SUBMISSION 3

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The Hon Bruce Baird MP
Chairman
Standing Committee on Economics,
Finance and Public Administration

Dear Mr Baird

Please find attached the submission of the Australian Tourism Export Council (ATEC) to the inquiry on Australia's Service Industries. I look forward to giving evidence on behalf of ATEC.

Yours sincerely,

Matthew Hingerty
Managing Director

Australian Tourism Export Council

Submission

House of Representatives Economics, Finance and Public Administration Committee

Australia's Services Industries

July 2006

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About ATEC

ATEC is the peak industry body which represents the interests of over 1100 companies throughout Australia that provide tourism services to foreign visitors. It is important to note that while those services are consumed within Australia, they are purchased by foreigners and are therefore exports.

The Australian Tourism Export Council (ATEC) was founded in 1972 as the Inbound Tour Operators Association. In 2000, it changed its name to ATEC to reflect the fact that its members contributed significantly to Australia's export earnings. Today, ATEC represents the majority of the licensed ITOs (more than 170) and over 1000 product suppliers.

ATEC is the only national tourism industry association representing the tourism export (inbound) sector. Our chief functions are to:

- Represent the collective views of our membership to governments and other external stakeholders;
- Provide business-to-business opportunities for our members;
- Provide business development advice to our members;
- Raise the profile of the tourism export sector in the broader community.

ATEC is a member of the National Tourism Alliance (NTA) and its Managing Director sits on the NTA Board. ATEC's submission to this inquiry is complemented by submissions from other NTA members. ATEC also has a reciprocal relationship with the Pacific Asia Travel Association (PATA).

Based in Sydney, ATEC has eight branches around Australia and counts among its membership over 40 regional tourism organisations (RTOs), representing thousands of small to medium enterprises. ATEC's national Board of Directors is chaired by Mr John King, the former Chairman of Tourism Tasmania and former regional manager of the Australian Tourist Commission in the United States. A full list of the ATEC Board is included in the appendices.

Introduction

The purpose of this Parliamentary Inquiry is to examine the current situation facing Australia's service export sector, including tourism, and in particular to identify the future global opportunities as well as the impact of the resources boom on industries such as tourism.

The export (inbound) tourism industry has been a phenomenal success and the star performer of the export services sector. In 1972, the year ATEC (then ITOA) was formed, 426,402 overseas visitors arrived in Australia. By 1987, this had grown to 1,785,000 and by 1997 to 4,318,000. Last year, Australia welcomed 5,497,000 visitors contributing $18.2 billion in export revenue. This is predicted to grow to over 9.5 million visitors by 2015, contributing $35 billion in export revenue.[1]

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[1] Tourism Forecasting Committee, March 2006.

As it has grown, tourism has made a significant contribution to national employment. Today, tourism in all sectors employs over half a million people directly and a further 397,000 indirectly. Of those directly employed, around 185,000 are in regional Australia[2].

New Zealand, The United Kingdom, Japan and the United States are our four largest markets, contributing nearly three million of our 5.5 million visitors last year. Significant growth is being experienced from Korea, China, India and the Middle East with visitors from China in particular predicted to grow to one million per year within ten years. The economic growth of many Asian nations, Eastern Europe and Latin America is regarded as highly prospective for the development of new inbound markets.

Tourism is increasingly developing as the economic backbone of many regional communities, especially with its resilience to drought and other natural disasters as well as fluctuating world commodity prices.

However, like other growing export sectors, tourism is facing constraints to its growth no less significant than the constraints that the miners and farmers are facing through rail and port infrastructure. If we are to reach the predicted growth of four million extra visitors and $12 billion extra in export income per annum in ten years, we must face and address some of these constraints. To continue to grow and meet the economic and social expectations of government, the tourism industry will continue to require government assistance for both the marketing and development of an industry dominated by regionally based SME's.

Below, ATEC addresses some of these constraints. It should be noted that many of these, and others, were addressed in *Investing today for tomorrow, the National Tourism Emerging Markets Strategy: China and India*, a report to the Minister for Tourism to which ATEC contributed, and which should be considered a companion to this submission.

Tourism marketing – why governments?

A crucial part of our success as an exporter of tourism services has been the role of the Commonwealth and state governments in marketing Australia as a tourism destination. For reasons addressed below, there are significant market failure reasons for the role that governments play in tourism marketing and while the role of government may be queried by the casual observer of the industry, it would be a disaster if government support were reduced or withdrawn. It should be noted that all of our competitors, indeed the majority of tourist destinations, rely on significant government support for tourism marketing.

Australia's first overseas marketing body, the Australian National Travel Association (ANTA), was established in 1929 as a private body. However, with the support of ANTA itself and following a review by external consultants, the government of the day recognised that private sector efforts were failing. Thus the Australian Tourist Commission (ATC) was formed in 1967 with the explicit understanding that it was a separate statutory authority and many of the executives and board of ANTA transferred to the new body.[3]

[2] Tourism White Paper, p xvi
[3] John I Richardson, *A History of Australian Travel and Tourism*, Melbourne, Hospitality Press, 1999, pp 286-290.

In 1967, therefore, the industry and the Commonwealth recognised the need to centralise tourism's generic marketing requirements to the Commonwealth. This made commercial sense for the industry as it quite accurately foresaw its incapacity to fund the escalating costs of global marketing. It brilliantly anticipated the technological developments that were to facilitate mass inbound tourism, such as the arrival of the Boeing 747 long-haul jet in the early '70s. It has provided a spectacular economic return, with one estimate being that for every dollar invested in off-shore marketing \$11-\$16 dollars are earned in foreign exchange[4].

Since the formation of the ATC in 1967, there have been numerous reviews by both Coalition and Labor governments to examine both the level of Commonwealth support and the structure of the organisation delivering it (Tourism Australia's status as a Statutory Authority is currently subject to the Uhrig Review). On each occasion, governments have reaffirmed their support for the established arrangements.

It cannot the responsibility of the large national tourism corporations to promote Australia or to take responsibility for the future direction of the industry. Where appropriate and commercially sound, they will support Australia's marketing activities, particularly through co-operative arrangements and leverage partnerships. However they can neither fund nor adequately represent the interests of the entire industry, particularly the smaller operators and those in regional areas.

Today, we are beginning to understand the return that the government's investment in marketing has returned across the economy. A recent study by Visa International found that tourists spend on a wide range of areas from typical tourism services to clothing, clubs and associations, household goods, medical services, professional and commercial services, general retail goods and sports and leisure.[5]

The Visa study underlines the definitional difficulty of "ring fencing" tourism – as the economic activity generated by it is so widely dispersed. Indeed, the U.S. Department of Commerce found "the tourism industry is unique in that it is the only industry defined by the customer, whereas all others are defined by the product of its process of its manufacture and distribution".

The future of the Australian export tourism industry relies on the ongoing marketing support of the Commonwealth Government. It has been proven by time that the more the Commonwealth supports the sector the more it returns to the community.

- **Commonwealth support for the marketing of Australia as a tourist destination is essential for the maintenance of the industry and its growth.**

- **Therefore an "impediment" to the growth of the industry is the level of that support. While it sounds simple, the more the government puts in, the better the return to Australia.**

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[4] Access Economics, May 2002, *The Economic Value of Tourism For Australia: A Post-September 2001 Stock-take and Update,* p59

[5] Visa International, Trends in spending by visitors to Australia, May 2006

The role of the states

State governments too play an important role in tourism marketing. While the greater proportion of their effort is committed to encouraging interstate and intrastate travel by Australians (the domestic sector), considerable effort has been put by some states into developing international markets. Indeed, it can be argued that Queensland led the national effort in the 1980s by targeting international markets, encouraging entrepreneurs to invest in attractions and accommodation and encouraging international airlines to establish direct flights to the state. A consistent approach to these policies over the years meant that the Gold Coast and Cairns regions have developed into important international destinations where tourism accounts for the lion's share of economic activity. Tourism has encouraged property investment, which has in turn encouraged housing development and the growth of the services sector in these regions.

More recently, some enterprising states have adapted the Queensland model. For example, Western Australia has taken advantage of its location on the Indian Ocean rim and proximity (and shared time zones) with South East Asia. Of particular importance to Western Australia is Singapore and the state is one of the few which is enjoying growth from Japan. The Northern Territory, too, is catering to the demand of the Japanese market for new experiences by encouraging direct charters to Alice Springs for trips to Uluru and other destinations on the Mereenie "loop road".

The glaring example to the contrary is NSW, whose comparatively low commitment to the funding of tourism marketing is apparent from the table below. The under-performance of NSW in international markets is an important national issue and an impediment to export growth. Sydney, despite competition from other states, remains our major international gateway and if it is not being promoted then there is less incentive for international tourists to travel Australia. It is the role of the NSW Government to promote Sydney and the state as a destination, as Tourism Australia has a charter to promote Australia as a whole.

In its last budget, the ACT Government effectively abolished Australian Capital Tourism and severely reduced its marketing budget. Again, this is a significant national issue and impediment to export growth as the collective effort to promote our nation's capital has been hamstrung.

State & Territory Tourism Allocations (nominal dollars)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	% change from 04-05 to 05-06
State	$m	$m	$m	$m	$m	$m	
NSW	54.5	49.6	56.9	56.5	49.4	**50.3**	1.8%
VIC	39.6	43.2	38.4	38.3	38.0	**39.1**	2.9%
QLD	42.4	45.4	43.4	42.6	42.9	**43.4**	1.1%
SA	54.0	55.0	46.0	45.7	41.0	**45.2**	10.2%
WA	37.5	34.3	35.4	39.5	39.4	**40.6**	3.0%
TAS	28.2	28.7	29.0	33.4	35.0	**36.7**	5.0%
NT	26.7	25.9	26.1	38.2	37.9	**37.8**	-0.1%
ACT	23.0	22.4	16.7	16.6	20.2	**19.7**	-2.5%
Total	305.9	304.5	291.9	310.8	303.7	**312.8**	2.9%

Source: Aegis Consulting Australia, Total National and State Revenue from GST attributable to international visitors, May 2006

The other significance of the above table is, notwithstanding the underperformance of NSW and the ACT, the collective marketing efforts of the states have not been reduced since the introduction of the Commonwealth's Tourism White Paper. At the time of the launch of the White Paper, the Prime Minister and the then Minister for Tourism exhorted the states not to shift costs to the Commonwealth less the collective national tourism marketing effort be reduced. Regardless of the under-performance of NSW and the ACT, it appears that the potential for a cost-shift has been avoided. It should also be noted that from ATEC's point of view, and notwithstanding the different levels of budgetary commitment noted above, there appears to be excellent cooperation between the state tourism agencies, Tourism Australia and the Department of Industry, Tourism and Resources.

Why should the states be involved in tourism marketing, in particular international marketing? It is in the interest of the states because they earn hundreds of millions of dollars a year in GST from foreign tourists.

When the Goods and Services Tax was introduced, it was decided by the Commonwealth Government that unlike foreign consumers of other Australian exports, foreign tourists should be liable to pay GST, other than for international flights and some minor shopping concessions. This has led to a significant GST from export tourism for the states which they are able to reinvest into basic services.

The table below is from a report by Aegis Consulting Australia by ATEC. It found that in one year alone (2003, which, due to SARS, was a negative growth year for inbound tourism), the states banked over half a billion dollars in GST from inbound tourists.

States GST income from inbound GST 2003 ($m)

NSW	**155**	**WA**	**54**
Vic	**116**	**Tas**	**20**
QLD	**109**	**NT**	**23**
SA	**49**	**ACT**	**10**

- **Total $534 million**

Source: Aegis Consulting Australia, Total National and State Revenue from GST attributable to international visitors, May 2006

- **State governments play an important role in the collective international marketing efforts of Australia and in marketing international destinations.**

- **The states have not reduced their collective marketing efforts since the introduction of the Tourism White Paper.**

- **Nevertheless, the underperformance by NSW and the ACT is a national impediment to tourism exports.**

- **It is in the interests of the states to market themselves internationally as they derive significant income from GST paid by international visitors.**

The domestic sector

The domestic tourism sector has been experiencing poor growth rates for a number of years and the Tourism Forecasting Committee predicts that that poor growth in performance is set to continue. The TFC found that domestic holiday travel fell by 7% between 2000 and 2004 and is predicted to grow to 2014 by 3.1%

As ATEC is primarily concerned with international travel, we will not canvass the ills of the domestic market here. In passing however, the strong growth in outbound travel by Australians in recent years should be noted. This has partly been attributed to the strong Australian dollar.

Nevertheless it is important to understand that the underperformance of the domestic sector combined with significant downward pressure on costs and a squeeze on profitability is a potential impediment to export growth. Many, if not most, of ATEC's members are involved in the domestic sector as well as the international (export) sector. There are also many tourism businesses which have previously been (effectively) exclusively involved in the domestic sector that are looking at entering the export sector.

While it may be positive to have new tourism "stock" entering the export sector, this development brings with it a number of problems. For Australia to meet the main objective of Tourism White Paper, which was to increase the yield from tourists as well as increase the numbers visiting, we need to provide tourism experiences of the highest international quality. The recent underperformance of the domestic market has fostered the risk of under-investment in the development of our businesses and thus the quality of the product being placed in the international market may be in doubt. The potential for poor services being provided to international tourists is exacerbated by labour market shortages (see below).

For even well-resourced domestic businesses, entering the international market requires a significant investment in infrastructure and training. The business needs to be able to deal with the different ways that different cultures do business and the services their visitors demand. This is exacerbated where the market in question has a non-English speaking background.

A strong domestic sector is therefore crucial to the continued development of the industry and the ability for the industry to attract investment. Many of the tourism products and services required to service international visitors, especially in regional areas, require the support of domestic travellers to remain viable.

- **The domestic, international and outbound sectors of the tourism industry are inter-related.**

- **The risk of a poorly-performing domestic sector is under-investment in business development and the provision of poor quality experiences to international tourists.**

- **Entering the international market requires significant research and development by a business.**

Taxes and charges

ATEC welcomed recent public comments by the Hon Peter Dutton MP, Minister for Revenue and Assistant Treasurer, in which he queried rulings by the Australian Taxation Office which retrospectively amended established business practices, particularly where the new ruling has overturned existing public or private rulings.

In the last two years, the inbound tourism industry has twice faced an ATO about-face that has materially impacted our members.

The first related to a ruling that led to the charging of the GST on the service fee that Australian inbound tour operators charged foreign wholesalers. ATEC members understood, after collective and private rulings, that as the service fee was being consumed by foreign entities, it would not be subject to the GST. This was overturned causing confusion and increased costs to ATEC members.

The second, more recent ruling relates to the definition of security deposits for GST purposes. The Commissioner has ruled that any deposit over ten per cent would trigger an obligation to pay full GST on the price charged for a service prior to it being consumed. This is a patently absurd position for the tourism (and other services) sector, where small businesses with limited cash-low are accepting bookings for multi-million dollar tours some years ahead and where the final sale price is not determined. The ATO has since conceded that it could have more exhaustively considered the services sector.

Taxes and charges, both public and private, can act as an impediment to the export performance of the Australian tourism industry. The cumulative impact of a high AUD, fuel costs (and the resulting fuel surcharges), government taxes and charges, commercial levies and fees and confusing and retrospective tax rulings, adds to the cost of Australian tourism exports.

The international competition for the travel dollar, particularly the long-haul market in which Australia operates, is becoming more intense as developing nations place more product into the market. While last year Australia's inbound market grew, it grew at the same rate as the global travel market. One of the factors that may be holding Australia back is the increasing cost of travel to Australia.

ATEC contends that each market has its "tipping point", where the relativities in the cost of travel may cause prospective travellers to Australia to look elsewhere. This was eloquently argued by the Yon Sha Kai, the Japanese outbound wholesalers forum, in the context of the senate inquiry into the GST ruling on ITO margins discussed above. The submission is attached.

While ATEC understands that the tourism industry must contribute to the economy as other sectors do via some taxes and charges, we are concerned about the potential of governments to regard the industry as a cash-cow and the lack of transparency in the collection of the Passenger Movement Charge (as noted below) does little to allay those fears. Further, we contend that export tourism pays its way through a significant tax-flow into the economy via the GST receipts generated by foreign tourists.

As a matter of principle, we believe that taxes, charges and levies imposed by governments on the tourism industry should be transparent, justifiable and should contain a “sunset clause”.

- **The tourism industry is impacted by retrospective GST rulings by the Australian Tax Office and rulings which have inadequately considered the practical impact on services export sector.**

- **The cumulative impact of taxes and charges imposed by both the public and private sectors is to increase the cost and reduce the international competitiveness of Australian tourism export services.**

- **Export tourism generates a tax inflow into the economy via the GST paid by foreign tourists on expenditure while in Australia.**

- **Government taxes, charges and levies on the tourism industry should be transparent, justifiable and contain a “sunset clause”.**

Who is developing the tourism industry?

Since the mid-1980s Australia has been a world leader in international tourism *marketing*. The then Australian Tourist Commission set the benchmark as a national tourist office for a long-haul destination and has since had many well-resourced imitators, particularly in the Asia-Pacific region. The extension of the Export Market Development Grants Scheme to the tourism industry has allowed many Australian tourism businesses to take their services to the world.

Noting the challenges facing the industry as described in the last section, it is the *development* of the industry that now requires urgent attention, side by side with marketing.

Through the Tourism White Paper and the establishment of Tourism Australia, the Australian Government recognised the need for the national, public sector, tourism body to take a leadership role in the development of a more sustainable tourism industry. Before the White Paper, the Government's investment in the development of the tourism industry lagged marketing.

The Commonwealth also supports industry development, research and education via the Sustainable Tourism CRC, Decipher, the Quality Tourism Accreditation Portal, the Australian Tourism Development Program, support for the Emerging Markets and National Tourism Investment Strategy and a number of generic business support programs. The states, to varying levels, provide support via sponsorship of workshops, familiarisations and educational seminars. Further, the states provide real and in-kind support for the CRC and statistical collections such as the International and National Visitors Surveys.

ATEC welcomes the support of governments for industry development but supports a philosophical view that in an ideal world development should be driven by the private sector in partnership with Governments.

Unfortunately, the tourism industry finds itself in a particular set of circumstances that makes it difficult to service its businesses with exceptional levels of industry development, mentoring, research and training. This is particularly so in relation to the type of short-term, market responsive support that allows businesses to profit from or cope with quickly evolving circumstances – whether in rapidly developing markets such as China or Korea, or the impact of an external shock such as the events of September 11, 2001.

Tourism suffers a disadvantage relative to other export sectors, particularly the commodity exporters, which are able to charge a small levy against a real unit of production that is exported. Thus the miners and farmers are able to fund well-resourced industry associations and their industry research and development via a "growers levy".

Export tourism has no such advantage. The only equitable way to construct a grower's levy in tourism is via a per passenger charge through the gates of airports and ports. However the Commonwealth Government has already captured that opportunity via the $38 Passenger Movement Charge (departure tax) which, confusingly, it says is not hypothecated and goes into consolidated revenue (to the tune of $364 million in 2004-2005) while at the same time is required for cost recovery to pay for customs and security services at airports.

The lack of an underlying income stream from a "growers levy" to fund industry development is exacerbated by the nature of the tourism industry itself. The tourism industry is largely a small to medium enterprise-based sector with over 90% of registered tourism businesses being SMEs. Further, it is geographically dispersed with many businesses in regional and remote areas and on-line service delivery is not always ideal. Therefore educational, research and development services are very costly to provide.

There are relatively few large Australian-based global corporations in the tourism industry compared to industries such as mining and those that exist, notably Qantas and Macquarie Bank, already invest significantly in sponsorships to help with industry development, as do a number of global and local accommodation chains and services providers.

Nevertheless the Australian-based corporate sector in tourism is limited relative to other industry sectors. The cumulative impact of these factors means that the industry associations responsible for the business development of their members rely on their SME members' subscriptions to reinvest in the development of their industry – and therefore most are under-funded relative to associations in other sectors.

ATEC therefore recommends that Australian regulators which have jurisdiction and are faced with the demands of foreign investors for access to the Australian tourism industry, should consider what contribution they are prepared to make to the development of the tourism industry, in particular the broad base of SMEs which are creating the product that foreign investors seek to "mine".

- **While Australia has been a world-leader in the *marketing* of our country as a tourist destination, there is an under-investment in the *development* of Australian tourism services for export.**

- **The lack of an underlying income stream from a "growers levy" enjoyed by commodity exporters means that the tourism industry provides sub-optimum training and mentoring to its members and makes it more reliant on government support.**

- **Where regulators have jurisdiction over foreign entities seeking access to the inbound and outbound Australian travel market, they should consider the contribution those entities are prepared to make to the development of the SME base of the Australian tourism industry.**

The regulation conundrum

Outside of generic business regulation, the tourism industry is a relatively unregulated sector. Only one piece of legislation, the *Travel Agents Act 1986* (which is administered by the states and is not consistent nationally) is specifically designed for the travel industry and only one state has a specific legislative regime for the inbound industry, the *Queensland Tourism Services Act 2003.* A further regulatory regime – for inbound tour operators[6] with "China Approved Destination Status" (ADS) has been developed by the Commonwealth with the support of ATEC.

The conundrum for the tourism industry, in particular the export sector, is that while enterprise is best fostered by minimal regulatory interference, we require some regulation to ensure the high quality of the product we offer to the world. This is because the rewards are great and the risks regrettably low for those "rogue operators" who are prepared to rip tourists off (in particular Chinese tourists, but in the past Japanese, Korean and Taiwanese) by providing poor service – without a thought for the long-term consequences. Above any regulatory response we require *enforcement* of regulation – be it specific tourism legislation or generic trade and consumer protection legislation. The export tourism industry is prepared to wear some red tape, mandatory and voluntary, on the basis that those doing the wrong thing are policed.

Where we do seek some regulatory relief is in the interface between inbound tour operators and the consumer regulation scheme developed to protect travellers against business failure, the Travel Compensation Fund. In turn, ATEC is in the process of introducing a significant self-regulatory program through our *Tourism Export Code of Conduct.*

These regulatory issues are examined in more detail below.

ADS and rogue operators in the Chinese markets

With the rapid growth in the Chinese market in particular, conditions are favourable for rogue operators to act outside the law and provide poor services to visitors, therefore degrading Australia's reputation as a provider of high-quality tourism experiences. These conditions include:

- The sheer volume and speed of growth in the Chinese market
- A non-English speaking clientele and a lack of Chinese-speaking enforcement officers in Australia
- The Chinese willingness to bargain on price
- Outbound mass-travel from China is relatively recent and travellers, particularly under the ADS regime, have unrealistically high expectations of the service level they will receive for the price they are willing to pay.
- Complicated and non-transparent relationships between Chinese operators providing the services.

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[6] Inbound tour operators (ITOs) are Australian wholesale agents who bundle Australian tourism services into "tours" and sell them to foreign wholesale agents who then on-sell them to foreign travel agents and then to consumers. A diagram of the traditional inbound distribution chain is contained in the appendices.

The main issue is that some Australian ITOs in the Chinese market are selling packages at an unrealistically low price (even at a loss) to Chinese wholesale agents, who in turn demand the lowest prices possible. The margins are made by subsidising the package through guides compelling tourists to shop at “duty free” and “tax free” establishments (often in suburbs and industrial areas away from mainstream tourist precincts) and enticing them to pay inflated prices for sub-standard items in cash. The players in the distribution chain receive cash kick-backs that provide their margins. It is understood that the shops themselves are the main players and that the ITOs and guides are often mere fronts for the shopping operation.

Other examples of poor service include promising four and five star CBD accommodation and providing poorly located three star motel accommodation, poor value and repetitive meals and long travel times in sub-standard mini-buses. Anecdotal evidence exists of tourists being charged to walk on a beach or to take photographs of landmarks.

The Approved Destination Status regime is deigned to stamp-out these practices and is anecdotally having some success. The ADS requires ITOs to lodge itineraries, provide free time in tours and declare commissions. In the last budget the Federal Government committed nearly $4 million over four years to enforce the regime.

The work of the ADS regime is augmented by the Inbound Tourism Compliance Taskforce, a multi-agency Commonwealth standing committee which coordinates the response to illegal practices in other areas such as immigration, crime and tax law.

The only weakness of the ADS regime is that it applies only to those ITOs who gain ADS status. There is anecdotal evidence that some ITOs are operating illegally outside the scheme. Indeed, Tourism Minister Fran Bailey has proposed national legislation for the whole of the inbound industry. While ATEC is not opposed, in principle, to national legislation we believe it should accompany the relaxation of regulatory burdens elsewhere or supersede existing legislative frameworks that do little to address the issues.

It should be noted that the problem of rogue operators is not insurmountable. Similar issues were confronted in the early days of the Japanese and Korean markets. In the case of Japan, the significant investment in the Australian tourism industry in the 1980s by Japan meant that many of these problems were overcome – Japanese package tourists were provided with high-quality accommodation and tour services from Japanese-owned companies or joint-ventures. Recently, Japanese travellers have become more independent, with 50% now regarded by Tourism Australia as “free and independent travellers” (FIT). There is evidence that the same is happening in the Korean market.

The role of the states

State governments, too, have a role to play in the crack-down on rogue operators, given they have primary responsibility for consumer protection/fair trading laws. Only one state, Queensland, has passed a specific act to regulate inbound tourism operators, the *Queensland Tourism Services Act 2003*, which requires ITOs (in all markets) operating within the state to register under the act and to expect random audits. While the Queensland effort is to be applauded, the resources provided for enforcement are limited.

Unfortunately, efforts by other states to stamp out rogue operators have been very disappointing indeed. In NSW particularly, an urgent response is required as much of the rogue activity can be traced to Sydney. Most other states have been silent in this area. Indeed, ATEC receives more requests for advice from New Zealand than it does from most states. Without a complementary national regulatory regime, we run the risk of rogue operators "jurisdiction shopping" and simply shifting the problem elsewhere.

The Travel Compensation Fund

The one piece of national legislation for the providers of tourism services is the *Travel Agents Act 1986*. The act is underpinned by a deed designed to protect consumers from agency failure, and obligates "agents" to participate in the Travel Compensation Fund (TCF), which is a trust fund that can compensate travellers where services are not provided. One of the major benefits of membership of the fund is that participants have to prove solvency.

Despite the significant disruption caused by the collapse of Ansett, the TCF has worked well where travel agents sell services to outbound and domestic travellers. Unfortunately, it does not work well for inbound tour operators, who are obliged to participate in the scheme, but who do not have a direct relationship with foreign travellers. In most cases, foreign travellers are covered by travel insurance or compensation arrangements in their own country and thus would not call on the TCF for recompense in the event of ITO (agent) failure. It is important to note that unlike domestic and outbound travel, payment to the ITO and suppliers does not usually take place until well after the consumer has travelled, thereby minimising the risk to the fund itself.

The TCF is therefore meaningless for ITOs. Unfortunately, their obligation to participate comes at a high cost in terms of audit fees and other regulatory obligations. In reality, ITOs and suppliers are at risk from non-payment by foreign parties, a situation they often faced in emerging markets. In the worst cases this can lead to extreme financial difficulty and even failure of Australian businesses.

ATEC believes that where ITOs are signatories to the ATEC *Inbound Tourism Operators' Code of Conduct* (see below), ITOs should be relieved of some of the compliance burden and costs for participating in the TCF. At the same time, ATEC believes that ITOs should be able to claim against the TCF for non-payment by foreign entities or should be exempt from the TCF, in which case they could establish their own insurance fund.

The ATEC Tourism Export Code of Conduct

The ATEC *Code* has been developed with the assistance of the Commonwealth and is resident on the Quality Tourism accreditation portal (www.qualitytourism.com.au0. It is a voluntary code which obligates participants to engage in ethical business practices and which involves auditing, review and dispute resolution mechanisms.

ATEC believes that the *Code* should be recognised by the governments as an alternative to the obligations and commensurate regulatory burden of participating in the TCF.

- **Tourism is a largely unregulated industry which requires some regulation and an enforcement commitment to stamping out "rogue operators" who are risking our export potential by damaging our reputation among consumers.**

- **A national regulatory regime is needed to avoid "jurisdiction shopping" by rogue operators.**

- **While the export tourism industry accepts the need for some regulation in this area, we seek relief from regulatory burden in other areas, notably the costs associated from the obligation of ITOs to participate in the Travel Compensation Fund.**

The labour market

One of the most significant impediments to the further growth of the export tourism sector is the access to labour, both skilled and otherwise. Tourism is a labour-intensive, seasonal and often remote industry and always will be as most of its functions cannot be replaced by technology.

Skilled labour shortages in the hospitality and catering industry, in particular chefs and commercial cooks, have been apparent for a number of years. While a number of strategies have been developed by industry in cooperation with government (which will be discussed by other parties giving evidence to this inquiry), the exponential growth of the mining industry is diverting many skilled operators into the mining services sector.

However, it is not just in the area of skilled labour that the tourism industry is suffering shortages. Shortages range from white collar sales staff through to bar staff and cleaners. It should be noted that one of the reasons the tourism industry is suffering a shortage is because we have become a sought-after exporter of skilled labour in the tourism and hospitality industries. Australian tourism and hospitality workers are in demand throughout the world, in particular the Asia-Pacific and Middle East regions.

A number of projects are underway to identify the scale of the problem and to propose solutions. They include a joint industry/Department of Industry, Tourism and Resources task group and a proposed study by the Sustainable Tourism CRC. One of the key aspects of these studies is the changing demographic profile of our population. Where tourism and hospitality has largely been the domain of younger employees, our industry needs to adapt and encourage older people into the workforce.

Nevertheless, in the short-term, a number of policy prescriptions are available to help the industry cope. The recent decision to allow backpackers to stay in one job for six months (previously three) is a welcome development and ATEC would like to see further advancements in this area. These include extending the three-month qualification period for a 12-month extension to a working holiday-maker visa from agricultural work to tourism and hospitality work. ATEC is also urging and supporting the Department of Immigration and Multicultural Affairs to energetically developing new working holiday-maker arrangements, particularly with the United States.

Other policy prescriptions include adapting the new welfare-to-work regime to encourage more people into our sector. While politically unfashionable in the present climate, ATEC contends that if current acute labour shortages continue, a visa system encouraging the placement of foreign workers in the industry must be objectively contemplated.

Being a highly seasonal and geographically dispersed industry largely consisting of small to medium enterprises, tourism requires a workforce relations environment that encourages enterprise and offers maximum flexibility for negotiation between employers and employees.

ATEC notes the parallel inquiry conducted by the House Standing Committee on Employment, Workplace Relations and Workforce Participation and will be submitting to that inquiry.

- **The tight labour market is a significant impediment to the growth of the tourism industry.**

- **A number of processes are underway to quantify the problem and to propose policy solutions.**

- **In the short term, there are a number of policy remedies available to ease the labour shortages. These include further reform of the working holiday maker visa and an objective assessment of the recruitment of foreign workers.**

- **The export tourism industry supports a flexible workplace relations environment.**

EMDGS

While the recent review of the Export Market Development Grants Scheme was welcome in that it recommended the continuation of the EMDGS and made some useful if marginal (to the tourism industry) amendments, there are two major issues which ATEC believes need addressing:

"Start again" for emerging markets

As the *National Tourism Emerging Markets Strategy* notes, "early involvement in a new market does require considerable investment of funds, time and resources before a reasonable return is achieved."

To that end, ATEC thoroughly endorses the recommendation in the report:

> *The Australian Government to reintroduce the 'new market' incentives, previously available as part of the Export Market Development Grants*

(EMDG) scheme, to provide an incentive for Australian tourism operators investing in the development of declared 'emerging markets'. It will recognise the long lead-time often experienced before any returns are received. The 'new market' incentive program should not preclude operators who have reached their claimable expenditure limits in existing markets.

ATEC believes that a "start again" provision for emerging markets would encourage smaller tourism businesses to diversify into riskier but potentially lucrative new markets.

EMDGS for strata title property managers

Unfortunately, managers of strata-title property developments that may involve a mix of tourism and residential properties are not able to access the EMDGS for promotional purposes. This places many mainstream tourism businesses, which bear the same characteristics as other tourism accommodation providers, at a distinct disadvantage. ATEC believes that a level playing field should be a characteristic of EMDGS policy.

- **The Export Market Development Grants Scheme should be amended to allow "start again" provisions for specified emerging markets and to allow access for promoters of strata-title developments containing mixed tourism and residential accommodation.**

A world-class tourism shopping regime

One of the key aims of the Tourism White Paper is to maximise the spend, or "yield" from foreign tourists while they are in Australia. This is one of the strategies to avoid the problem of "profitless volume" whereby the *numbers* of visitors to Australia grow but the *financial return* stagnates or diminishes. Over time this would lead to business failure, the consolidation and narrowing of the product offer and low levels of re-investment in businesses. The Australian tourism product offering would decline and, eventually, numbers would suffer as well.

ATEC chairs the Tourism Shopping Reform Group, a grouping of businesses and associations (see attachment), which supports the maximisation of profits returned to Australia through tourism shopping.

The most pressing issue facing the Tourism Shopping Reform Group is the system for providing tax refunds to tourists for purchases of certain items. At present, the Tax Refund Scheme (TRS) is administered by the Australian Customs Service, and tourists receive a refund *after they have left Australia*.

The Tourism Shopping Reform Group believes that the TRS should be administered by the private sector and that shopping refunds should be available, in cash, to tourists prior to their departure. A more extensive explanation of the Tourism Shopping Reform Group's position is available in the attachments.

- **To maximise the amount that tourists spend while in Australia, the Tax Refund Scheme should be administered by the private sector and refunds should be paid to tourists before they leave the country.**

A medical tourism industry for Australia?

The Australian Health Export Industry Council (AHEIC) is making a separate submission to this inquiry in relation to the development of a “medical tourism” industry in Australia. The proposal is to develop an extremely high-yielding export medical procedure industry combined with Australian tourism experiences.

ATEC is working with AHEIC and strongly supports its proposal.

- **ATEC supports the proposal to develop a medical tourism industry for Australia.**

Summary of recommendations

Tourism marketing – why governments?

- Commonwealth support for the marketing of Australia as a tourist destination is essential for the maintenance of the industry and its growth.
- An “impediment” to the growth of the industry is the level of that support. While it sounds simple, the more the Government puts in, the better the return to Australia.

The role of the states

- State governments play an important role in the collective international marketing efforts of Australia and in marketing international destinations.
- The states have not reduced their collective marketing efforts since the introduction of the Tourism White Paper.
- Nevertheless, the underperformance by NSW and the ACT is a national impediment to tourism exports.
- It is in the interests of the states to market themselves internationally as they derive significant income from GST paid by international visitors.

The domestic sector

- The domestic, international and outbound sectors of the tourism industry are inter-related.
- The risk of a poorly-performing domestic sector is under-investment in business development and the provision of poor quality experiences to international tourists.
- Entering the international market requires significant research and development by a business.

Taxes and charges

- The tourism industry is impacted by retrospective GST rulings by the Australian Tax Office and rulings which have inadequately considered the practical impact on the services export sector.
- The cumulative impact of taxes and charges imposed by both the public and private sectors is to increase the cost and reduce the international competitiveness of Australian tourism export services.

- Export tourism generates a tax inflow into the economy via the GST paid by foreign tourists on expenditure while in Australia.

- Government taxes, charges and levies on the tourism industry should be transparent, justifiable and contain a “sunset clause”.

Who is developing the tourism industry?

- While Australia has been a world leader in the *marketing* of our country as a tourist destination, there is an under-investment in the *development* of Australian tourism services for export.

- The lack of an underlying income stream from a “growers levy” enjoyed by commodity exporters means that the tourism industry provides sub-optimum training and mentoring to its members, making it more reliant on government support.

- Where regulators have jurisdiction over foreign entities seeking access to the inbound and outbound Australian travel market, they should consider the contribution those entities are prepared to make to the development of the SME base of the Australian tourism industry.

The regulation conundrum

- Tourism is a largely unregulated industry which requires some regulation and an enforcement commitment to stamping out “rogue operators” who are risking our export potential by damaging our reputation among consumers.

- A national regulatory regime is needed to avoid “jurisdiction shopping” by rogue operators.

- While the export tourism industry accepts the need for some regulation in this area, we seek relief from regulatory burden in other areas, notably the costs associated from the obligation of ITOs to participate in the Travel Compensation Fund.

The labour market

- The tight labour market is a significant impediment to the growth of the tourism industry.

- A number of processes are underway to quantify the problem and to propose policy solutions.

- In the short term, there are a number of policy remedies available to ease the labour shortages. These include further reform of the working holiday maker visa and an objective assessment of the recruitment of foreign workers.

- The export tourism industry supports a flexible workplace relations environment.

EMDGS

- The Export Market Development Grants Scheme should be amended to allow "start again" provisions for specified emerging markets and to allow access for promoters of strata-title developments containing mixed tourism and residential accommodation.

A world-class tourism shopping regime

- To maximise the amount that tourists spend while in Australia, the Tax Refund Scheme should be administered by the private sector and refunds should be paid to tourists before they leave the country.

A medical tourism industry for Australia?

- ATEC supports the proposal to develop a medical tourism industry for Australia.

Appendix 1 - ATEC National Board Contacts

Mr. John King C/- Global Tourism & Leisure
Mr. Rob Gurney Head of Sales & Marketing Qantas Airlines
Mr. Matt Hingerty Managing Director Australian Tourism Export Council
Mr. Richard Muirhead Chief Executive Officer Tourism Western Australia
Mr. Kazunori Yamaguchi Vice President & Regional Manager Japan Airlines
Mr. Mark Taylor Managing Director Pacific Spirit Travel
Ms. Inga Afheldt Director/ General Manager ATS Pacific – Sydney
Mr. Kevin Carruthers Managing Director Pan Pacific Australia
Mr. David Armour Managing Director Southern World Australia
Mr. Francis Wong Managing Director Encounter Australia
Ms. Anna Guillan Director of Strategy Sales & Marketing Mulpha Hotels Ltd
Mr. Ron Livingston Managing Director Livingston Tourism Marketing
Mr. Peter Doggett International Relationship Manager Warner Village Theme Parks
Mr. Sudhir Warrier Chief Executive Officer Magistic Cruises & Sydney Showboats
Mr. Greg Daven International Sales Manager Kuranda Scenic Railway

Appendix 2 - Yon Sha Kai submission

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18th April, 2005

The Secretary
Senate Economics Legislation Committee
Suite SG.64
Parliament I-louse
CANBERRA ACT 2600

Dear Sir/Madam,

Inquiry into the Tax Laws Amendment (2005 Measures No.1) Bill 1005
Submission by Yon Sha Kai

We, Yon Sha Kai, would like The Committee to accept this written submission for consideration in their inquiry into Tax Laws Amendment (2005 Measures No. 1) Bill 2005, specifically Schedule 3 and the liability for GST by non-residents.

Yon Sha Kai is an association of the four largest Japanese inbound operators in Australia: JALPAK, Kintetsu International Express, Nippon Travel Agency and HB Australia. These four inbound operators are key members of the Japan Policy Panel of the Australian Tourism Export Council ("A TEC"). Together, they handle up to 80% of the Japanese travellers to Australia.

Accordingly, Yon Sha Kai is able to provide The Committee with expert and reliable information about the impact the proposed amendments would have on the Japanese inbound market.

With a total of 646,300 visitors from Japan in the year ending June 30, 2004 at an average spend of $3,727, the market is a large and valuable one to the Australian economy both in terms of revenue and employment at $2.4 billion.

[1] Source - Tourism Australia fact sheet - Australian Tourism Inbound Tourism Trends - June 2004

Although Australia offers a unique destination that is well regarded by the Japanese, in the current climate there are already many factors which are influencing our ability to translate that into actual tour bookings.

Firstly, we must compete against other destinations. Obviously one of the main criteria in deciding where to holiday, is price. Australia has been for some time more expensive than other popular destinations. For example, Cairns and Guam are similar destinations, with Guam being half the price of Cairns.

Added to this, is the strength of the Australian dollar against the Yen. This impacts not only the tour price, but value to the tourist on spending once they arrive at their destination, be it on attractions, optional tours, shopping or gifts, all of which are important to our Japanese market.

Coupled with the difficulty in competing against other destinations in sale price, is a rising cost base. The two major factors in this currently are increasing hotel room rates due to strong domestic travel trends and guide wage costs. It is expected that transportation costs will also be impacted in the coming year with increasing fuel prices, be it in local bus transfers or airfares.

Accordingly, in order to stay price competitive against other destinations, but having rising costs, the land content of some tour packages are being sold at a loss by operators.

Together, these factors make it difficult to sell Australian tours at enough volume to make a profitable margin. As an indication, in the current year bookings for April-June quarter are down approximately 30-40%. In some cases, operators have made a decision to no longer promote Australia, but to sell destinations which are easier to market price wise and offer more profitable returns.

These factors demonstrate how the market is already contracting due to price competitiveness issues, and the changes will only compound this. Should the proposed changes be approved, tour operators will have to decide between passing on the price increases, or absorbing the impact.

If the decision is to increase tour prices, Australia as a destination becomes even less competitive or attractive to the tourist. If it is absorbed and the margin reduced, then operators will be less likely to promote Australia as a destination compared to more profitable ones.

Additionally if the changes are implemented with no transitional period, the decision will largely be out of their hands and they must absorb it in margins. As tour operators generally publish forward prices, and the market reality is that it is uncompetitive to change a published price upwards, the impact will have to be absorbed in profit. At the time of writing prices for package tours of the Yon Sha Kai members have been practically published up to March 2006.

Once you begin to lose market share, particularly over a period such as two years, it is hard to recover in a short period of time. By then Australia's reputation as a profitable and price competitive market would be affected and most likely require a substantial investment in promotional activities that can be ill afforded in a low profit margin market.

Consequently, the changes will have a major and detrimental impact on our tourism market. The proposed changes will negatively impact tourist numbers and consequently contract revenue and employment in the tourism market, with all the flow on affects that this would have.

On a practical note we see complications with the proposed changes in areas such as how to handle foreign exchange, cash flow issues such as timing of the GST liability versus receipt of payments from the customer and claiming input tax credits from suppliers, substantial costs in changing systems to record the GST liability, particularly where the system would then have to handle the consumption tax in Japan and GST n Australia, and education of staff in Japan to name a few.

However the overriding concern for us is the unquestionably negative impact on the already competitive Japanese market. We have no doubt that the tourists numbers will drop and employment affected as the market contracts.

As outlined in your letter inviting submissions, we would like our submission to remain confidential.

We thank you for your time and welcome any questions you may have, and are confident that The Committee's decision will take into account the best interests of the Australian economy through tourism revenue and employment.

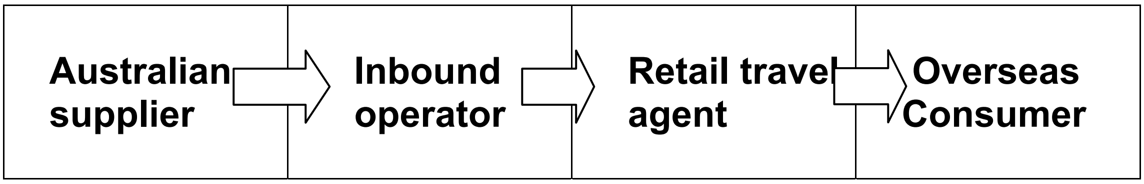
Yours sincerely,

Koji Iwatsuki
Managing Director
JTB Australia Pty Ltd

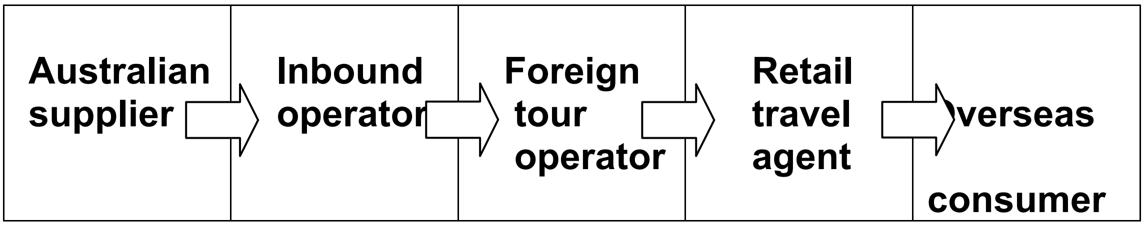
On behalf of the members of Yon Sha Kai.

Appendix 3 – Some Examples of Tourism Export Distribution Channels.

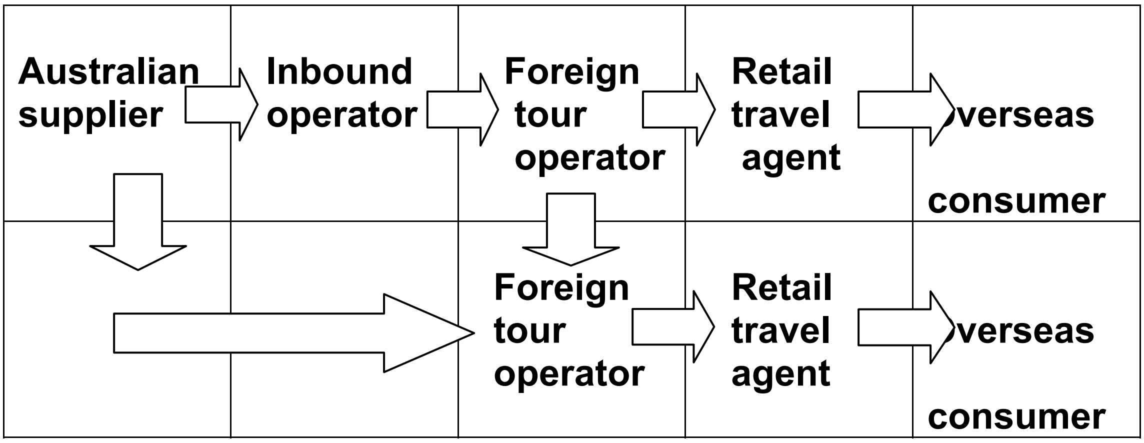
Model 1.



Model 2.



Model 3.



Model 4.

Appendix 4 – The Tourism Shopping Reform Group

FAQs about the Open Market proposal of the Tourist Refund Scheme (TRS)

QUESTIONS	ANSWERS
1. What is meant by an "open market" provision of the Tourist Refund Scheme (TRS)?	✓ It means to open up the TRS to allow private operators to provide the GST/WET refund service; ✓ Under the open market model, **Customs still provides export verification**, **and private companies** compete with one another **to market the scheme, to provide the tax refund service and to offer cash/refund vouchers as refund options.**
2. Can the traveller enjoy a 100% refund with a private sector run scheme?	✓ It is fairer – and well accepted internationally - to charge the traveller a commission for the tax refund service. A private scheme would be consistent with the user pays principle in that the direct beneficiaries are meeting the costs of the scheme rather than the general taxpayer; ✓ The traveller still has the choice to shop in duty-free/GST free retailers where they would receive a 100% GST reduction upfront; ✓ Alternatively, they can claw back part or possibly all of the commission charged by selecting a shopping voucher with a higher refund value than their cash refund.
3. What are the most popular refund options?	✓ Cash at airport in Australia before departure; ✓ Downtown cash; refunds made in cash downtown; ✓ Instant cash; immediate refunds provided directly from the retailer in-store at the time of purchase; ✓ Shopping vouchers; refunds made as shopping vouchers with a higher face value than the cash refund;
4. How can one make sure that the local currency is spent prior to departure?	✓ Cash in local currency is the fastest (instant) and the cheapest (no currency conversion rates) refund option. ✓ As a world average cash at destination is selected by 72% of travellers; ✓ In a country like Singapore with few land borders the equivalent figure is 95%; ✓ Refunds requested as cash in the local currency strongly suggests that it is to be spent in the country prior to departure; ✓ To further enforce this behavior shopping vouchers with a higher face value than the cash refund is offered.
5. What is the level of commission?	✓ The commission is a percentage of the total refund amount. The commission charged follows a sliding scale i.e. the higher the value of the purchased item, the lower the commission rate charged. Such a model passes on to the tourist the benefits of lower processing costs arising from economies of scale. The commission rate takes into account local market behaviour, level of GST, average ticket sale, tourist refund volumes etc;

	✓ The average commission used for modeling purposes was 20%.
6. Will an increased take-up rate mean a "GST leakage"? 6 (cont'd). Will an increased take-up rate mean a "GST leakage"?	✓ Compared to the ACS operated TRS, total spending (both direct and indirect) by tourists in Australia would rise by approx. $150 million; ✓ Therefore, from the perspective of the economy as a whole there is a net benefit associated with the change to a privately operated TRS; ✓ The introduction of a private TRS may contribute to a substantial increase in eligible expenditure and an increase in the proportion of foreign and outbound Australian tourists claiming GST refunds. There will be a significant increase in the aggregate value of GST refunds as a result. However, this should not be considered a cost to revenue but a benefit to the economy in terms of a greater achievement of the policy objective of increasing visitor spend; ✓ The GST was introduced largely because of its perceived efficiency benefits compared to the selective wholesale sales tax and other taxes on business inputs. A broad-based consumption tax is not a tax on business inputs and involves less distortion to relative rates of return across competing businesses or industries. But, by definition, it only has these advantages if it is broad based; ✓ The Treasury might regard the 97 per cent of eligible deductions that are unclaimed as revenue and measures to raise uptake of the deduction as a cost to revenue. However, this is not true. Achievement of the objective of the TRS involves a higher uptake of refunds. The unclaimed deductions should not be considered as revenue but as money already spent to achieve an efficient GST.
7. Would a private sector run scheme increase unnecessary administration ("red tape") for retailers and would affiliated retailers have to issue refund cheques in store?	✓ No. ✓ The concern of increased "Red tape" normally translates to unnecessary administrative or compliance burdens on business and overlapping and inconsistent requirements between governments. Issuing refund cheques is part of a commercial activity and completely voluntary; ✓ It is part of the affiliation with the refund operator; ✓ By issuing refund cheques in store, the retailer: 1. will be able to identify a traveller who is entitled to claim refunds 2. will obtain an immediate commercial benefit through further sales 3. will be able to participate in joint marketing activities with the refund operator 4. will be able to take part of benchmarking data, sales data and other market intelligence information provided by the refund operator.
8. Do retailers have to sign up with a refund operator and is there an affiliation fee involved?	✓ No. ✓ There is no compulsion on retailers to affiliate with refund operators. They can do exactly what they do today to sell to international travellers (ie make a sale and simply provide a tax invoice); ✓ One operator, Global Refund, would not charge retailers any fee to affiliate. Affiliated retailers participate and receive a wide range of marketing and point-of-sale services.

9. Would a private run scheme discriminate against regional and small retailers?	✓ No. ✓ Since Tax-free Shopping is also available outside cities with international airports, it will enable retailers in regional and rural areas to offer tax-free sales to tourists adding value to their local economies; ✓ Additional availability of tax free shopping destinations to tourists is likely to expand overall market sales and boost regional economic activity; ✓ Under the current scheme retailers are denied the opportunity to effectively promote tax-free shopping supported by joint marketing activities provided by refund operators.
10. Why shouldn't the industry pay for export verification?	✓ Export verification is generally a Government run and a taxpayer funded activity. The costing rationale is: 1. that border control/border integrity (ie verifying export) is a proper function of Government; and 2. that these costs should properly be borne by the taxpayer. ✓ For example, Customs does not charge exporters for using the EXIT export database system. Similarly, Customs does not charge Tourists for verifying export of tourist shopping for goods to take home; ✓ This rationale applies almost universally in relation to export verification activities in all countries with an open market.
11. Can the Government be assured that refund operators will be present at all international airports?	✓ The Government could easily impose a licence restriction to ensure that all airports will be covered by one or more refund operators. ✓