trust to support the delivery of priority projects in the Great Barrier Reef, it is important to maintain consistent funding across Australia's national parks agencies to ensure the assets under their remit are appropriately managed and visitor infrastructure is maintained and enhanced as outlined in TTF's National Tourism Agenda[22].

In addition to Australia's natural assets, our national cultural institutions also draw hundreds of thousands of visitors each year, making a vital contribution to the cultural fabric of the country and the growth potential of tourism services exports. Not only is cultural tourism becoming more prominent domestically and globally, but cultural visitors stay longer and therefore spend more at a destination, making them a lucrative high-yield market for the visitor economy. It is essential that cultural assets continue to be supported to ensure Australia's cultural tourism experiences remain attractive and globally competitive to support the growth of tourism services exports.

TTF recommends the Federal government increases funding for national parks agencies and maintains and increases funding support for national cultural institutions.

---

[21] Tourism Australia (2013) - Consumer Demand Study
[22] Tourism & Transport Forum (2013) – *Australian Tourism: Backing our Strengths*