



TAA Submission:

***Senate Inquiry into Clean Energy Legislation
(Carbon Tax Repeal) Bill 2013 and related bills***

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Contents

About TAA	3
Snapshot: Australia’s accommodation industry	3
TAA policy position: The need to repeal the carbon tax.....	4
Fast Facts: hotel profits down 12 per cent	4
Cost impacts for accommodation hotels	5
Impacting and stifling investment.....	7
Carbon tax burden – the world’s highest.....	7
Summary of Recommendations.....	7
Conclusion	8
Appendix A	9



About TAA

Tourism Accommodation Australia (TAA) – a newly-formed division of the Australian Hotels Association (AHA) – represents the interests of the 24 Australian accommodation chains and over 800 individual members in the Hotel, Serviced Apartment, Integrated Resort, Motel and Vacation Ownership sectors. TAA has branches located in every Australian State and Territory as well as a Canberra-based national office. Servicing owners, operators, managers, franchises and other industry stakeholders, TAA is a division of the Australian Hotels Association.

The AHA is an organisation of employers in the hotel and hospitality industry registered under the *Fair Work (Registered Organisations) Act 2009*. For more information, visit www.tourismaccommodation.com.au

Snapshot: Australia's accommodation industry

Australia's accommodation industry is a major economic driver, with the industry directly contributing \$6.2 billion in gross product in 2010-11 (or 1.3% of total Australian Gross Domestic Product) (*AECgroup, 2013*). Tourism, which accommodation is a key and fundamental component, is Australia's second largest services export behind education.

Notwithstanding differences between cities and regions in Australia, the accommodation industry has been consolidating since 2008, with employment and the number of establishments falling in response to weak demand.

New evidence suggests that demand has improved slightly over the past 12 months however the market remains highly price sensitive.

A consistent theme from consultations with accommodation operators is that over the past five years, cost pressures have continued to mount from labour, inputs and raw materials. However the market has prevented most of these costs being passed on to consumers by absorbing their impacts.

The Australian accommodation industry is a major employer, providing over 110,000 jobs in September 2012 (0.9% of Australia's labour force) (ABS 2012e). The industry has been hit hard since the onset of the GFC. Overall employment in the industry has fallen by approximately 6,500 persons since September 2008. The decline in employment levels has been driven by a range of factors, including:

- The high Australian Dollar, which has made Australian accommodation relatively more expensive for both domestic and international visitors
- Increasing raw material and utility costs
- High labour costs in international terms, and
- Weak domestic and international macroeconomic conditions which have reduced demand for both tourist and business accommodation demand.



TAA policy position: The need to repeal the carbon tax

TAA, which represents Australia's accommodation hotel industry, has investigated and analysed the impacts and costs on the sector from the carbon tax through a comprehensive study by the AECgroup released in March 2013. The full report can be found on the [TAA website>>](#)

In relation to providing industry feedback to the Senate Standing Committee on Environment and Communication, TAA's position is that the inefficient carbon tax needs to be repealed to put Australia's accommodation industry back on a more level playing field with international competitors and other investment classes and to facilitate opportunities to attract new investment in high-quality accommodation stock. This tax must be reversed, especially due to the high cost impacts it has on this important industry.

The ultra-competitive nature of the accommodation industry means that operators can't simply pass on their increased costs such as the carbon tax to consumers. This is compounded by the fact that price competitive international destinations are not subject to a carbon tax by their governments.

Therefore, TAA strongly supports the Federal Government's election promise and commitment to repeal the carbon tax from 1 July 2014. TAA supports the repeal of the *Clean Energy Legislation (Carbon Tax Repeal) Bill 2013* and other related Bills. TAA also welcomes the Government's push to fulfil its election mandate on this key issue.

Fast Facts: Hotel profits down 12 per cent

TAA has raised concerns regarding Australia's introduction of a carbon tax. Carbon pricing is impacting heavily on accommodation businesses, with profit reductions of up to **12% attributable** to increased costs related to the tax. It is estimated that across the Australian accommodation industry, the carbon tax cost will be up to **\$114.9 million in its first year**.

The repeal of carbon tax will cause significant price reductions and ease concerns for the accommodation hotel sector, depending on the carbon footprint of the particular properties or chains. (See the following statistics highlighting the current impacts)

- Carbon pricing is impacting heavily on accommodation businesses, with profit reductions of up to 12% attributable to the tax.
- Across the Australian industry AECgroup estimates that the carbon tax cost will be up to \$114.9 million in its first year.
- The value of a benchmark 200 room average Australian establishment will fall by up to 16.5%.
- The world's next most expensive established carbon price, the benchmark European Union price (which at the time of writing was trading as low as 3.71 euros per tonne CO₂-e), sits at about one quarter Australia's current rate.
- By 2049-50, inflation is forecast to increase the costs of operating a room by 249% whilst the carbon tax per room would increase between 932% and 1,220%.
- It is very difficult for businesses to estimate the future impact of the tax on their costs, feeding uncertainty in the sector as to future profits and unwillingness to invest.
- Australia is at risk of an accommodation investment drought, worsened by the carbon tax.
- The Australian Government must recognise and reverse the impact that the carbon tax is having on the Australian accommodation industry.

Source: AECgroup Report - [TAA Year One Carbon Tax Impacts Full Report](#)

Cost impacts for accommodation hotels

AECgroup estimated that in 2012-13 the carbon tax already increased costs for accommodation businesses by up to 0.9%. This is a significant impact of 12% of profit on what is already a low margin industry with an average annual profit margin of only 7.2% (as estimated for 2012-13 without the carbon tax).

Across the Australian industry AECgroup estimated that the carbon tax cost will be up to \$114.9 million in its first year. Australian accommodation operators are enduring a range of cost rises with energy costs having seen the greatest immediate impact. As the price of carbon increases and extends to additional sectors such as transport, other major costs such as food and beverages will rise further.

In some instances, carbon tax costs are even being nominated as a basis for wage claims in upcoming enterprise bargaining processes. The industry has already shed jobs and consolidated significantly since 2008 due to rising costs. The carbon tax will contribute to this worrying trend across much of Australia.



Current Carbon Tax Impact Estimates

To estimate the impact of the carbon tax on the Australian accommodation industry in dollar terms, current proportional impacts on individual cost items were estimated from the literature and applied to TAA (2012) industry survey benchmark annual expenditure and ABS (2008) benchmark expenditure proportions on a per room basis.

Summary of Accommodation Services Estimated Carbon Tax Impacts (2012-13)

Expense Item	Average Expenditure Per Room Available (2012)	Low Range Carbon Tax Impact	High Range Carbon Tax Impact
Total Costs Per Available Room	\$55,425	\$284	\$506
Carbon Tax % Cost Increase	-	0.5%	0.9%
Total Cost 200 Room Operation	-	\$56,818	\$101,207
Total Cost to Industry*(\$m)	-	\$64.5	\$114.9

Note:* Industry cost based on ABS (2012e) room counts of 227,015 for hotels, motels, and serviced apartments with 15 or more rooms.

Source: AECgroup

The estimated annual profit margin for a benchmark Australian 200 room operation (without carbon tax) is currently 7.2%. The estimated impact of the carbon tax in 2012-13 is to reduce this margin to between 6.4% and 6.7% based on operators being unable to pass on costs through higher room prices in the current market.

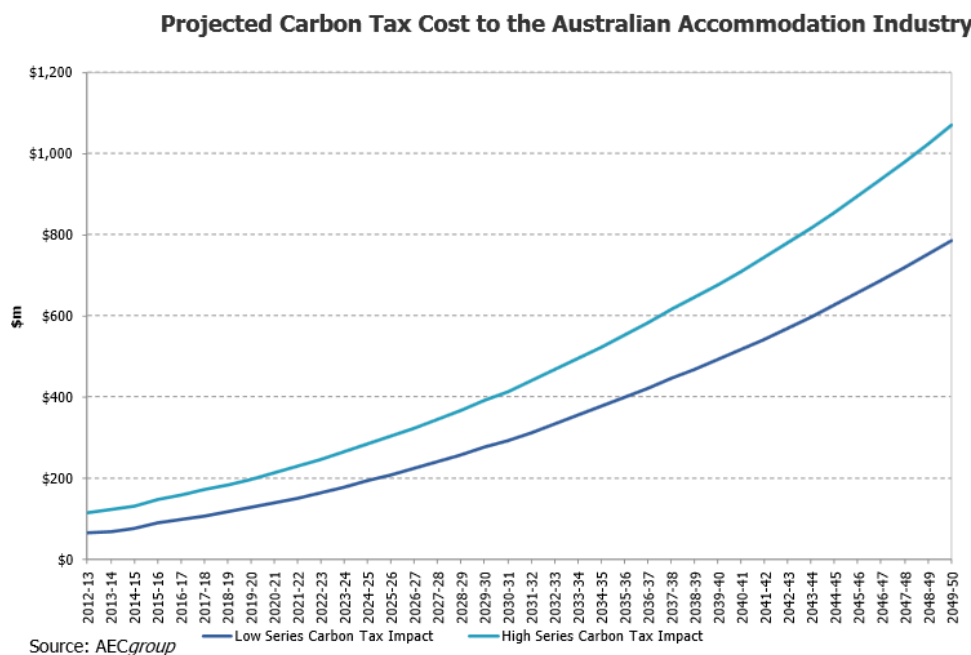
Overall, this translates to a 6.6% to 11.8% reduction in profitability.

Projected Carbon Tax Cost to the accommodation industry

A feature of the carbon tax is that it is intended to grow in price and application into the future. To estimate the future impact, Commonwealth Treasury's (2011) has predicted carbon prices to 2049–50 were applied within the cost structure used to predict the 2012-13 impacts.

Inflation was assumed at 2.5% per annum and the impact of the extension of the tax to road transport was applied from 2015.

The projections do not incorporate industry and economy responses to reducing carbon emissions (there-by reducing cost impacts of the tax). In the immediate term, major structural changes to carbon emission patterns in the Australian economy appear unlikely, and in practice accommodation businesses have limited further direct options to mitigate emissions at a viable cost.



Projected industry impacts escalate exponentially over the next 37 years due to the real increases in the carbon price and additional impacts driven by the extension of the carbon tax to heavy vehicle business use:

- By 2017-18 impacts increase to \$474-\$757 per available room (PAR) or 0.8% to 1.2% of costs, adding \$95,000 - \$151,000 per year to a 200 room establishment; and
- By 2050 impacts increase to \$3,465 - \$4,714 PAR or 2.5% to 3.4% of costs, adding \$693,000 - \$943,000 per year to a 200 room establishment.

Total industry impacts are projected to increase to \$107.5 - \$171.8 million in 2017-18 and \$786.7 million - \$1.1 billion in 2049-5050 with no mitigation.

The tax is also complex and difficult to trace, adding to the uncertainty within industry regarding their future cost structure.

Impacting and stifling hotel investment

Another major concern for Australia's accommodation industry is the impact on future investment due to the price increases driven by the carbon tax. In the current environment the tax is stifling investment in accommodation in Australia:

- Increased costs are squeezing margins and reducing profits. AECgroup estimates the carbon tax will significantly impact average operator profitability by up to 12%
- The uncertainty of the continued flow-through and pricing of carbon is undermining the credibility of future profit forecasts and increasing investment risk, placing pressure on capitalisation rates to increase (the relationship between current operating profits and asset value)

The carbon tax is adding directly to the current historically high cost of construction. This is set to further increase as builders continue to pass on the full impact of the tax. Based on AECgroup's estimates of a reduction in annual average profit margins and an increase in capitalisation rates due to a less positive outlook, the value of a benchmark 200 room average Australian establishment will fall by up to **16.5%**. As a result, finance is more constrained to build an equivalent new hotel at the same time that construction costs are rising.

This is a major concern to the industry, which is desperately seeking new investment in new and upgraded accommodation properties. Tourism Australia is spruiking Australian tourism investment opportunities overseas, but concerns about generating returns is putting projects at risk.

Carbon tax burden – the world's highest

The fact remains that no other country is paying as high a price for carbon. Europe has the next most expensive established carbon price in the world, trading as low as AU\$4.67 per tonne CO₂-e (at the time of writing) versus Australia's \$23 per tonne CO₂-e. New Zealand, which is a significant competitor to Australia for international tourists, has a carbon price currently about 6% of that in Australia. Most countries have no carbon tax at all. Although the Australian accommodation industry is partially trade exposed, it is not compensated as a trade exposed sector in the design of the carbon tax.

Summary of Recommendations

TAA believes the major carbon tax issues facing the accommodation industry could to be addressed by:

- The Australian Government must recognise and reverse the impact that the carbon tax is having on the Australian accommodation industry – a key industry for driving economic growth, employment and development.
- While average cost increases of up to 0.9% may not appear significant, in an existing high-cost, flat-demand environment, this is cutting directly into the viability of the industry.
- Australia must repeal the carbon tax to avoid an investment drought in accommodation. As the mining boom subsides, this will not assist the economy to restructure to industries such as construction and tourism. Business cannot effectively invest in reducing carbon footprints when their margins are shrinking.
- The carbon tax impact on Australian accommodation operators must be removed as soon as possible to avoid further painful consolidation in the sector.

Conclusion

Australia's hotel accommodation industry is a major contributor to the national economy and part of the social fabric of local communities. However the introduction of the carbon tax has had a major impact on this important sector, especially in terms of increased costs and added uncertainty. Profit reductions have been estimated of up to **12% attributable** to increased costs related to the tax.

The ultra-competitive nature of the accommodation hotel industry means that operators can't simply pass on their increased costs to consumers such as the carbon tax. This is compounded by the fact that price competitive international destinations are not subject to a carbon tax by their governments.

Therefore, TAA strongly supports the Federal Government's commitment to repeal the carbon tax from 1 July 2014. TAA supports the repeal of the *Clean Energy Legislation (Carbon Tax Repeal) Bill 2013* and other related Bills.

TAA's position is that this inefficient tax needs to be repealed to put Australia's accommodation industry back on a more level playing field with international competitors and other investment classes and to facilitate opportunities to attract new investment in high-quality accommodation stock.

It is very difficult for businesses to estimate the future impact of the tax. This feeds uncertainty in the sector and unwillingness to invest for the future – which impacts on industry growth, employment and vibrancy. Once again, TAA applauds the Government for

TAA appreciates the opportunity to provide this submission to the Government in good faith.

For further information, contact:

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Appendix A

(See *Carbon Tax and Australia's Accommodation Industry* report attached with TAA submission)



**The Carbon Tax and Australia's
Accommodation Industry**

Tourism Accommodation Australia

Tourism Accommodation Australia (TAA) represents the needs and interests of the substantial operators of Australia's accommodation industry, providing leadership for its members through advocacy, industrial relations and legal support, intelligence, research, education and networking.



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A division of the AHA