



COMMONWEALTH OF AUSTRALIA

# Official Committee Hansard

## SENATE

STANDING COMMITTEE ON LEGAL AND CONSTITUTIONAL  
AFFAIRS

**Reference: Passenger Movement Charge Amendment Bill 2008**

FRIDAY, 20 JUNE 2008

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BY AUTHORITY OF THE SENATE



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**SENATE STANDING COMMITTEE ON  
LEGAL AND CONSTITUTIONAL AFFAIRS**

**Friday, 20 June 2008**

**Members:** Senator Crossin (*Chair*), Senator Barnett (*Deputy Chair*), Senators Bartlett, Fisher, Hurley, Kirk, Marshall and Trood

**Participating members:** Senators Abetz, Adams, Allison, Bernardi, Birmingham, Mark Bishop, Boswell, Boyce, Brandis, Bob Brown, Carol Brown, Bushby, George Campbell, Chapman, Colbeck, Jacinta Collins, Coonan, Cormann, Eggleston, Ellison, Fielding, Fierravanti-Wells, Fifield, Forshaw, Heffernan, Hogg, Humphries, Hurley, Hutchins, Johnston, Joyce, Kemp, Lightfoot, Lundy, Ian Macdonald, Sandy Macdonald, McEwen, McGauran, Mason, Milne, Minchin, Moore, Murray, Nash, Nettle, O'Brien, Parry, Patterson, Payne, Polley, Ronaldson, Scullion, Siewert, Stephens, Sterle, Stott Despoja, Troeth, Watson, Webber and Wortley

**Senators in attendance:** Senators Barnett, Crossin, Fisher, Kirk and Marshall

**Terms of reference for the inquiry:**

To inquire into and report on: Passenger Movement Charge Amendment Bill 2008

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**Committee met at 9.01 am**

**CHAIR (Senator Crossin)**—I declare open this hearing of the Senate Standing Committee on Legal and Constitutional Affairs into the Passenger Movement Charge Amendment Bill 2008. This inquiry was referred to the committee by the Senate on 18 June 2008 for report by 24 June 2008. The purpose of this bill is to amend the Passenger Movement Charge Act 1978 to increase the rate of the passenger movement charge by \$9 to \$47 with effect from 1 July 2008. The committee has received five submissions for this inquiry. Those submissions have been authorised for publication and are available on the committee's website.

I remind all witnesses that in giving evidence to the committee they are protected by parliamentary privilege. It is unlawful for anyone to threaten or disadvantage a witness on account of evidence given to a committee, and such action may be treated by the Senate as a contempt. It is also a contempt to give false or misleading evidence to the committee. The committee prefers all evidence to be given in public but under the Senate's resolutions witnesses have the right to request to be heard in private session. It is important that witnesses give the committee notice if they intend to give evidence in camera. If a witness objects to answering a question the witness should state the ground upon which the objection is taken and the committee will determine whether it will insist on an answer having regard to the ground which is claimed. If the committee determines to insist on an answer, a witness may request that the answer be given in camera, and such a request may of course also be made at any other time.

**BENNETT, Mr Warren, Executive Director, Board of Airlines Representatives of Australia**

*Evidence was taken via teleconference—*

**CHAIR**—Good morning and welcome, Mr Bennett.

**Mr Bennett**—Good morning.

**CHAIR**—The board has lodged a submission with the committee. It is submission No. 1. Just before I invite you to make a short opening statement, do you need to make any amendments or changes to the submission?

**Mr Bennett**—Not that I am aware of.

**CHAIR**—If you would like to make a short opening statement and then we will go to questions.

**Mr Bennett**—The Board of Airlines Representatives of Australia is an industry representative organisation that represents the interests of international airlines operating to and from Australia. We currently have a membership of 38 international airlines. They have a particular interest in the passenger movement charge and have a long history of objecting to the application of that charge. The submission that we have lodged goes into a number of the problems that we see with the administration and application of the PMC across all of the international airlines.

We see three particular issues that present problems for airlines in relation to the passenger movement charge. The first problem is that, although it is collected nominally to fund specific government services, the proceeds of the PMC are not hypothecated. They go directly to consolidated revenue, but the costs of the services that the PMC is supposed to fund are met out of general budget allocations. We view the PMC with suspicion because it is shrouded in secrecy.

The second problem we see is that it imposes significant direct net costs on airlines due to the additional administrative costs and substantial leakage of collections from the PMC, and that occurs particularly from overseas travel agents and other ticket sellers. Airlines have to pay the government the full PMC liability regardless of whether the charge is actually added to the ticket price by travel agents and paid by the passengers.

Thirdly, from our point of view, the PMC is a problem because from time to time it encourages some in government and some in other sectors of the economy to advocate that funds collected from it should be used as a vehicle for funding broader initiatives. They are often related to tourism sector initiatives. We believe this is a particular problem, because it merely overlays other poor public policy initiatives on what we already believe is a poor public policy outcome through the application of the PMC. That very briefly is our opening statement. We would like to record the fact that airlines, in particular, disapprove of the PMC.

**CHAIR**—I would like to clarify a couple of things. This was previously known collectively as the departure tax that you paid on exiting the country?

**Mr Bennett**—That is right. I was going through the process of the actual administration of the PMC. The airlines receive advice from the Australian Customs Service, ACS, on a monthly basis on the number of passengers that the ACS believes the airline has carried during that time and they bill them for that number of passengers multiplied by the rate of the passenger movement charge. The airlines are responsible for paying the money directly to the government.

**CHAIR**—You stated there are problems when perhaps flight centres or travel agents collect this money.

**Mr Bennett**—Yes. That is right. To be fair, in most cases the PMC amount is added to the ticket price, but there is a fairly significant amount of leakage. Not all travel agents are IATA accredited and it is through the IATA computer reservation systems that the amount of the passenger movement charge is added to tickets when the tickets are generated. If the travel agent is not an IATA accredited travel agent, it is often the case that the amount of the PMC just does not show up on the ticket price.

**CHAIR**—What is the solution to that problem?

**Mr Bennett**—The simplest solution would be to abolish the PMC.

**Senator MARSHALL**—What is your second most simple solution?

**Mr Bennett**—We are all for that.

**CHAIR**—I see what you are saying. There could be evidence that they have paid the tax but not necessarily evidence the person they have paid it to has passed it on to the airlines?

**Mr Bennett**—No, they may not have paid the tax. There is nothing to stop a person getting on an aeroplane without the PMC having been paid. If at the check-in process an alert check-in staff person noticed that the PMC had not been added to the ticket, then they could challenge them and ask for the money to be paid, but that is going to really throw into confusion and chaos the sort of rapid response that is required in the check-in process. It is just going to delay the whole operation, so people are not going to let a flight be delayed because one person has not paid their PMC. It is just going to go through. The airline effectively has to wear the cost.

**CHAIR**—Apart from the fact that you do not like the PMC at all, you say there are problems in the government actually collecting this money. Are you saying it is not transparent and that the direct cost goes to either the ACS, DIAC or AQIS?

**Mr Bennett**—No, it does not. It just goes into consolidated revenue and there is no evidence provided by the government to show that the funds collected are actually allocated to the purposes that they are nominally meant to be allocated to. Secondly, in fact, the amount that is collected by the PMC is the amount that is required for the payment of those services. We have done work in the past that would suggest to us that there is a significant over-collection of funds via the PMC relative to the services that they are meant to fund. We have not done any work more recently. It is a bit like flogging a dead horse. We just do not have the resources to allocate that sort of activity when both sides of the parliament, in effect, have endorsed the application of the PMC in the past and have been quite willing to apply it.

**CHAIR**—My last question relates to the five per cent tolerance reduced to three per cent in 1998.

**Mr Bennett**—Yes, and now to nothing.

**CHAIR**—When you paid the tax based on the number of passengers, was there an allowance of three per cent?

**Mr Bennett**—That is correct. If the airline's passenger numbers differed from the ACS passenger numbers, and they can for all sorts of reasons, mainly relating to the definition of a passenger, then there was a tolerance allowed. The airline could say, 'Our passenger numbers show this, relative to your passenger numbers', and if it was sort of three per cent to five per cent then we could just deduct or pay what we thought was the appropriate amount and that was allowable under the legislation, but that tolerance has now gone. Whatever the ACS states is the passenger number is the amount that the airline has to pay directly to it.

**CHAIR**—Has that gone based on a recommendation in an audit report conducted back in 2000?

**Mr Bennett**—That is correct.

**CHAIR**—Thank you. I will go to Senator Barnett now.

**Senator BARNETT**—Thank you for your submission done at short notice. It is very comprehensive and very much appreciated.

**Mr Bennett**—We have been looking at this issue for a long time.

**Senator BARNETT**—Yes, I can see you have. You have put the history of the PMC, or what most Australians refer to as a departures tax still, into perspective, and that is very much appreciated. I would like to walk through your submission and ask a few questions about it. In your introduction and also in the body on pages 2 and 3 you talk about the PMC now being applied partly as a general revenue-raising source and it is no longer solely linked to that. Then on page 3, point 4, you talk about the Auditor-General's report. Was it in 2000 when it stopped being solely to cover the cost recovery measure?

**Mr Bennett**—I am afraid it is hard to put an exact date on it. The departure tax was simply in the first instance a departure tax, but when it transferred to a PMC it was supposedly going to be allocated to the provision of particular CIQ services at airports. At various times when the PMC has been increased the justification for it has been not related necessarily to those border control functions at airports. One of the increases was an increase to fund additional activity associated with the Olympic Games. The Olympic Games came and went and still that special levy on the PMC was retained. Those sorts of actions by the government of the day in relation to the PMC lead us to believe that it is just a general revenue-raising mechanism at the present time, at least in part, and that was more or less confirmed by the ANAO report.

**Senator BARNETT**—I am trying to find out your view about this new regime that Labor is putting in via the budget—the \$9 increase—and how much you think the government will be over-collecting. Have you done an assessment of that or an estimate?

**Mr Bennett**—No, we have not had the time or the resources to be able to do that at this point.

**Senator BARNETT**—Can you estimate a percentage? Do you think it is covering half or a quarter or about three-quarters? I noticed you have said that in 1996-97 there was an over-collection of \$19 million. What is your analysis based on that?

**Mr Bennett**—From memory, I think that \$19 million was actually an ANAO nominated figure.

**Senator BARNETT**—Yes, it was. It is on page 4 of your submission.

**Mr Bennett**—That is right. We have looked at the amount of the over-collection and done some work on it, but it was a number of years ago. That would have been back in the earlier part of this decade.

**Senator BARNETT**—Is it going to be more than that?

**Mr Bennett**—I would believe so. The government has said that this \$9 increase is to fund security matters at airports. That \$9 is going to raise something of the order of \$90 million to \$100 million a year or something of that magnitude.

**Senator BARNETT**—It is \$459.3 million over the next four years, to be exact.

**Mr Bennett**—That is approximately \$100 million a year. That is quite a substantial amount of money. I would not have thought that that additional funding was necessary to pay for the extra security arrangements that have been put in place at international airports, which the previous government stated would be funded by the government out of general revenue, by the way. There has to be a significant over-collection there.

**Senator BARNETT**—You are not aware that there is going to be a \$460 million increase in security costs over the next four years?

**Mr Bennett**—Not that I am aware of, no.

**Senator BARNETT**—Yes, of course. Let us go back a step. Can you tell us what is involved in the administration in terms of the collection of this tax? I am also interested to know your views as to what is involved for Customs, AQIS and DIAC.

**Mr Bennett**—The services that are supplied by the border control agencies include the immigration checks that are done by Customs officers on behalf of the Department of Immigration and Citizenship. It includes the quarantine checks that are undertaken by the Australian Quarantine and Inspection Service. Certainly the level of intervention by AQIS in recent years has increased because of the increased quarantine inspection requirements associated with foot and mouth disease and SARS and other types of threats to the biosecurity of Australia. Certainly there has been an increase in the AQIS activities.

**Senator BARNETT**—The first question was: what are the collection costs for the airlines because, if I can get it straight, you are a tax collector; is that correct?

**Mr Bennett**—Yes. The airlines view themselves as being tax collectors. They have to devote resources to, firstly, monitoring the numbers of passengers that depart from Australia and therefore are subject to the passenger movement charge. There are special definitions associated with that so they have to extract data separately for the passenger movement charge to check on the amount that they have to pay to the Australian Customs Service. They then have to allocate time to check the figures that the Customs Service provides to them relative to their own figures and they then have to make the effort of collating all of that data and sending off the check to it. That is an administrative cost that they otherwise should not have to bear. As I have said, there is also the additional cost of the leakage from the system, and that is probably the more important one because there is in fact no revenue associated with that particular aspect of the leakage.

**Senator BARNETT**—Where there is a collection from a third party, obviously the traveller, the tolerance percentage has been deleted from five to three to zero per cent and you think that is unfair.

**Mr Bennett**—That is correct. There is no guarantee that the ACS figures are correct. They do not collect them directly. They get them via a roundabout method. The airlines do in fact have the accurate data. They know exactly how many passengers they have coming into and going out of Australia. But there is no right of reply with the airlines to object to any sort of miscalculation presented by the ACS in this matter.

**Senator BARNETT**—In some of its promotional materials in regard to the tax which raises, as I said, nearly \$460 million over the next four years, the government says it is necessary to offset ‘the cost of a range of aviation security initiatives and the costs of processing international passengers at international airports’. My question, for the record, is: is that misleading in the sense that it does not cover the money that is going to general revenues?

**Mr Bennett**—It all goes to general revenue and then the agencies that are providing the services collect their money out of general revenue. It is not allocated in any way, shape or form to particular cost streams associated with particular service requirements.

**Senator BARNETT**—You may want to take it on notice but what is of great interest to me and I think others is the extent to which they are overcollecting. I do not know whether you can do it as a percentage or whatever. It was obviously assessed by ANAO at \$19 million back in 1996-97—

**Mr Bennett**—Yes.

**Senator BARNETT**—I would ask you to think again about that and provide an estimate to the committee either in percentage terms or dollar terms, whichever way you possibly can. The first part of my final question is: is your preference that there not be a departure tax?

**Mr Bennett**—Most definitely.

**Senator BARNETT**—And, secondly, if there is to be one then it should only be on a cost-recovery basis?

**Mr Bennett**—Exactly and there should be a statement provided each year that sets out the amount that was collected and the amount that was allocated to particular funding streams associated with the CIQ process at international airports.

**Senator BARNETT**—Are you aware that the Australian Customs Service’s funding for customs has been cut back this year by \$51.5 million in real terms?

**Mr Bennett**—No, I was not aware of that.

**Senator BARNETT**—I draw that to your attention. It is in Budget Paper No. 4, page 23, and it is based on a CPI of 3.25 per cent.

**Mr Bennett**—Thank you.

**Senator FISHER**—Does this measure in an additional sense impact on the pace of passengers passing through the airports?

**Mr Bennett**—It is very hard to give an estimate of that. It all depends upon the price elasticity of demand for international air travel. This is one of a number of components of the overall cost of international air travel that are increasing at a fairly rapid rate at the present time. There are increases in charges imposed by the airports. There are increases in fuel charges. There are increases in the other security arrangements that are being put in place at airports. They all combine to result in a fairly rapid and significant increase in the prices of international air travel at the moment and Australia is a very small market at the very end of the world. It is the long haul routes with the very thin margins that airlines earn on those routes for leisure travel that generally are the ones to suffer. This increase in the PMC could all be overwhelmed very much by the impact of fuel prices on air tickets, but nonetheless it is still an element of the increase in ticket prices that are going to be facing travellers in the next 12 months or so. They will combine to have a dampening effect on the amount of international air traffic to and from Australia.

**Senator FISHER**—Are you saying, if anything, this is only going to make Australia less competitive as a desirable tourism destination?

**Mr Bennett**—Exactly. There is the cost of international air travel that this is a component of. There are exchange rate movements that have not been particularly favourable to Australia as an international tourist destination in recent times. All of those factors are going to result in Australia not being as attractive in the future.

**Senator FISHER**—What is the view of your members about the actual pace of passengers passing through the airport? Once they decide, yes, Australia is a good destination—that is assuming we are still viewed as competitive by a sufficient number both in a business and tourism sense—once they come to our airports, what is the perspective of your members of queues at immigration and queues at customs? Do they exist? Are they an issue?

**Mr Bennett**—Yes. It is not so much the immigration queues. We have been working very closely with both the department of immigration and the Australian Customs Service over a number of years now to try and overcome the particular issues that resulted in lengthy queues at the inwards control points and the outwards control points for the immigration clearance and generally speaking those queues are now not too bad. With the introduction by the department of immigration of advanced passenger processing the amount of delays because of passengers getting into Australia who should not have been allowed into Australia has diminished very, very significantly. We have noticed a significant improvement in the management and the rostering capabilities of the Australian Customs Service being able to get the appropriate people behind the desk to ensure that facilitation for both inwards and outwards control points is as good as it can be. Although, from time to time, things go wrong and you do get queues because people call in sick and the rostering arrangements are not as they should be, but that is an internal management problem that we are addressing with ACS. Generally speaking, they have improved over the years. The biggest problem now is the queues at the secondary quarantine screening area. That is the area where most of the frustration is occurring. We need to look very seriously at what the quarantine inspection requirements entail and how they might be improved going forward. That is happening to a certain extent. We are looking at prescreening bags coming into the country, ahead of them coming up to the baggage carousel so they can be given a tick to go straight through the quarantine inspection arrangements. We are looking at special arrangements to be put in place for Australia and New Zealand cooperation on quarantine inspection arrangements—

**Senator FISHER**—Do those improvements rely on increased resources or just working smarter rather than harder with what you have got?

**Mr Bennett**—We are trying to achieve those outcomes by working smarter. We are not in the process of trying to increase infrastructure, human resources or other resources allocated to the issue. What we are doing is trying to get better procedures in place with existing facilities.

**Senator FISHER**—That is only prudent. I will ask one more question and that will be the end point of this. To the extent that your members are frustrated by queues, say for example at customs, and to the extent that you are trying to find ways to resolve the length of those queues and also to the extent that you have expressed a view about this increased charge and the lack of transparency in terms of to where it goes, are your members arguing that there should be money diverted from what the government is suggesting, for example, is a measure to fund in part increased security that some of the passenger movement charge money ought to—for example, be allocated towards increasing passenger throughput, or decreasing queues I suppose putting it most simply, at airports? And, if you are, are your members seeking that and, if you are, on what basis? You may not be; I just ask.

**Mr Bennett**—They have not specifically suggested that this money should be directed at particular initiatives for reducing queues. That aspect of our involvement with the border agencies is ongoing. It is not just the border agencies that have a role in that; it is also airport operators, because often the existing infrastructure facilities at airports are not conducive to improving flows of people when you have increased bottlenecks associated with something like an increased quarantine inspection regime. There are other processes that we have to go through and we are doing that with the airport operators as well. It is a three-way exercise here. It is the airlines, the airport operators and the border agencies all together. The government says that the PMC funds operations of the border agencies. If that is the case, then fine. We just do not see it because they do not show us what actually happens. But we expect that, as part of that funding process and if indeed that is the case, then there should be a willingness on the part of all of the border agencies to cooperate with the airports and the airlines to ensure that the processes that are put in place are the most efficient possible. That is a long-winded way of saying we expect the government agencies to perform.

**Senator FISHER**—Thank you.

**Senator MARSHALL**—What I take from the argument you are putting is that you would be happy with this sort of an increase if you could see that it was actually going to the areas that you thought it should be paying for?

**Mr Bennett**—We are never happy with an increase but we would accept an increase and acknowledge an increase as being perhaps necessary under this current policy if we could be shown that the increase, and the whole PMC, in fact did pay for the services that it is purported to pay for and did not over collect.

**Senator MARSHALL**—What if the PMC did not in fact pay for all of those services? Would you be supportive of a further increase for a full cost recovery?

**Mr Bennett**—No, because we do not believe that there should be a PMC to meet those costs. The argument that the PMC increase should apply for costs of security initiatives is somewhat spurious from our point of view. Security initiatives at airports are no different to security initiatives that are necessary at other places of mass gatherings. Why should airports be singled out for special treatment? The government's security role at airports is mainly provided through the likes of the Australian Federal Police and the Australian Protective Service. We could mount an argument I suspect that would be fairly convincing to say that in fact the benefit of those Federal Police and the Australian Protective Service officers at airports is virtually nothing because the responsibility for ensuring that there is not an unlawful interference of navigation falls upon the airlines and the airport operators. So, how is there a justification for airline passengers to pay for security arrangements at airports via a PMC? They already pay for the services provided by the airlines and the airport operators through charges on the ticket from the airport operators.

**Senator MARSHALL**—Do you accept that since 2001 spending on aviation security measures has been around \$1.2 billion and by 2011-12 it is expected that those costs will have exceeded \$2.2 billion?

**Mr Bennett**—They certainly have not been spent by the government at international airports. If that amount of money has been spent on security arrangements at international airports in Australia it has been spent by the airport operators and the airlines and the airlines are paying for it directly to the airport operators.

**Senator MARSHALL**—If the government was able to show you that they had already spent \$1.2 billion you would be comfortable with this? That is my information—

**Mr Bennett**—No. Do you remember the first part of my argument? I said that the security arrangements at airports are part of a national security network that is no different at airports than it is at other places of mass gatherings.

**Senator MARSHALL**—I do accept your position that you really are advocating for no cost recovery at all.

**Mr Bennett**—There are adequate avenues for cost recovery of these sorts of national security initiatives through the general revenue mechanisms in just the same way that security services are provided to the rest of the community through general revenue arrangements.

**Senator MARSHALL**—I guess we could have a policy debate about cost recovery and who should bear the charges for some of those things. I did want to make the point that there is a substantial financial effort by government in terms of aviation security. Senator Barnett mentioned Customs's budget, which is around \$1 billion this year and, of course, like all agencies, it has been asked to achieve some efficiency savings. Of course, the efficiency dividend that applies to Customs will be more than offset by the injection which is following an election promise by the Labor government of \$16 million to provide for increased capacity of Customs to inspect cargo at four important regional ports: those of Darwin, Newcastle, Launceston and Townsville—

**Mr Bennett**—Only one of those ports affects my members.

**Senator MARSHALL**—Okay. Thank you.

**Senator BARNETT**—Were you consulted on this charge?

**Mr Bennett**—No.

**CHAIR**—While the other senators have asked you questions I have got hold of a copy of Audit report No. 12. In what recommendation is reflected the removal of the inference about the three per cent tolerance?

**Mr Bennett**—Did I not put it in my submission?

**CHAIR**—No. You have just got 'in accordance with a recommendation'. There were only four recommendations in that report.

**Mr Bennett**—I do not have a copy in front of me. I would have to go back and have a look to find out where it appears.

**CHAIR**—Is the percentage of tolerance in legislation or is it more in the formal agreement?

**Mr Bennett**—It is in the agreement. I do not think it appears in legislation. It appears in the agreement between the ACS and the airlines.

**CHAIR**—There is a recommendation in that report that states:

... the ACS continue to seek to make the arrangements formal and consistent with the relevant legislation to reduce the potential for misunderstanding between the parties.

Is that the recommendation that encapsulates that?

**Mr Bennett**—I am sorry; without the report in front of me I cannot answer that question.

**CHAIR**—Finally, the ACS responded positively to each of these four reports—that is, it agreed to them. Were they implemented?

**Mr Bennett**—As far as I am aware they were, yes.

**CHAIR**—Thank you for your submission and your time this morning.

**Mr Bennett**—Thank you.

[9.43 am]

**BAKER, Mr Phil, Managing Director, Adelaide Airport Ltd**

**McARDLE, Mr John Patrick, National Chairman, Australian Airports Association**

*Evidence was taken via teleconference—*

**CHAIR**—Welcome to you both. The Australian Airports Association has lodged submission No. 2, and the Adelaide Airport's submission is No. 4. Before I invite you to make an opening statement, do you need to amend or change those submissions in any way?

**Mr Baker**—No.

**Mr McArdle**—I would just apologise; I did not know about this personally for whatever reason until late last night, so ours is a bit skinny.

**CHAIR**—If you would both like to make a short opening statement, when we are finished I will invite senators to ask you some questions.

**Mr Baker**—The key issue is we naturally recognise the value of Customs and its work and we have a great working relationship with it; possibly to a lesser extent with AQIS, and I will explain that remark later if you wish. The key issue about the PMC is whether it is actually a tax or a cost recovery. That has become unclear over the years, despite definitions being appended to it in the meantime. If it is a tax—and the comments I make here are probably put far more eloquently by the TTF—it is fairly misguided, in our view, in that it reflects back to the day when travel was the purview of the rich and the famous only. It is a tax on tourism, makes Australia anticompetitive and puts at risk billions of dollars in tourism and the number of jobs that go with it.

Australia has a fantastic product to offer, but if you look at the statistics you will see it has been sliding backwards down the league table in tourism as we are a long way from large population centres, which includes Asia, and especially massively distant from our traditional markets in the UK and Europe. With the tyranny of distance and costs to factor in, and the end-of-the-route dynamics that go with it, it is bad to put a tax up that targets tourism directly. But when you add that to the oil price now, carbon emissions issues and the exchange rate with the dollar, if there ever was a good time this is probably the worst time ever. That would be my comment about whether the PMC is a tax. If it is cost recovery, another set of questions needs to be asked. Is it full or part recovery? Is it just recovery of the airport side of things? If it is, who pays for costs for Customs elsewhere and why is that not the same system for airports? Where do you stop what is included and what is not? That is obviously something parochial about airport charges. The last thing of all is the transparency that is required. If it is a cost recovery, we think there should be some details shown of exactly how and why the costs are what they are, particularly when you have a projected rise of 25 per cent. The question would be: what is going to change?

In the immediate past since I have been in Australia, which is only 10 years, the rate rose from \$30 to \$32 just after I arrived, and that was for marketing for tourism. It then rose \$6 for the Olympics, from \$32 to \$38, which is the current rate. The Olympics finished a long while ago and yet the rate has not changed, so it has got out of kilter and that is why a number of us think that it is just a general revenue raiser now. In the past, under what is included, the FAC and Customs in days gone by did recognise that the cost was for the service, and there was a suggestion that some of the money should be paid to the airports to offset some of their costs. We spent tens of millions of dollars providing free facilities for Customs, but it was put aside because they were both federal entities and it was just moving money around within the same budget. Life is different now. The airports are private and, as I said, we are probably one of few private entities paying millions and millions of dollars to Customs to provide areas.

That is okay; no-one would argue that we should not provide the basic border facilities. We might argue that we provide 12 desks when only five are ever used and issues like that. I am sure all airports feel that way. But the debate widens when you look at laboratories, toilets and all the fancy gizmos that go with Customs, and that debate then possibly becomes an argument with the lack of commerciality when you go into separate restrooms, muster rooms, locker rooms, gyms, showers and meeting rooms. We pride ourselves on being very beneficial to our staff here at Adelaide Airport, but I provide much better services free for the Customs Service, which seems a bit inequitable. That argument then almost becomes warfare when you come to ancillary things like free parking, but that is another story. It is that commerciality issue that needs to be

looked at in the PMC and the potential for double dipping if the money is being collected to pay some of these fees. I charge airlines for these fees because I do not get it from Customs. That needs to be looked into.

There is a transparency issue that we need to go through. I have worked all over the world with different facilities, and we understand that Customs is doing a great job looking for illegal behaviour and are far smarter, if you like, in the way they go about that than AQIS. AQIS is more targeted, dare I say, at accidental infringement, certainly in terms of passenger behaviour, but they treat everyone at lowest cost denominator. In fact we are all guilty so we all have to go through the process. Will the funding addition—and I am saying this purely for this airport; other airports would not necessarily agree with me—be approved and applied to speed up the flow, reduce intervention rates, increase profiling without discrimination, and increase research and development on technology and education issues? The advertising program we have in this country now seems obscure when it is all about people coming back into the country. Most of the Australians know what they are doing, whereas it is probably the foreign residents, certainly from some parts of the world, you would suggest, that may be bringing in the products that will infringe their regulation. You could start educating people at the visa application stage and get them to sign an affidavit that they have read and understood things. There are a number of areas. I will not go into the detail now for obvious reasons. We would see that as something that you could apply an increased cost to, although we would still want to see the transparency on how the whole rate was coming through. The one thing we do agree with is that the fee is standard across the whole country, and parochially we might argue it should be less in Adelaide but clearly that would not go anywhere.

**Mr McArdle**—As a representative body of the airports, we welcome the opportunity to comment on the proposed charge increase to the PMC, but we gear our submission to advise that, due to the tight time frame, we have not been able to canvass all of our membership. However, past discussions on this topic with other members of the association reflect those comments that Mr Baker has just made and are supported of course by the association.

Primarily our concern is that the charge has gone through many changes over the past couple of decades, and in that respect we are not comforted by the lack of transparency on what the charge is actually for, as Mr Baker has just made clear. It is either a tax or a collection of monies to pay for a service that the Australian government rightly needs to do, and that is to protect the Australian citizenship and the Australian society. We would seek more clarity in what the charge is actually for.

On behalf of the membership, we also resurrect the discussions that occurred towards the end of the government ownership of airports, where it was agreed at the time that a portion of that fund or that collection would rightly go towards paying some form of rent for the occupation of the space in terminals by the border agencies. Rightly so, the then minister for finance identified that to pay a government agency from a government agency collection would be poor form. But post privatisation and in a true commercial sense it would give some clarity to what Customs, Quarantine and Immigration actually need to identify, and it would give them some commercial responsibility to account for the spaces that they need to do their job.

Having said that, we do believe also that, if this fee is being collected to provide an essential service for the protection of the Australian community, there need to be enough people provided and enough resource provided to meet that job in an efficient and high-quality service manner. Currently, the way the budget system works is that the government tends to reduce the amount of money made available to these border agencies to do their job in the increasing market demand. We are finding at airports throughout this country that there are insufficient staff, insufficient infrastructure in X-ray units and other equipment to meet the demands of the increasing number of international passengers. Consequently, you get huge queues, arguments within queues, and in some cases it has resorted to violence.

If the fee is collected and if it is transparently needed to meet those costs then so be it, but let us gear the allocation of monies back to these border agencies in a more professional and scientific manner. Having said that, our airports go to a lot of expense in gathering data on future forecasts of passengers, and that could be a basis on which the government made the allocations to the border agencies.

I restate that in today's commercial market we would also like to see an allocation of those moneys back to the border agencies so that they do pay a rental fee for the space that they occupy and therefore become accountable for the space that they need. It seems strange in this day and age where, of all of the agencies associated with border protection—and I include the airport operators—the airport operators are the only ones that are required by law to make space available for nothing. I would find it very strange if the Australian government said to Telecom, 'You're to provide telephone fees to the border agencies for nothing.' It just would not wash.

**CHAIR**—I have two questions. Mr McArdle, your submission tells us that there was an over-recovery identified in the audit report in 1996 of \$19.1 million, but the following audit report found that in fact the passenger movement charge had been under-recovered.

**Mr McArdle**—Yes, that is correct.

**CHAIR**—Why was that?

**Mr McArdle**—What we found strange about that was that nothing different happened in the following year. Again, we would go back to where is the transparency of what was recovered and what for? It seemed strange to us at that time, and even now when you read back through the documents, that nothing seemed to change yet there was a swing of more than \$19 million. That is the question we ask. Can this be made more transparent?

**CHAIR**—When the passenger movement charge was last increased from \$32 to \$38 prior to the Olympics, were you consulted about that at the time?

**Mr McArdle**—No.

**CHAIR**—To my mind there was no Senate inquiry into that movement either, was there?

**Mr McArdle**—No, there was not. Most of Australia was taken up with the excitement of having the Olympics and so on and there was a view, 'That is justified. Yes, we can accept that.' But as was pointed out earlier in Mr Baker's submission, the Olympics are long gone and there has been no review down.

**CHAIR**—At the time was the increase only to be for the period of the Olympics?

**Mr McArdle**—It was unclear as to a time frame for the increase.

**Mr Baker**—It was merely linked to the Olympics by way of justification.

**CHAIR**—Did you have the same objections, though, yourselves within the industry when that increase was made?

**Mr Baker**—Yes.

**Mr McArdle**—The association and the industry at large at that time would have liked to have seen more transparency, as in whether it was actually going to the Olympics, but the opportunity to make those comments was not there. The request for some form of commercial arrangement for the space occupied has always been on the agenda.

**Senator KIRK**—Thank you, gentlemen, for your submissions. I have a question to Mr Baker in relation to a point that he makes in his letter to us. In your second dot point on the first page you say that the airlines collect the tax and pass it on to the government, having recovered their costs of collection. You say that, while you understand this benefit to airlines has some problems in administration, no such remedy is available to airports. What do you mean there by 'remedy'? Do you just mean in terms of being able to recover the costs associated with what you provide? Is that what you mean when you talk about there being no remedy available to you?

**Mr Baker**—The query was not the cost of the PMC per se but the fact that we got nothing out of it. As was just mentioned by me and Mr McArdle, we provide things for nothing and we are the only ones who get nothing back; whereas the airlines are forced to collect the fee, but they take a chunk of the money on the way. All round, if you like, we are the loser.

**Senator KIRK**—Yes. I was late in arriving, and this may have been covered already, but are you aware of what amount the airlines recover from the current \$38 tax that is charged?

**Mr Baker**—I believe it used to be five per cent. It went down to three per cent, and I know they had some problems with some of the far-flung corners of the world in under-collecting, which I think they had to wear, but I am not 100 per cent certain on that.

**Senator KIRK**—In the letter written to us by you, Mr McArdle, you state in dot point 7, in relation to the airports making space available to the border agencies yet receiving no compensation, that in 1996 there was an ANAO audit report stating that a portion of it could be passed over to the airports as a facility charge and that the minister for finance advised in a letter to the chairman of the Federal Airports Corporation that there would be a postponement of this contribution to the airports, as then the FAC was a government business enterprise and the government would not take from one area to pay another; that that issue would be reviewed following the privatisation of the airports process. You then go on to say that, so far as you know, there has

been no review of this. Would you be able to elaborate more for us on that, as to what you understood the nature of the review was going to be and whether or not you have had any information about a review in the future?

**Mr McArdle**—I was an employee of the former Federal Airports Corporation, and I was aware during that employment period of the issue that was just detailed. Following an Australian National Audit Office audit and the evidence that the PMC had over-collected, there was discussion and a resurrection of the debate on whether or not airports should receive some form of compensation for the space that they are required to provide free of charge. A committee was formed comprising government, airline and government business enterprise representatives, and through the discussions of the audit findings some form of compensation was generally agreed. The figure of \$2 per passenger was floated at that time to be paid back to the airports in some way or other. A letter was subsequently received by the then chairman of the Federal Airports Corporation from the then Minister for Finance and Administration asking why would government take from one hand and give to the other. The privatisation of airports was right on the agenda then. Phase 1 had been announced. The letter replied that the matter would be reviewed following the privatisation process.

Whilst there is minuted evidence of that letter from this committee, subsequent research or searching by various parties has failed to be able to find a copy of that letter. That aside, we feel that in today's commercial sense where the airports are now run by commercial entities—our airlines are no longer publicly run; they are private entities in their own right—there needs to be some business sense brought to this process, some transparency in the collection of what the money is used for and an equitable share to those persons who are part of the protection of Australian society, and that includes the airports that provide the facility.

**Senator KIRK**—Is it correct that this was first raised back in 1996?

**Mr McArdle**—That is correct. It was the 1996 audit by the ANAO that identified the over-subscription, and it is my understanding that it was following that audit that there was a declaration that the PMC, or the collection of the money at the time, went from being a cost recovery exercise to an actual tax per passenger, which I understand has other implications that are beyond my realm of expertise.

**Senator KIRK**—From that time there seems to have been no further consideration of this matter, as far as you are aware?

**Mr McArdle**—The Australian Airports Association, through the privatised Airports Group, which are those airports that are federally leased, have raised the issue on several occasions in various government meeting forums, such as the national facilitation committee, and with representatives of the Department of Transport and Regional Services, as it was then. Unfortunately, whilst the matter gets some attention, it does not gain any momentum.

**Senator KIRK**—Just in relation to the \$2 per passenger, you said that that amount was identified back in 1996 as being an appropriate amount that should come the airports' way. Is that figure still valid or would it have increased significantly since that time?

**Mr McArdle**—I would expect that it would have increased with the introduction of new facilities that the privatised Airports Group has brought to the airports, and the major infrastructure works that have gone on. The association and those member airports would be more than happy to work with government to come up with a more equitable fee.

**Senator BARNETT**—Thank you for your evidence, especially in the time made available. It is very much appreciated. Mr Baker referred to the lack of staffing at some of the airports, and I presume in your airport. You said that as a result of this there has been evidence of people resorting to violence. Could you provide further and better particular of that evidence?

**Mr Baker**—That was referred to by Mr McArdle, but I am aware of some of the difficulties that have occurred. Over the years we have received a few complaints about that, not least from the local minister for tourism—not about violence but about the crowding. With time we could research some of that evidence, if that was what you required.

**Senator BARNETT**—Is it as a result of lack of adequate staffing? Is that the point you are making?

**Mr Baker**—It is two-fold. One is the number of staff, which is an issue. I have spoken to Customs about this. When you arrive and you are in the primary line here, we have a dozen desks for Customs. That is what they wanted. Sometimes five and even six desks are manned. Because the Customs run the Immigration but behind them stand the Customs who are effecting Customs duties, and around them you have the AFP, who

there doing neither Customs duties nor Immigration duties but counterterrorism first response, to the average passenger it looks like an awful lot of people are standing around not working and only a few working. That tends to get them going, if that is the right phrase. I have suggested that they try to be a bit more circumspect in how they stand around in the area.

Downstairs, when you get down into the baggage hall, we have only one carousel, even though it is a brand-new terminal. There is a lot more space. The space for arrivals would be bigger than the whole of the existing terminal. The intervention rate of particularly the quarantine service is such that the speed of people picking up their bags—and bearing in mind that we have a flow rate here that we only allow one aircraft every 30 to 35 minutes arriving—and then processing through first Customs and then AQIS is such that there becomes a whole morass of people. This was the evidence; it has been improved since through a serious number of discussions and meetings on site.

**Senator BARNETT**—I might just interrupt there. I appreciate your outlining that. Unfortunately, we are limited for time today. If you have further and better particulars that you are happy to advise us, we would welcome that.

**Mr Baker**—Just briefly, you can appreciate that everyone starts to get a bit fretful.

**Senator BARNETT**—I can understand that. Mr McArdle, you referred to the cost of tens of millions of dollars in free facilities to government, which was touched on by Senator Kirk. Is there any way you can provide some sort of estimate in terms of the free service that you are effectively offering these government agencies per year?

**Mr McArdle**—It was actually Mr Baker who mentioned the tens of millions, but that is fine. When you have a look where international services arrive or are processed across the whole of this country and the infrastructure that is provided to the Australian customs and the other border agencies—through queuing space, desks, office accommodation, toilet facilities, electricity, air conditioning and so forth and then the day-to-day maintenance of those building systems—I would estimate it at tens of millions of dollars per annum across the country. And there is also a cost in the initial build, of course. Each individual airport could calculate that for you if you so wish but, trust me please, if you look at the cost of building a terminal, the maintenance of that terminal and then the provision of the essential services such as air conditioning, electricity, water, sewerage and so forth in the day-to-day operation of those terminals it would run into tens of millions of dollars.

**Senator BARNETT**—I appreciate that. I would just draw that to your attention as something that may be of merit to support your argument in regard to transparency. As a person formerly from the business sector, I can see the importance of accountability and transparency. So, I draw that to your attention and if that could be done in the time ahead—obviously you cannot do it by next week—I draw that to your attention as being something of merit.

**Mr McArdle**—Would that be an outcome of this inquiry, do you think?

**Senator BARNETT**—We have to report early next week. We can obviously report on your evidence but we cannot provide an estimate because you have not provided us with an estimate of the exact cost, but I think it is something that you might need to think about for the future in any submissions to government in support of your arguments on transparency.

**Mr McArdle**—Would it be an expectation that the Senate might suggest that the industry gather that evidence?

**Senator BARNETT**—It would certainly be a view that I would hold. I would need to discuss that with my colleagues as we have not had any of those discussions. It is certainly a view that I would be disposed towards. Subject to the other evidence coming in today, I would certainly be of that view because I have a business background and can see the importance of this. In that regard, most of the international airports are now privately owned; is that most, or all?

**Mr Baker**—Cairns is the exception, I believe. Just on that last point you made—

**Senator BARNETT**—Who owns Cairns?

**Mr McArdle**—Cairns is owned by the port authority. It is up for sale at the present time.

**Mr Baker**—Back on that point you were just making, we can try to get something to you by next Monday. I do not know if I can achieve that but I will certainly try if you wish.

**Senator BARNETT**—If you can provide some sort of estimate by sometime Monday, that would be great. What proportion of the passenger movement charge do you think is cost recovery and what proportion is tax?

**Mr McArdle**—I have no idea because the fee has never been transparent.

**Mr Baker**—I have the same view entirely.

**Senator BARNETT**—Do you support the submission of IATA, the International Air Transport Association, which opposes the increase in the PMC?

**Mr McArdle**—Unfortunately I have not read their submission. I have not had the privilege of seeing it as yet.

**Senator BARNETT**—I have read it and it seems to be consistent with yours. I just thought you might have had consultation. Finally, have you been consulted on the increase in this charge?

**Mr McArdle**—No.

**Mr Baker**—No, also.

**Senator MARSHALL**—This is not, of course, a new fee. The passenger movement charge has been in place for some time. We are really talking about the increase. I understand and hear what you say about the issue of transparency. In the process prior to this increase, have you been consulted about other increases before?

**Mr Baker**—No, I was only notified that the most recent one for the Olympics was for the Olympics. There was no consultation or any transparency about why or how.

**Mr McArdle**—No, no consultation at all on any other increase.

**Senator MARSHALL**—I have a question which is about the crowding that takes place at airports. Who decides how many security processing points are open in the airport at any given time?

**Mr McArdle**—It is generally the security contract in consultation with the relevant screening authority at the time and that can be either the airport or an airline, or a combination of both.

**Senator MARSHALL**—But it is not Customs, it is not AFP and it is not government.

**Mr McArdle**—Customs is different to the aviation security role.

**Senator MARSHALL**—It is a management issue of the airport?

**Mr McArdle**—Correct.

**Senator FISHER**—My question is about the impact on visitors to Australia and, in particular, to South Australia. I will be passing through your airport this afternoon when I go home, which I look very much forward to. What is your view about whether there might be an impact on the likely level of tourism visitors to Australia and, if so, on what basis do you have that view? I note in your earlier evidence, Mr McArdle, you indicated that the forecast was for an increase in passenger traffic and that you speculated, I think, whether or not maybe that is the basis for the increase in the charge. What are your expectations about tourism numbers, to start with?

**Mr Baker**—I am pleased you like our airport. We are looking to grow the number of airlines that fly here and we are spending a lot of money trying to attract those airlines to fly here, which was why we have confidence that we will grow them. But we have to 'incentivise' those airlines enormously. They look at every single dollar of what it costs them to come here, which is why for an airport like Adelaide it is becoming increasingly more difficult because we are not on the beaten track, as you would be aware. So, any increase in any fee that the airline has to pay makes all of Australia relatively unattractive and Adelaide airport a much harder sale, because the load factors they think they can achieve to come here would naturally be lower than those they think they can achieve for the other major gateways that are bigger than us.

**Senator FISHER**—In this particular case, even though the \$9 applies across the board you would be suggesting it would apply disproportionately unfavourably to visitors to South Australia?

**Mr Baker**—In essence you would think that would not be the case but history has proven the fact we are the most underserved major capital city in this country with a population not too dissimilar to Perth and Brisbane, but massively less international traffic, so historically it has proven a burden. I said before I was pleased it was the same figure here and not like some air services charges which are higher here than anywhere else in the country. So, because Adelaide is a tight market, any increase makes it relatively worse for us than others.

**Mr McArdle**—In our submission, what we were implying is that because the airports go to a lot of time and expense in gathering qualitative and quantitative forecast figures for future growth from organisations such as Access Economics, we felt that the allocation of the collected monies by the Australian government or by the Department of Finance back to the border agencies in their budgets could be geared to the forecast growth so that the border agencies could budget for sufficient staff and resource to meet the growing demand.

**Senator FISHER**—And, of course, the lack of transparency that you have highlighted means whilst there might be a projection about increased numbers on the one hand you would be concerned that an increase in this respect might deflate those numbers on the other hand but there is no transparency. While I could ask you if you have a view, I do not know how you would form it based on evidence about the chain of causation.

**Mr McArdle**—Exactly, thank you.

**Mr Baker**—As to the issue about numbers, I think the TTF has got a lot of detail about the fall in tourism in Sydney and the amount of competition around the world which I think in their view is reaching some level of crisis point. I do not have that data to hand. I have heard it presented but I am sure if Christopher Brown is not already talking to you, you will find that he will come up with a lot of information for you.

**CHAIR**—Thank you very much for your evidence today. That concludes our time with you and we appreciate the time you have given us this morning.

[10.25 am]

**HINGERTY, Mr Matthew, Managing Director, Australian Tourism Export Council**

*Evidence was taken via teleconference—*

**CHAIR**—Good morning. Would you like make a statement about the ATEC?

**Mr Hingerty**—ATEC represents the inbound tourism industry in Australia. We are a national industry association with branches around the country. We are principally concerned with matters relating to the supply chain or distribution of tourism products, Australian tourism products internationally from the supplier or tourism business in Australia through the wholesalers and travel agency distribution chain to the customer in foreign countries.

**CHAIR**—You have taken the time to provide us with a submission and we do appreciate that, given the short notice you would have had. Do you want to make any changes or amendments to that submission?

**Mr Hingerty**—I do have a couple of additions. It was done very quickly in an airport before I jumped on a plane back from Perth yesterday, so there is a certain amount of brevity in there. Nevertheless, I think I made in my submission a reasonable argument that the industry is under severe stress at the moment. You may be aware that this week our major national trade show, Australian Tourism Exchange, has been held in Perth and I have spent a lot of time talking to my members and their customers. In my submission and in other public statements I have underlined that the conditions the industry faces are not theoretical. There is significant stress within the industry. There is business failure occurring at the moment. I believe the Senate next week will be voting on a measure and has to balance a perceived threat to security against the reality that this measure and this piece of legislation will contribute further to business failure around the country.

I am sorry, I could not hear the earlier witnesses, but I assume that the earlier witnesses made the point that there has been a very poor flow of information between the governments of both persuasions and the tourism industry in particular as to what the passenger movement charge has been used for. It has been a very opaque process. For example, the tourism white paper of the former government, supported by the current government and in which I had some involvement, promised as one of its items a review of the passenger movement charge. The previous minister for tourism promised us that the tourism industry would be made aware of the outcomes of that review and be told how the dollars would be spent. That was renegeed on. The Department of Finance and Administration conducted a review and that review remained internal.

I note in the second paragraph of the explanatory memorandum to the legislation again what could be perceived by us as typical weasel words used in the relationship with the industry and the central agencies about this measure. It says that the budget measure will partially fund national aviation security initiatives. It is unclear in the memoranda whether that means the full amount of this funding measure will be used to fund a portion of the security measures or whether part of the dollars raised by this fund will be used for security measures. It has always been the suspicion of the industry that there has been an over-collect of the passenger movement charge against the justifications that were used to levy it and that that over-collect has gone into consolidated revenue. The previous government over a number of years was ambiguous as to whether or not this was a hypothecated charge. We always thought of it as a tax on travellers. It would assist the relationship between the industry and the government of the day if clearer lines of communication were opened up on this charge.

The final thing I would like to say in these opening remarks is in relation to a discussion paper that ATEC released a bit over a year ago now. I refer to it in my submission as the missing link. I should also make the point that I am a director of the National Tourism Alliance and to a degree I am speaking on their behalf in my submission. I am also a director of the Australian Services Roundtable. When the GST was imposed the three older industry sectors of mining, manufacturing and agriculture were given the relief that they do not have to charge GST on the items that they sell overseas. We do. And while I understand GST flows through to the states I would like to make the point that, when it comes to taxes, the tourism industry pulls its weight and billions of dollars have flown through the GST into state coffers to fund basic community services. I also make the point that those older industry sectors which are exporting real items are able to levy a charge against those real items, often particularly in the case of agriculture, with the assistance of the federal government which they can reinvest into research and development in their sector. Thus, in the agricultural sector in particular, massive research and development corporations have been built up, in some cases with annual budgets of tens of millions of dollars to put into research and development and innovation in their own industry sectors.

We do not have that ability in tourism and indeed in other service areas. It is very hard to effectively levy a service. We made the point in our discussion paper that the one reasonably free and fair levy that we could approach is the passenger movement charge and at the time we called for a dollar within the then limit to be put into a charge for research and development in the tourism industry. We believe that, given that this measure is likely to significantly increase the impact of the passenger movement charge on inbound tourism, the case that we made has even more currency. I think in a perfect world we would like this charge not to happen. We would like the passenger movement charge not to be there at all but we accept the reality of this legislation. What we do ask is that it be deferred for a year. It is a much abused cliché, but there is a perfect storm emerging for the tourism industry over the next six months in particular, but indeed the next 12 months as I outlined. We would ask the Senate to amend the legislation for its start date to be 2009 rather than 2008. I conclude my opening remarks.

**Senator BARNETT**—Thank you very much for your submission. It is very much appreciated in the short time available and congratulations on your advocacy for the Tourism Export Council and export tourism generally around the country. It is well appreciated.

**Mr Hingerty**—Thank you.

**Senator BARNETT**—You have called for a deferral for at least 12 months. I gather from that that you actually oppose the tax but, if worst comes to worst, you are calling for a deferral for 12 months because the situation economically is dire for your industry. Can you just expand on that—is that correct?

**Mr Hingerty**—That is correct. I have obviously been in close contact with my members and their partners, particularly over the last three weeks. There is a confluence of factors but one of the two main contributing factors is the strength of the Australian dollar. In the past my members, particular the wholesalers, have experienced swings and roundabouts. When the dollar goes down they make a nice little profit; when it goes up, they lose and it evens out over time. The problem we face at the moment is that the dollar is consistently high. They have absorbed as many costs as they have been able to and what happens typically and has happened to this point is that the tourists still come. They still take up, let us say, a \$5,000 package from the United States but what happens is that items start dropping out of the itinerary so they get less than they would have previously. The items that drop out typically are the services provided by small business so there will be one less half-day tour or one less restaurant meal, and that is having an impact. I used one example in my submission. If I can use a metaphor, the tourism industry is like an onion, it rots from the outside in. It is the small businesses in regional parts of Australia in particular that go first. And that is happening as we speak. We have got to the point now where even that strategy for absorbing the costs has come to the end of its cycle and my members now have to pass on to the customer the price increase from the impact of the dollar and also now the impact of fuel. They have all taken cost cutting measures and we have seen that at its most extreme with Qantas removing about 100,000 seats out of the Japanese market. The Japanese warned us that this was going to happen. I cite the Tax Laws Amendment Bill 2005, No. 1. In giving evidence then the ‘yon shiki’, the four main Japanese travel agents based in Sydney, warned in response to a tax measure that Australia was pricing itself out of the leisure market. They have been proven right. In the last three or four years we have seen double digit decreases out of the Japanese market and that is causing business failure.

**Senator BARNETT**—You have made some good points there. Thanks very much for that. I presume on top of the Australia dollar, in evidence from other witnesses and from general knowledge, obviously fuel prices are a key impediment. I just want you to answer that to see if that is correct. Also, your submission refers to the fact that ‘the recent Federal budget contained other measures which will further reduce Australia’s tourism competitiveness and impact on the profitability of Australian small business’. Can you outline what that is because that all goes to the timing issue that you have a real problem with this particular tax?

**Mr Hingerty**—That is correct, and it is important for senators to understand that the global tourism market—this may sound ironic—works on a 1 April year. What typically happens is that my members put their contracts into the marketplace on 1 April. Then you have the federal budget following shortly thereafter which not only foreshadowed this measure but there were some very onerous increases in taxes and charges in visa processing and they particularly impact on those markets that are not part of the electronic travel authority, which is an electronic visa. They still have manual processing of visas; these are emerging markets, such as India and China. There was the luxury car tax which exempts commercial vehicles above nine feet. Unfortunately, the Australian tourism industry, as I have said publicly, more or less runs off the back of the Toyota Landcruiser, which is eight feet. I have had some commercial-in-confidence information provided to me by the manufacturers that about 8,000 vehicles per annum are sold to my industry that are captured by the

luxury car tax. They have put a contract down into the marketplace that they cannot change for a year only to find that in some cases they have a \$30,000 or \$40,000 impost as a result of the federal budget in a very tough year. That may not sound like much to senators and certainly to the larger public companies involved in the tourism industry, but 90 per cent of the participants in the industry are small to medium enterprises and for them \$30,000 to \$40,000 a year is a lot of money.

**Senator BARNETT**—I can see where you are coming from. I just want to ask a couple of other quick questions in light of the time, but this measure is going to raise \$460-odd million over the next four years at an increase of 24 per cent. Do you have a view as to how much of this tax is for cost recovery purposes and how much is a tax that just goes into general revenue? Is it 50 per cent or a significant proportion? Have you got any idea at all?

**Mr Hingerty**—No, we do not. We would like to know and the industry has tried for certainly the decade that I have been involved with it now to have that clarified. From where we sit we see whenever a budget measure is taken to lift this charge there is an explanation given, there is a line item in the budget explaining it. We have an explanatory memorandum here. A year later when we go back and seek some clarification on how that expenditure is going we are basically given short shrift. It is extremely frustrating. It does not build a relationship of trust between the industry and central economic agencies. I think our suspicions and concerns are justified.

**Senator BARNETT**—I can see your point there about the issue of transparency. I have a final question in two parts: firstly, were you consulted on the increase in the tax and, secondly, have you expressed your views to the government since the budget in terms of the deferral for a year and, if so, what was its response?

**Mr Hingerty**—The answer to the first question is no. The answer to the second question is, yes, both in writing and publicly. The answer to the third question is I have not yet had one.

**Senator BARNETT**—You have not received a response as yet?

**Mr Hingerty**—No, neither to that nor the other budget measures.

**Senator FISHER**—You have very eloquently put evidence and emphasised the points in large that I would have asked you about, so thank you. To the extent that the passenger movement charge is a combination of a tax and cost recovery, I understand your industry to be suggesting a dollar be diverted towards looking after the industry. But if the passenger movement charge were purely cost recovery what is your organisation's view of that? Would you still be seeking the same diversion of money and, if so, on what basis?

**Mr Hingerty**—I would have to take that under consideration. This is another part of the relationship that we have had with the central agencies on this. There have been quibbles over whether this is a tax, a charge or cost recovery, but you need to understand our position. We believe this is a tax on our customers. We have contributed through our marketing and products in bringing these people through the door. To that end, we believe that we have created a massive amount of value for the Australian economy—\$24 billion last year. This is the second or third largest export market, depending on how you define it. We would love to see a tiny proportion of that value that we generate being reinvested in increasing the contribution we make to the economy.

I should point out that we have also made a submission to the current Mortimer Review into export market assistance and to the Cutler review into industry innovation making the same points. In those submissions we did not make the direct link to the passenger movement charge, but we wanted to make a point that to expand this industry into new areas, which governments are not entirely always comfortable with, the industry should have the ability to capture some of the value it generates for its own expansion.

**Senator FISHER**—Thank you for those views. To your knowledge, has the government predicted an increase in tourism traffic in the coming years?

**Mr Hingerty**—I serve on the Tourism Forecasting Committee, which is a joint committee of government, Tourism Research Australia and industry representatives. It comprises a technical committee chaired by Bernard Salt, the demographer from KPMG. The latest projections have not been publicly released. In general terms, they are less than the outcome for last year. As I said in my submission, last year they grew by two per cent, which was far behind world growth. The TFC is predicting that will be less this year. I should point out that is calendar year.

**Senator FISHER**—I note your speculation that perhaps when framing the federal budget the central economic agencies deliberately chose to reduce inflationary pressures in the economy by attempting to

dampen demand from foreign tourists. The lack of transparency with measures like this makes it difficult for organisations such as yours to legitimately assess those sorts of allegations.

**Mr Hingerty**—I am not usually one for conspiracy theories, but if you wanted to sit down, with respect to the last federal budget, and draw up a strategy to dampen demand from tourism, you would pretty much come up with the actions that the central agencies took. I would also like to place on record that I do not necessarily blame or accuse the current parliamentary members responsible for those agencies, but I know from deep personal experience that there is a structural bias against the services sector within the major agencies in the Commonwealth government. That is a historical hangover that I could take half an hour to debate. We are always battling against that. We battled against it with the white paper. I had some internal involvement in that. It would seem yet again with this budget that the central agencies have viewed tourism as a soft touch, and we have been hit again.

**Senator BARNETT**—I was just reviewing Mr Ciobo's second reading speech. He quotes the now Minister for Tourism, Mr Martin Ferguson, in his speech on the Customs Legislation Amendment Bill 2003. He said at the time:

However, what the government has persistently and conveniently failed to mention to the Australian community and the travelling public is that the passenger movement charge turns a very significant, healthy profit to the Commonwealth coffers. Even before the \$8 increase in 2001, the government was already creaming off around \$80 million per year and putting this into consolidated revenue.

He refers to the \$80 million a year. I note that Mr Pyne, in his second reading speech, refers to a reference from the Australian Customs Service's Mr Woodward in a Senate committee hearing on 28 May 2001 to the \$80 million collection being greater than the actual costs of Customs. That goes to my question earlier about how much is collecting over and above cost recovery. You indicated that you did not have any idea and you needed further transparency. I would draw that your attention. If you were able to alert us in due course to an estimate by the industry of this over-collection, that would be of great interest.

**Mr Hingerty**—I have a couple of responses. Firstly, I rest my case. Secondly, I will draw that to the attention of the board meeting of the National Tourism Alliance in Canberra next week. Thirdly, I would like to say that the current minister has been a great supporter of the tourism industry in the short time he has been in the chair. He has prosecuted our cause very strongly, but he is finding, like tourism ministers before him, that when you are up against the might of the central agencies it is a very tough row to hoe.

**Senator BARNETT**—Are you aware whether he fought for the tourism industry in cabinet on this proposal?

**Mr Hingerty**—I would love to be au fait with the cabinet discussions, but I am not and I cannot respond.

**Senator BARNETT**—We do not know, either. Thank you for your time today. It is very much appreciated.

**CHAIR**—Thank you for your submission, which you provided to us at short notice. I recognise you have had a very busy and productive week over in Perth. Thank you very much again for your time.

**Mr Hingerty**—For the knowledge of my industry, I understand that you will reporting next week?

**CHAIR**—Tuesday.

**Mr Hingerty**—Is it correct that the legislation be voted on next week?

**CHAIR**—That is the intention.

**Mr Hingerty**—Thank you for that.

**CHAIR**—Thank you. We will suspend the committee for five minutes.

**Proceedings suspended from 10.48 am to 11.01 am**

**AHERNE, Ms Louisa, National Manager, Public Affairs, Tourism and Transport Forum**

**DIMECH, Dr Mark, National Manager, Aviation, Tourism and Transport Forum**

**HALL, Mr Evan, National Manager, Investment and Infrastructure, Tourism and Transport Forum**

**WILKIE, Ms Caroline, National Manager, Tourism, Tourism and Transport Forum**

**WIRTH, Ms Olivia, General Manager, Public Affairs, Tourism and Transport Forum**

*Evidence was taken via teleconference—*

**CHAIR**—I welcome this morning representatives of the Tourism and Transport Forum. Do you have a written submission for us?

**Ms Wirth**—No, we do not.

**CHAIR**—I invite you to make a brief opening statement so that we can understand your arguments on this matter, and then we will go to questioning.

**Dr Dimech**—I wanted to quickly introduce our organisation. TTF is a national member funded CEO forum. We advocate the public policy interests of 200 of the most prestigious corporations and institutions in the Australian transport, property, tourism and infrastructure sectors. I would like to begin with a few key points before I pass on to my colleagues. The first issue is that the increase in the passenger movement charge could not have come at a worse time. We have a rationalisation of air services routes by our domestic carriers, we have historically high fuel prices, we have a high Australian dollar and there are potential trade barriers on long-haul travel emerging from the European Union. There are significant issues facing the tourism and aviation industry and so the timing of the PMC increase could not have been worse.

The first point I would like to make is that TTF Australia reject the increase in the passenger movement charge. The second issue is that we are concerned that there was no consultation with industry on the decision to increase the passenger movement charge. The third issue is that we are concerned about the magnitude of the increase from \$38 to \$47. That is an increase of almost a quarter. Fourthly, we anticipate that the burden of the increase in the charge will impact leisure holiday travellers the most, especially families who have to account for this as part of their low-cost travel budget. Fifthly, this increase in the charge represents a distinct policy shift in how the passenger movement charge is levied, and that is a significant point because traditionally the passenger movement charge has been used to take into account changes and facilitation at the border, for example, in terms of quarantine, and this shift to aviation security is a significant one. I will speak about that later. Another point is in terms of border facilitation itself. We are faced with significant delays at our border. The passenger movement charge gives the impression of a fee for service and travellers are still faced with significant delays. Finally, there is already a significant amount of taxes that the aviation and tourism industry are faced with.

**Mr Hall**—I would like to turn in particular to the impact of the passenger movement charge on our leisure and holiday markets. Before I go into that I would like to add a bit of context about the significance of international tourism to Australia. International tourism is worth \$22.3 billion. That accounts for over 10 per cent of Australia's export earnings and that makes tourism the second highest export earner after coal. International travel to Australia, by airport and aviation, is a significant export earner.

There is a global boom going on at the moment with tourism. This has been driven not only by significant changes in the aviation market but also the sorts of factors that are driving the resources boom in Australia—that is, the growing wealth of economies such as China and India. That has seen tourism growing internationally at the moment by over four per cent, but Australia has only been growing over the period since the Olympics, 2000 to 2007, by less than two per cent per annum. Of that our leisure and holidaymaker markets are growing only by 0.35 per cent. What is essentially happening is that, in the midst of a global boom, our most lucrative market is stagnating. These are the results of a major project euphemistically titled Project X that we have been looking at across the industry. We are essentially stagnating and not getting the benefits that we should be tapping into of a massive boom in resources.

One of the major problems that we face in tapping into those markets is the nature of leisure and holiday travel and the fact that Australia is a long-haul holiday destination. Firstly, leisure and travel is discretionary consumer expenditure and by its very nature it is volatile, sensitive and very competitive—not just with other holiday destinations but also with other consumer products. It is also driven a lot more by consumer sentiment. One of the main disadvantages that we have is that most consumers with consumer expenditure for their

leisure and holiday travel very much want an up-front and immediate gratification for the money that they spend, and we face a significant problem in Australia in that there are up-front costs, particularly through aviation, before people enjoy the leisure and holiday travel. It is a significant disadvantage not just in cost competitiveness compared with other destinations across the world. It really puts the leisure and holidaymaker off that there are so many up-front costs that need to be paid before they actually reach Australia and enjoy the holiday. It is basically delayed gratification.

We are highly concerned about any factor that raises, in particular, the up-front cost of travel to Australia. Our starting point is that aviation to Australia is fairly expensive because of the long-haul travel. But what we have now with the increase in the passenger movement charge is yet another up-front cost to the consumer that we believe influences consumer spending and decisions on whether to come to Australia and how much to spend while in Australia, because the consumer must purchase a return air ticket before they get here. The passenger movement charge joins a long list of other government charges and taxes, including the GST and the various charges levied by Air Services Australia on airlines, all of which inevitably flow on to the price of the ticket. At TTF we estimate that 20 per cent of the price of the ticket is due to the cumulative impact of these various charges.

To this mix we can also add in another charge that came up in the budget—the visa processing fee that was increased to \$100. While it does not flow on to the ticket, it is yet another up-front cost that we think is impacting on the decision to come to Australia. One of the main questions we have is: was the increase of the passenger movement charge, and, for that matter, the increase of the visa application fee, factored in? Was the impact on consumer travel to Australia modelled before this decision was made? And if not, can we see some modelling to estimate what is the impact on consumer demand to travel to Australia? Ultimately, what is the impact on our \$22 billion export industry of a relatively small up-front charge? What is the downstream effect of that cost? We do not know. We want to know if the government or any future governments knows before they make these decisions.

We do know what governments overseas are doing, and they are heading in the opposite direction. We did a sample through Australia's 11 main international competitor destinations. If we just have a look at the visa fees, only four destinations charge visa fees at all for people travelling in. That is United Arab Emirates, China and Brazil, all of which are \$50 or below. Our charge is \$100. All of our main competitors, such as Europe and the United States, have no visa fees. On arrival and departure taxes, of which the passenger movement charge is a classic example, of those 12 destinations Australia has the highest. The cumulative impact of the visa and the passenger movement charge is \$147 before you even get to Australia, whereas our main competitors are hovering around the \$20 mark for those up-front fees. Add that into the inevitable cost of long-haul travel to Australia and we are convinced this is having an impact.

They are the main concerns we wanted to raise. We think the two markets that are mainly impacted are the ones that are very competitive and very price sensitive, such as holiday and leisure travel to Australia. The other market worth mentioning is the business events market, and we are highly concerned about Australia's capacity to bid successfully against other international destinations for major conventions, incentives and meetings that generate so much money through our convention centres. State and federal governments have sunk a lot of money into building these facilities and marketing Australia as a convention destination. So those are the sorts of things that lose us bids when we are seeking out these markets internationally.

**CHAIR**—Is there anyone else who wants to provide an opening comment or are you happy if we go to questions?

**Ms Wirth**—That is all from us. We will go questions.

**CHAIR**—Thank you. Senator Barnett?

**Senator BARNETT**—Thank you very much for the evidence that you have presented today in the short time available to prepare. It is very much appreciated. Secondly, I thank TTF for its advocacy for the industry around the country. It is well appreciated, I know, by not only policymakers but the industry in general. I wanted to ask a few clarifying questions. Firstly, were you consulted in any way prior to the increase in the PMC?

**Dr Dimech**—No. There has been no consultation whatsoever—firstly, in terms of the increase, secondly, in terms of the magnitude of the increase and, thirdly, in terms of the timing of when the impost is going to be introduced.

**Senator BARNETT**—I thought that was what you said earlier, so I am just getting that on the record. Secondly, since the budget announcement, have you made representations to the government with respect to your concerns, particularly in terms of it being the worst possible timing? If so, what has been the response?

**Ms Wirth**—We have made representations. We have written to the Treasurer and also our minister responsible, Martin Ferguson, outlining the concerns of our members and our industry at large. That is not only from an airline and airport perspective but from the broader tourism industry. We have held discussions with the relevant agencies, again just to outline the concerns that we have made to you today.

**Senator BARNETT**—What has been the feedback to date?

**Ms Wirth**—The feedback to date has been, I guess, taking our comments on board. We have had a number of discussions with various departments about the possible implications of this, particularly in regard to the broader complications and impacts that our tourism industry is facing. In the project that was mentioned before by Mr Hall, Project X, we have outlined a number of concerns that the industry is facing, and this is just an additional one. We have made the Department of Resources, Energy and Tourism; Customs; and also Treasury well aware of those concerns, and at this stage we are awaiting advice back from them.

**Senator BARNETT**—There was a reference in your opening remarks to the delays at the border and there is an assumption by everybody that the departure tax, as it is commonly known, covers border, immigration and Customs services. Can you provide further and better particulars of the delays that are occurring at the border; and are these more significant than previously or about the same? What sorts of delays are we talking about and how significant are they?

**Dr Dimech**—There are significant delays and they have been there for some time. The delays at the border have been significant. TTF has been concerned about these delays since as early as 2005. Certainly the government has what is called the Passenger Facilitation Taskforce, which is trying to address these delays, but they are becoming more pronounced at the secondary line—that is, where Quarantine has procedures. The issue with Quarantine is that it has an intervention standard such that it is stopping about 81 per cent of all international travellers. Quarantine inspect both; they intervene with in fact over 91 per cent of travellers. The issue is that currently we have a significant amount of international visitors, about 5.5 million per annum. We have significant projections and we have made representations to the Australian government Quarantine and Biosecurity Review in terms of how we are going to address those significant delays.

In terms of the evidence base provided to the Australian government, we have estimated that a growth of over 50 per cent in terms of peak hour passenger arrival and a growth of over 80 per cent in peak-hour high-risk passenger arrivals will occur by 2011. This forecast growth would more than double current and already excessive peak-hour queue lengths in processing delays. We are very concerned about the state of Customs, Immigration and Quarantine but particularly the secondary line.

**Ms Wirth**—Just following on from what Dr Dimech has said, the concern from the tourism industry perspective is the type of experience that this gives the visitor. This is their first experience of Australia and, if they are spending two hours and sometimes in excess of that in a queue when they arrive, it is not setting the right image and actually makes it more difficult for return visitation. It is not a strong welcome for any international visitor coming to Australia.

**Dr Dimech**—We have argued that the passenger movement charge gives an impression of a fee for service. Previously every international visitor as they departed was levied a \$38 impost, and again this gives an impression that there is a fee for service, yet what service they are getting in return leaves a lot to be desired.

**Senator BARNETT**—I see your point. I would like to go to the point about the impact on the tourism industry. Are you recommending to the committee and to the government a tourism industry impact statement of this charge?

**Mr Hall**—In terms of the proposal, that is a good way to describe what we are after. We do not know—and we suspect that nobody else has done the assessment—what the impact on demand of increasing the passenger movement charge is. If we add in the passenger movement charge with the visa application fees and the other multiple fees that are levied, it is topping out at over 20 per cent of the ticket, and we know that the ticket is the barrier to travel to Australia, so we suspect it is significant. It raises the broader question: what is the transparency behind the passenger movement charge? What is it there for? What is the calculation for its value or magnitude? Does increasing it by 25 per cent lead to a 25 per cent improvement in processing times at the airport? We suspect not. Does increasing it by 25 per cent have an impact on demand? We suspect it does, but

we do not think there is any transparency behind that assessment in reaching the evaluation of how much the passenger movement charge should be, if it indeed should exist at all, given the multitude of charges.

In terms of the argument for the charge, if it is about aviation security, then fundamentally this is a cost that should not be borne by the traveller and certainly not by the industry in our export earnings, because this is for the broader public good of all Australia. If it should be borne by the international visitors, I would simply make the point that, unlike every other export industry, tourism pays the GST and, for every \$9 spent by a tourist in Australia, \$1 goes into government revenue. There is already a sizeable impost and take on tourists that would more than cover the costs of aviation security before we even start looking at the passenger movement charge, because tourism is subject to GST, unlike any other export.

**Senator BARNETT**—For sure. I would like to ask a couple of other questions. In regard to the cost recovery and the excess over and above that that actually goes into general revenues, firstly, do you agree that a significant amount is going to general revenues and not directly to cost recovery? Secondly—and we can ask the Australian Customs Service this—in evidence put on 28 May 2001 to the Senate Legal and Constitutional Legislation Committee, a Customs Service officer said:

... our assessment ... is something like an \$80 million collection greater than the actual costs of customs, immigration and quarantine ...

Would you have a view as to how much extra that actual cost is at this stage for 2008, or any other feedback on that comment?

**Dr Dimech**—TTF strongly agrees with those points. The PMC is overcollecting and significant monies are going to consolidated revenue. The Passenger Movement Charge Amendment Bill projected that the increase of the existing \$38 charge to \$47 is expected to result in an increase in revenue of \$459.3 million over the next four years. By our projections we think this completely underestimates what the PMC would collect. Our projections are for around \$600 million. To put that into perspective, in the 2008 budget the Australian Quarantine Inspection Service's budget was about \$300 million. Here you have the PMC collecting \$600 million essentially in the next four years and AQIS's budget alone is \$300 million. That is extraordinary.

**Senator BARNETT**—Do you have any figures to back up your \$600 million assessment or estimate and can you forward those to us?

**Dr Dimech**—Of course. In fact, they are based on the Australian government's own Tourism Forecasting Committee projections.

**Ms Wirth**—We are more than happy to make them available to the committee.

**Senator BARNETT**—The only issue is the timing. We have to report on Tuesday. I am not sure how quickly you can forward those to us.

**Ms Wirth**—I am sure we can turn that around by close of business today.

**Senator BARNETT**—That would be very much appreciated, because I am sure that is of special interest to members of the committee.

Finally, in terms of the overseas experience, the evidence you have put to us is fascinating. Again, I have listened but I was just wondering whether you had a summary of the analysis you have done of those overseas countries? You have done an analysis of the visa charge and the PMC in these other countries and noted that Australia has the highest charge. This is very interesting evidence. Again, is there any way you can forward that to us in terms of a chart or a summary? That would be of great merit.

**Mr Hall**—We can certainly send you that chart. I would counsel that, given the short notice, the research has been brief. We will send that to you, and it will clearly demonstrate that we are out on a limb in terms of imposing upfront costs. It is very interesting to compare Australia with other countries such as the United States, which is obviously very security conscious with its aviation security and is certainly not taking this approach of either in reality or through labelling putting in upfront fees that are stated as being for security purposes. Most countries are being very competitive on this. They are keeping the upfront fees down because they know, as we know, that it is the upfront fees that really put off discretionary leisure and holiday expenditure.

**Senator KIRK**—I have a couple of brief questions. You mentioned in relation to the increase this time that there was no consultation with you. Is this the usual practice? When the fee was increased in around 2000 in time for the Olympics from \$32 to \$38 was your organisation consulted?

**Ms Wilkie**—I believe there was a minor increase at some point in the last five years. It may have been around the 2003 or 2004 budget, and from memory we were not consulted at that point.

**Senator KIRK**—You were or were not consulted?

**Ms Wilkie**—Were not.

**Senator KIRK**—I understood that the increase was around the time of the Olympics in 2000, from \$32 to \$38.

**Ms Wilkie**—Yes. There were also discussions around 2003 or 2004 about whether or not that money would come off.

**Senator KIRK**—Whether or not it would go back to the \$32?

**Ms Wilkie**—Yes.

**Dr Dimech**—I remind the committee that at some point last year a review of the passenger movement charge was established, but that was to be undertaken by an interdepartmental committee. Again, industry was not consulted.

**Senator KIRK**—Were you invited to make a submission to the interdepartmental review?

**Dr Dimech**—Not at all.

**Senator KIRK**—Did you say that was last year—in 2007?

**Dr Dimech**—That is right.

**Senator KIRK**—Is it correct that you had knowledge of the review but you were not invited to make a submission?

**Dr Dimech**—That is correct.

**Senator KIRK**—Have you had any follow-up in relation to whether a report has been released?

**Dr Dimech**—No, there has been no consultation or advice provided by government whatsoever.

**Senator FISHER**—If I understand you correctly, you have indicated that, to the extent that a measure like this funds security, you are of the view that that should not be funded by a passenger movement charge. Is that right?

**Dr Dimech**—That is correct.

**Senator FISHER**—Are you arguing that it should be funded by general revenue? Let me ask the question another way. The Australian Tourism Export Council has put in its submission the following comment:

It is very difficult for the tourism industry not to be suspicious that this is a tax grab justified as security measures.

They then go on to say:

While we do not have a broad philosophical issue with the user paying for their own security, we think they have a right to call government to account for these expenditures.

The Tourism Export Council is conceding, on one reading of their submission, that the user should pay for their own security. In terms of your submission, are you reading the user as being Australians writ large rather than those who come in and out of the country?

**Dr Dimech**—Again, let me very clear. TTF has had a very strong line in terms of aviation security costs and the burden it imposes on the aviation and tourism industry. We believe that aviation security is an Australian government responsibility. I would have to say that the Wheeler report confirmed that safety and security of the people of Australia is the first duty of the Australian government. In terms of the Australian government developing aviation and security regulations with this intention—that is, safeguarding all Australians and not just travellers—we believe that the cost of aviation security should not be imposed on the few.

I would have to again confirm that in terms of the second reading of what is called the Aviation Transport Security Bill 2003 the Australian government stated that the objective of aviation security is safeguarding Australia and responding to the changed security environment in the best way possible. The bill is aimed at protecting the people of Australia, at keeping them safe and helping them to feel confident in that safety. What that means is that aviation security not only protects aircraft and passengers but also infrastructure and people on the ground. In economic terms this is referred to as a positive externality, which our Treasury colleagues would be well aware of.

Therefore, aviation security not only protects travellers but also provides benefits that safeguard all Australians and the Australian economy. This was recognised when the government established aviation regulations, particularly in terms of the Aviation Transport Security Act 2004 and Aviation Transport Security Regulations 2005. The act's own regulatory impact statement noted that the potential for externalities in aviation security is also extremely high; an aviation incident which occurs has negative effect on innocent third parties. In other words, the outcome of this increase in the PMC places a disproportionate burden on the tourism and aviation industry, with potentially negative effect on air travel demand.

**CHAIR**—You claim that the Australian Customs Service budget is around \$300 million, yet the revenue generated from the PMC is around \$600 million. Is that correct?

**Dr Dimech**—I was referring there in terms of the Australian Quarantine Inspection Service, AQIS, and AQIS alone. I picked up that issue in regard to the significant delays we are having at the secondary line and then in terms of those projections in the passenger movement charge amendment. The bill itself forecasts revenues of about \$459 million and our advice, based on the analysis that TTF has undertaken, is that that figure can be as high as \$600 million over the next four years.

**CHAIR**—On that sort of rationale, would that not have been the case for, say, the last 10 years, where your estimates would have been that the income would have exceeded an offset in those agencies?

**Dr Dimech**—Absolutely. Our position has always been that the passenger movement charge has exceeded that.

**CHAIR**—Have you ever made representations to the previous government about that?

**Dr Dimech**—Yes, absolutely. We have made several representations and, again, we have been very active in this issue, particularly in terms of delays since October 2005. We have made representations to the export infrastructure inquiry. We have made representations to the review of the regulatory burden of regulations. We have made direct representations to current and previous ministers in terms of delays at customs, immigration and quarantine. We have worked with the Passenger Facilitation Taskforce. This has been a well-known issue.

**Ms Wirth**—In addition to what Dr Dimech has said, we have also made representations to the previous government regarding removing the Olympic component of the passenger movement charge. Obviously that was introduced before 2000, and we made a number of representations that—the Games having being held in 2000—we thought it should now be removed.

**CHAIR**—Between 2000 and last year, prior to the election, was there any evidence from the previous government that they would reduce it to the pre-2000 level?

**Ms Wirth**—No. We did not have any evidence along those lines.

**CHAIR**—Was the transparency issue that you raised ever addressed in previous years? We got Audit Report No. 12 in 2000, which is some years ago now. Has the issue, about transparency as to where the money is collected and what is done with it, ever—even under the previous government—been addressed adequately?

**Ms Wirth**—No, it has not. This has been an ongoing issue for us. We have continued to call for greater transparency and it has not been addressed.

**CHAIR**—Thank you. We do not have any further questions for you this morning, so I thank the five of you for your time and your representation before our committee today. It has been much appreciated.

**Ms Wirth**—Thank you. We will make that information available to the committee by close of business today.

**CHAIR**—Thank you.

[11.34 am]

**RAMSDEN, Mr Christopher, Acting Chief Financial Officer, Australian Customs Service**

**SOMMERVILLE, Mr Craig, National Manager Passenger Operations, Australian Customs Service**

**CHAIR**—Welcome. You have provided us with a submission. It is fairly recent, so I am assuming there will be no changes or additions?

**Mr Sommerville**—No. It came in this morning.

**CHAIR**—Would you like to commence with an opening statement?

**Mr Sommerville**—Very briefly, it is worth saying that the Australian Customs Service administers the passenger movement charge and the accompanying legislation on behalf of the government and, in that context, we deal with setting up arrangements with airlines and other carriers in terms of the actual collection. As requested, we make payment to those entities to pay for their administrative costs. We work with the aviation and maritime industries for general administration of the border but, in terms of the specificity of this, our job is to collect the revenue.

**CHAIR**—Mr Ramsden, did you want to say anything?

**Mr Ramsden**—No. I am happy just to go to questions.

**CHAIR**—Then we will go to questions.

**Senator BARNETT**—Thank you for being here today. I would like to walk you through your submission, which we have only just had put in front of us. In the second paragraph of the background you state that the increase will partially fund national aviation security initiatives. Can you explain exactly what that means?

**Mr Sommerville**—Yes. We are advised by the Department of Finance and Deregulation that there are around 100 aviation security measures that the government has funded since 2001 and that the quantum of that up to 2011-12 will be around \$2.25 billion. In that context, the expected revenue that the new measure will bring in over the next four years, of around \$459 million, is therefore a partial offset of the expected expenditure.

**Senator BARNETT**—But the industry witnesses today have said that there will be an over-collection, and we have had evidence in the past from your officers that there has been an over-collection from the passenger movement charge. Is it correct that the passenger movement charge covers all of the costs incurred by customs, immigration and quarantine for the services for international passengers and international movements?

**Mr Sommerville**—The short answer is that it was originally set up to fully offset the cost of passenger processing by customs, the immigration service and the quarantine service, and, I think, also to look after some short-term visa costs. In that context the cost-recovery levy that is a tax is collected accordingly, but it is not hypothecated back to the agencies. I guess there is no one-for-one dollar arrangement.

**Mr Ramsden**—That is correct. Because it is a tax, we collect it as administrative revenue and we deposit that revenue into the Consolidated Revenue Fund. Customs is appropriated by government on a departmental basis for its activities at airports, and we do not reconcile one against the other.

**Senator BARNETT**—Sure, but the point you made was that originally it was a cost recovery and then that changed some years later. My point is: does it cover all of the relevant costs from customs, quarantine and immigration?

**Mr Ramsden**—I do not think we can answer that question. I could find the costs of customs activities. I do not have visibility over the costs for immigration and quarantine activities, so I cannot comment on what their costs are and whether the full amount of this tax actually covers those costs.

**Senator BARNETT**—Every piece of evidence we have had is that there is an over-charge here. It covers the cost recovery and is in addition to that, and that seems to be an accepted assumption. Are you saying that you are not sure or that you do not have evidence to support that one way or the other?

**Mr Ramsden**—That is correct. I am saying we do not have any evidence to support that. I do not have any visibility over immigration costs or quarantine costs, so I could not reconcile one against the other. I know how much we collect from the passenger movement charge, and I could find out what Customs' costs are in regard to that, but I do not have any visibility over immigration.

**Senator BARNETT**—Let me read to you what Mr Woodward from the Australian Customs Service said to this committee on 28 May 2001. He stated:

In round terms, our assessment of the over-recovery—and this is revealed in answers to questions that have been asked before, on notice—is something like an \$80 million collection greater than the actual costs of customs, immigration and quarantine, but the passenger movement charge is a tax. It is not a pure cost recovery arrangement, and that indication of moving away from direct relativity came out when the \$3 increase was made at just about Olympics time. So that is clearly on the public record.

That assessment in 2001 was about \$80 million in terms of over-recovery. My question to you is: what is it now?

**Mr Ramsden**—I cannot answer that because I do not have any visibility over the immigration and quarantine costs.

**Senator BARNETT**—What is it for Customs?

**Mr Ramsden**—We collect one amount for the passenger movement charge and we have costs for Customs. I do not have those numbers with me, but I can certainly get them. We do not have the Immigration or quarantine costs, so I cannot reconcile that.

**Senator BARNETT**—I am asking you about Customs. Let us not focus on Immigration and quarantine for the moment. You have talked about accepting the money and putting it into the general revenues. I want to move away from that and ask you what is the cost to Customs for implementing these measures?

**CHAIR**—With all due respect, Mr Ramsden has said that he would need to take that on notice.

**Senator BARNETT**—Let the witness answer that.

**CHAIR**—He has answered that already to you. He does not have that information with him. He would need to get that, and he cannot get it for Immigration and AQIS. My understanding is that he has indicated very clearly he does not have that cost with him and he can provide it to us.

**Senator BARNETT**—Mr Ramsden, is that correct?

**Mr Ramsden**—That is correct. I can get the cost to Customs that would be reasonably attributable to the passenger movement charge, but I do not have Immigration or quarantine costs.

**Senator BARNETT**—Do you have an estimate of that in your head today?

**Mr Ramsden**—No. I could provide an estimate, but I would not like to be held to it.

**Senator BARNETT**—How quickly can you get that to us?

**Mr Ramsden**—Depending on the parameters, I could get it to you within two weeks or maybe even quicker.

**Senator BARNETT**—I would appreciate if you could do that as soon as possible.

**CHAIR**—We are reporting on Tuesday. The time line is actually close of business Monday night. If it is possible, we would appreciate that.

**Mr Ramsden**—I will endeavour to get those numbers to you, but, again, I cannot give you any numbers for immigration or quarantine, so I cannot reconcile against the passenger movement charge.

**Senator BARNETT**—I understand that. You have said that already. Thank you. I would like to ask about consultation in terms of this budget measure. Did you consult the tourism department, the tourism minister, the tourism industry or anybody else about this?

**Mr Ramsden**—I am not aware that Customs did so. It was not a measure that we put in place.

**Senator BARNETT**—Did you undertake any consultation with anybody in regard to this budget measure?

**Mr Sommerville**—In terms of the budget measure, there was some consultation with the department of finance regarding expected passenger movements and, since the bill has been announced, we have had discussions with BARA and with Qantas, and also next week the passenger facilitation taskforce is meeting in Cairns. It will be meeting with a group of industry players, including your previous witness, Dr Dimech from TTF. It is an agenda item for that meeting to talk through.

**Senator BARNETT**—How did you get to the figure of \$459.3 million, because the industry states that you have grossly underestimated the amount of revenue that is likely to fall through to Treasury? On what basis did you derive that figure?

**Mr Ramsden**—Treasury derived those numbers and we had a look at them to see if they were consistent with what we thought would be the case, and they were. They are derived from looking at the number of passengers that will be arriving in Australia, and my understanding is that they were increased by the Tourism Australia forecast increase in passenger numbers.

**Senator BARNETT**—You have relied on Tourism Australia's predicted increase in passenger numbers?

**Mr Ramsden**—That is how we calculated our reconciliation of their numbers.

**Senator BARNETT**—Tourism Australia numbers?

**Mr Ramsden**—That is correct.

**Senator BARNETT**—The industry states that the revenues are more likely to be in the order of \$600 million.

**Mr Ramsden**—I am not sure what they are basing that on, so it is difficult for me to comment.

**Senator BARNETT**—They state that they base it on official statistics. That is why I am asking what your official statistics are.

**Mr Ramsden**—My statistics come from the Tourism Australia forecasts of passenger increases across the years.

**Senator BARNETT**—Could you forward the figures which you used to assess that to the committee before close of business on Monday?

**Mr Ramsden**—Yes. I must reiterate that it was Treasury that came up with the estimates. They simply asked us if they were consistent with what our estimates would have been.

**Senator BARNETT**—I am not sure where Treasury is at the moment. They were expected to be here and they are not. Perhaps they are refusing to attend—I do not know—but I would appreciate it if you could forward to the committee whatever figures you have in your possession.

**Mr Ramsden**—Certainly.

**Senator BARNETT**—What is your understanding of where Australia sits in terms of the passenger movement charge, visa costs and the like in terms of comparisons with overseas like countries?

**Mr Sommerville**—I am not sure about visa costs, but in terms of similar taxes I think that Australia is probably on par. I do not think that we will be the lowest, but I do not think we are the highest, either. We have got some information about that in terms of some broad comparisons, but I would have to provide that to you.

**Senator BARNETT**—Could you do that by close of business on Monday?

**Mr Sommerville**—Yes.

**Senator BARNETT**—Could you also forward any evidence to support the view that you think the passenger movement charge is consistent with or, using your words, on a par with other countries? I would appreciate if you could provide evidence to support that.

**CHAIR**—Mr Sommerville, I just had a request from Mr Hallahan: could we have that perhaps by close of business today because we need to report on Tuesday, which means people have got to write the report over the weekend?

**Mr Sommerville**—We will do our best. I think we should be able to give that to you, but we will do our best.

**Senator BARNETT**—That is vis-a-vis the passenger movement charge. Do you have a view of or are you aware of the visa costs and how they compare with other like countries?

**Mr Sommerville**—No. To be honest, I do not. I would have to confer with colleagues in the department of immigration, but that would be a matter for Immigration, normally.

**Senator BARNETT**—In terms of your operations at the privately owned airports all around Australia, do you know what benefit that is? Have you put a value on that regarding the benefit to the Australian Customs Service? I understand these services are provided for free to the Australian Customs Service for the use of rooms, toilets and whatever facilities are in these airports. At the moment the advice we have received is that you do not pay anything to these private operators for the use of those services and facilities.

**Mr Ramsden**—I am not sure that it is correct to say we do not pay anything. We certainly do not pay very much, if we do. I believe we get the use of most Customs halls for free. Within our financial statements

contained in our annual report we have a section called 'Resources received free of charge' and we do recognise the value of that in that section of our financial statements. I do not have that number but I think it is in the vicinity of around \$4 million, but I would have to verify that.

**Senator BARNETT**—Can you do that?

**Mr Ramsden**—Yes. I could certainly provide that number for you by the end of today.

**Senator BARNETT**—Thank you. The industry says that quarantine and Immigration benefit to the tune of tens of millions of dollars a year. That is their view and I have asked them to provide further and better particulars. In the time available, can I ask you to provide further and better particulars with regard to exactly what services and facilities you use at each airport around the country, the nature of those facilities and an estimate of the value of that service and facility to Customs?

**Mr Ramsden**—Given the tight time frame I am not sure how much detail I can provide, but I will provide as much detail as I possibly can.

**Senator BARNETT**—That is appreciated.

**Mr Sommerville**—We could give you a broad description, but it would be general to an airport. Are you looking for a description by airport?

**Senator BARNETT**—I am looking for both. I am looking for the former and the latter. If it takes longer, I would certainly appreciate your getting that evidence to us in any event, but if you can get to it us within the time available, that would be great.

**CHAIR**—Senator Barnett.

**Senator BARNETT**—I am finished. Thank you.

**CHAIR**—Senator Kirk, do you have questions?

**Senator KIRK**—Yes, I do. I notice that you say on page 2 of your submission that if the PMC had been indexed in line with the CPI then it would be \$46.45, representing a 22 per cent increase since 2001. Given that we are going to a \$47 fee, that would be about on par. My query is: why is it that we are looking to increase it now by this large 22 per cent? Why is it that the fee is not increased just on an annual basis in accordance with the CPI? We would then not have this large \$9 increase in one hit.

**Mr Sommerville**—I do not know if we can answer that one. As I said earlier, we administer the act on behalf of the government and make the collections. In policy decision and revenue terms, Customs does not make those decisions, I am afraid. I am sorry.

**Senator KIRK**—I think Treasury is the correct group to ask and, of course, Treasury is not here. The last witness, TTP, alluded to an interdepartmental review in 2007 with some consideration being given to a reduction in the PMC. They could not really give us a great deal of detail in relation to that because they said they were not consulted in the course of that review. I wonder if you are aware of to what they may have been referring?

**Mr Sommerville**—What I am aware of is that the then Department of Finance and Administration, now the Department of Finance and Deregulation, undertook a review of the passenger movement charge as part of the budget process for that year, so the report was considered as part of the budget papers and as such was not released. That is my understanding.

**Senator KIRK**—So I am not going to find out any more information about that.

**Senator FISHER**—Is Customs sufficiently resourced for its job?

**Mr Ramsden**—Customs is resourced to do what it is required to do and Customs will do what it has to do with the resources with which it is provided.

**Senator FISHER**—Are queues and waiting times acceptable across Australia's airports?

**Mr Ramsden**—I believe we are meeting our performance targets, but Mr Sommerville can probably provide more detail on that.

**Mr Sommerville**—I cannot answer your first question. I think Mr Ramsden has answered that part of your question. In terms of your question around queues, Customs does an enormous amount of work in terms of active management of the passenger halls as far as we are responsible. We have been meeting the government standard of 95 per cent of passengers to be processed through the primary line within 30 minutes of arrival at the queue. We have been sustaining that performance for at least the last couple of years, and at the moment

we are actually beating that performance. In terms of the general health and efficiency at the airport, Customs is the chair of an interdepartmental committee, the passenger facilitation task force that I mentioned earlier, that is meeting next week. There are a range of agencies, including Quarantine, Immigration, the Federal Police, Prime Minister and Cabinet, and Tourism, and we engage heavily with the industry, which includes the airport operators, through the Tourism and Transport Forum, Qantas and Virgin Airlines. We have been doing a number of things through that mechanism with industry and with the assistance of industry and the government in terms of looking at the efficiency of airports. There has been a lot of active work. There continues to be active work. The task force will be reporting back to the government in another month or two in terms of current initiatives.

**Senator FISHER**—I guess that therefore implies the answer to my final question, which is to the extent that part of this charge is then allocated to Consolidated Revenue, is that you would not begrudge that amount going towards the services that you deliver?

**Mr Sommerville**—I am not sure I understand the question.

**Senator FISHER**—If you are saying that you deliver an adequate level of service and you are sufficiently resourced to do so, you would not mind sending elsewhere money that you might consider otherwise would come to Customs to better deliver its services?

**Mr Ramsden**—Customs receives supplementation based on the number of passengers that arrive in the country. Our funding is supplemented on that basis. I would assume that would mean that as the passenger movement charge went up so would the revenue that was forwarded to Customs. Customs has a passenger workload growth funding model in place and receives supplementation based on the number of passengers that arrive in the country.

**Senator FISHER**—Do you assume that or do you know that?

**Mr Ramsden**—What I am saying is that I would assume that one could make a connection between the value of the passenger movement charge going up based on the number of passengers and the funding that Customs receives based on the number of passengers. That is what I am assuming. But customs does have a workload growth funding model in place and for an increase in passengers or a decrease in passengers Customs funding is adjusted accordingly.

**CHAIR**—When the original departure tax was put in place there seemed to be a view that when it was originally designed it would actually compensate for or be the equivalent of agency operations such as Customs, AQIS and Immigration. It was put to us this morning by the Tourism and Transport Forum that they believed that there is now a quality shift here in terms of also suggesting some of this money will now go towards security. Can I just say to you, though, I know you manage on behalf of the government, but if we do actually have a look back at the quote Senator Barnett used before for Mr Woodward in 2001, when he was the official from the Australian Customs Service and appeared before this committee—and this is about the \$80 million greater—he went on to say:

It is not a pure cost recovery arrangement—

that was his quote then—

and that indication of moving away from direct relativity came out when the \$3 increase was made at just about Olympics time.

Am I led to believe then that during 2000-01 there was a shift to actually use some of the money derived from the passenger movement charge to compensate for the increase in security needed at airports?

**Mr Sommerville**—I do not think I can actually answer that question. The issue of the Olympics was obviously an extraordinary event for the Australian government and the Australian community in terms of what other services the government was providing at the time. Other than that, I do not think I can answer the question.

**CHAIR**—Who would be able to provide a background on that? Would that be Treasury?

**Mr Sommerville**—In terms of the relativity issue, yes, I think so, because of the issue of the effect of the revenue and what it was attempting to deal with.

**CHAIR**—It seems, on my reading of the history of this, that the government has certainly placed emphasis on, as you put in your submission, the fact that more than 100 measures are now needed to address security at airports. It does not seem to me, though, that this has just occurred with this budget, that in fact that shift to provide this money to go towards security happened back in 2000.

**Mr Sommerville**—As I said, I think you are probably correct in the sense that that question might be best directed to Treasury in terms of the construct and intent of the revenue measure.

**CHAIR**—Thank you very much for your time here today. If you could provide us with those answers to the questions that you have taken as quickly as you could, that will enable us to put that into the report for consideration on Monday and tabling on Tuesday. I thank Hansard and Broadcasting.

**Committee adjourned at 11.59 am**