

17 August 2010

Committee Secretary
Senate Rural and Regional Affairs and Transport References Committee
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Secretary

Inquiry into Biosecurity & Quarantine Arrangements

Tourism & Transport Forum (TTF) is a national, member-funded CEO forum, advocating the public policy interests of the 200 most prestigious corporations and institutions in the Australian tourism, transport, aviation & investment sectors.

TTF welcomes the opportunity to provide its input to the Rural and Regional Affairs and Transport References Committee's inquiry into biosecurity and quarantine arrangements. We will limit our comments to our concerns about mechanisms for funding these services, especially the Passenger Movement Charge.

The PMC has been an issue of concern for the TTF and its members, and the industry more broadly for almost a decade. Debate about the level and purpose of the PMC most recently arose in 2008 when it was increased by 25 per cent to \$47, and when the Beale review, *One Biosecurity: A working partnership*, proposed further increases to the PMC to fund an increase in the Commonwealth's biosecurity investment.

Industry is united in the belief that the PMC is an unjustified tax and impacting on the price competitiveness of Australia as a destination in a highly competitive international market. Receipts from the charge flow to the Consolidated Revenue Fund rather than directly to the agencies the charge was designed for. In 2000 the Australian National Audit Office noted that the PMC "...is now applied partly as a general revenue raising source. As a consequence, the PMC is no longer solely linked to cost recovery of Customs, Immigration and Quarantine services."¹

Published in September 2008, the Beale Review recommends, among many things, that:

The Commonwealth should increase its biosecurity investment by an amount in the order of \$260 million per annum, subject to full costing by departments, to meet the recommendations of this report. A significant part of this increase in resources should be funded through cost recovery and an adjustment to the Passenger Movement Charge. [Recommendation 73]

In order to justify an increase to the PMC, the Beale Review seeks to link the charge to

¹ Commonwealth of Australia, Australian National Audit Office, *Passenger Movement Charge—Follow-up Audit*, Audit Report No. 12, 2000-2001, p13.

funding of biosecurity arrangements in Australia.

The Beale Report contends that the community both benefits from, and values, existing and improved biosecurity arrangements. These arrangements and benefits are akin to national defence in the military, anti-terrorism and intelligence spheres. Indeed, there can be strong overlaps between them.

On this logic, the natural funding mechanism is subventions from Consolidated Revenue through the normal Budget appropriation processes, as the benefits are community-wide and to a large degree non-excludable. Travelers to and from Australia are not the prime beneficiaries of improvements to biosecurity and should not be expected to foot the bill for them. TTF firmly believes the general taxpayer should pay for any increase in biosecurity funding, not just travelers entering and exiting Australia.

Increases to the PMC also negatively impact on Australia as an international destination. As Australia strives to become more globally competitive, the PMC becomes a proportionally greater component of the price of travel. This affects the airline industry's ability to respond to changes in market conditions.

The increase in the PMC from \$38 to \$47 in 2008, for example, was estimated at the height of the GFC by TTF to cost Australian tourism 45,000 international arrivals per annum. Tourism intensive destinations such as Cairns, the Northern Territory and the Gold Coast are particularly reliant on international visitation and face the full effect of this charge.

Furthermore, the 'user pays' system advocated in the Beale Review cannot be used as a defence for Recommendation 73. The PMC applies to all Australians and also to non-residents leaving Australia. These constitute a small proportion of the total Australian community (the former being the ultimate beneficiary of effective biosecurity measures). The existing PMC cannot be defended in full as a 'user pays' charge and further increases therein cannot be defended on that basis.

The specific recommendation, made as part of Recommendation 73, that the PMC should be 'adjusted' does not follow logically from the Beale Report's own analysis, nor does it follow from more general public finance principles or efficiency considerations. An increase in the allocation of general taxpayer revenue to meet the required increase in biosecurity funding is more appropriate and equitable for all Australians.

Following the publication of the Beale Review, TTF commissioned Geoff Carmody & Associates to prepare a report in March 2009 titled '*Australian Tourism – How Deep the Recession*'. This report outlined the industry concern with the PMC and how the charge is counter-productive to the recovery of the industry, as well as addressing the broader issues covered in the Beale Review. A copy of the relevant section of this report is attached for your information.

In December 2009, the Henry Review of the Australian Taxation System investigated

taxes with narrow bases that raise small amounts of revenue, such as the PMC. The Henry review noted:

As the PMC does not provide meaningful price signals related to the costs or risks associated with border protection, and is on a relatively narrow base, other sources of tax revenue would be more efficient.²

The findings of the review stated that taxes and charges of this type are inefficient and potentially detrimental to commercial activity in Australia. Recommendation 81 of the Henry review states that Governments should undertake a systematic review of existing and potential user charges and minor taxes against the principles of equity, efficiency, simplicity, sustainability and policy consistency.

TTF supports this recommendation, and calls for the urgent establishment of a review of the PMC. It is essential that given the gross inadequacies of this charge and the challenges our industry faces that this review take place as a matter of priority.

TTF and its members would welcome the opportunity to discuss this with you in more detail. Should you have any queries or comments regarding our concerns and the concerns of the industry as a whole, please contact Evan Hall | National Manager, Tourism

Kind regards

CHRISTOPHER BROWN
Managing Director | Tourism & Transport Forum (TTF)

² Commonwealth of Australia, Attorney-General's Department, *Australia's future tax system Report to the Treasurer*, December 2009, p336.