

SUBMISSION 21



Australian Government

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The Committee Secretary
Standing Committee on Economics, Finance and Public
Administration
Department of the House of Representatives
Parliament House
CANBERRA ACT 2600

Dear Committee

Please find attached a submission from the Department of Industry, Tourism and Resources to your inquiry on the current and future directions of Australia's service industries.

The primary focus of the Department's submission relates to issues concerning the tourism industry as a component of the services sector. The broader context of service sector exports is discussed, noting the tourism industry, in particular, will play a vital role in providing a significant and sustainable export earnings base during and beyond the resources boom.

Should you require any further assistance, please contact Ms Helen Stokes on (02) 6213 7046 or by email at helen.stokes@industry.gov.au.

The Department looks forward to your final report.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Philip Noonan'.

Philip Noonan
Head of Tourism Division

28 July 2006



Australian Government

**Department of Industry
Tourism and Resources**

**The Department of Industry, Tourism and Resources Submission to the House of
Representatives 'Inquiry into the Current and Future Directions of Australia's
Service Industries'**

BACKGROUND

This paper has been prepared by the Department of Industry, Tourism and Resources (DITR) for submission to the House of Representative's 'Inquiry into the Current and Future Directions of Australia's Service Industries'. The primary focus of this submission relates to issues concerning the tourism industry as a component of the services sector. The broader context of service sector exports is also discussed, noting the tourism industry in particular will play a vital role in providing a significant and sustainable export earnings base during and beyond the resources boom.

SERVICE SECTOR EXPORTS AND IMPORTS

Service Industries

The Australian Bureau of Statistics (ABS) identifies the service industries as covering the following sub-sectors: electricity, gas and water supply; construction; wholesale trade; retail trade; accommodation, cafes and restaurants; transport and storage; communication services; finance and insurance; property and business services; government administration and defence; education; health and community services; cultural and recreational services; and personal and other services¹.

Tourism is not a separately defined sub-sector in this context, however the majority of businesses in the tourism industry are within the accommodation, cafes and restaurants sub-sector. Many tourism businesses are also in retail trade; transport and storage; and cultural and recreational services.

The value of the tourism industry to the Australian economy is separately measured by the ABS and comparative key results are now available from 1997-98 through to 2004-05 in the *Tourism Satellite Account*².

Industry Contributions

Services have increasingly come to dominate value added for the economy as a whole over the past decade. As a per cent of total *industry value added* (gross value added excluding ownership of dwellings), services grew from 74 per cent in March 1996 to 78 per cent in March 2006.

The services sector dominates *employment* to an even greater extent, accounting for nearly 85 per cent of total employment in the March quarter 2006.

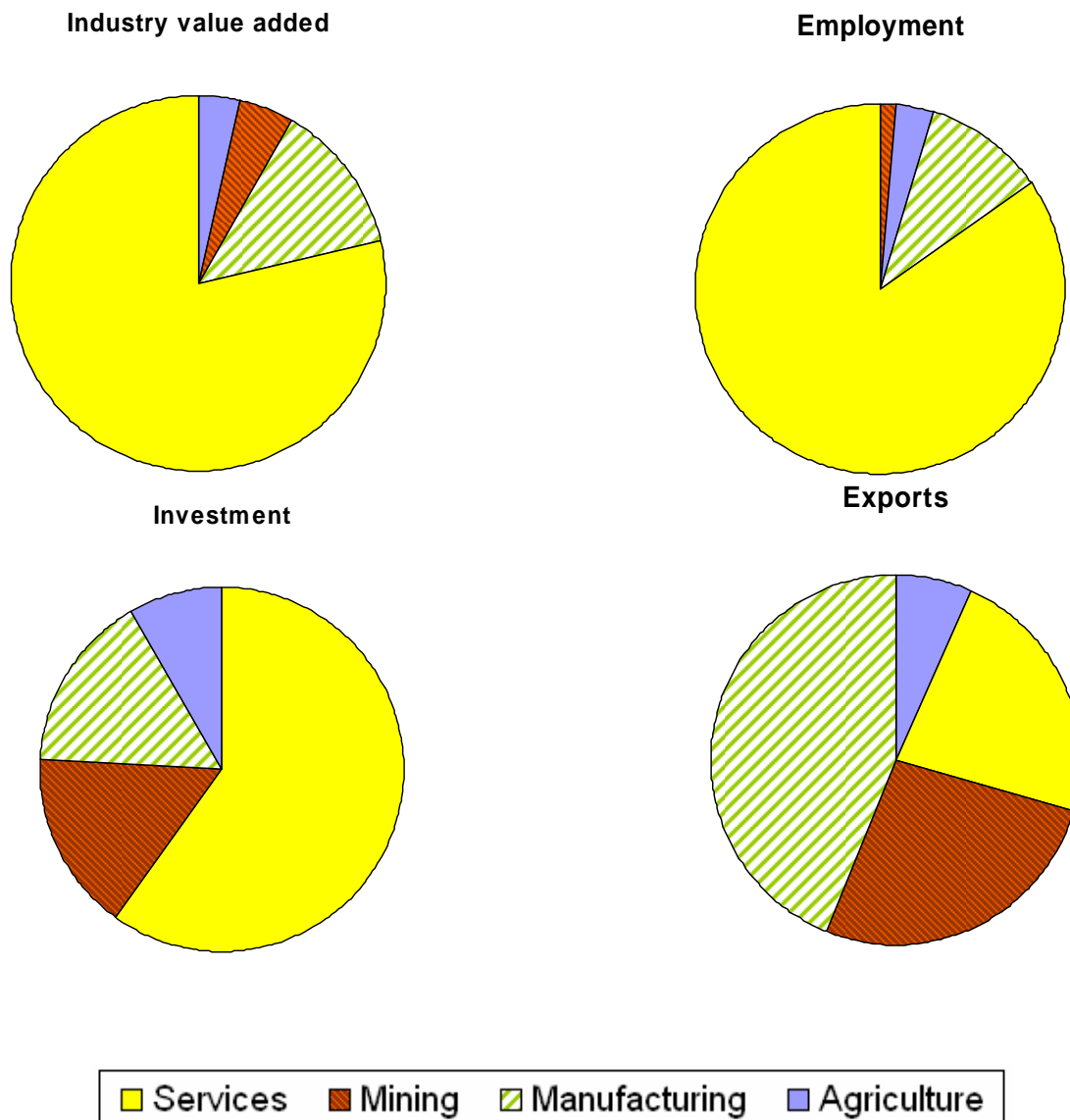
The services industry also accounted for 60 per cent of total *investment* in 2004-05.

However, as most services production is consumed domestically, services *export* receipts amount to less than those of manufacturing exports (Chart 1).

¹ *Services Sector 2004-05 Industry Brief*, (2006), Department of Industry, Tourism and Resources, Commonwealth of Australia, Canberra.

² ABS Cat 5249.0 (2006) for 2004-05 key results.

Chart 1: Industry Contributions—March Qtr 2006



Source: ABS Cat. Nos. 5206.0, 5204.0, 6291.0.55.003, & 5368.0

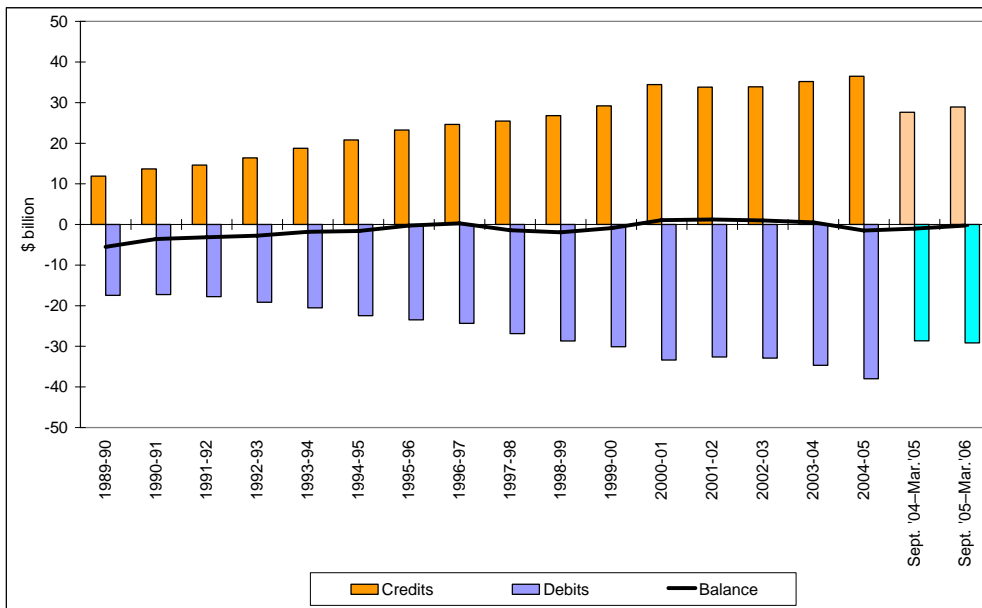
Note: Investment data is for the 2004-05 financial year. Export data is in value terms.

Balance of Payments Imports and Exports

In 2004–05, services exports increased by 3.8 per cent to \$36.5 billion, while services imports rose by a faster 9.8 per cent to \$38.1 billion, more than double the growth rate of total services exports, leading to a deficit of nearly \$1.6 billion. It is the first year net exports in services has been in deficit since 1999–2000, and represents a turnaround of \$2.0 billion on the surplus of \$492 million in 2003-04. It is also the largest services trade deficit since 1998–99, when the deficit was over \$1.9 billion.

In 2005–06 year to date (YTD) compared with the corresponding period a year earlier, services exports increased by 4.7 per cent to \$28.9 billion, while services imports rose by 1.9 per cent to \$29.2 billion, leading to a small deficit of nearly \$0.3 billion (Chart 2).

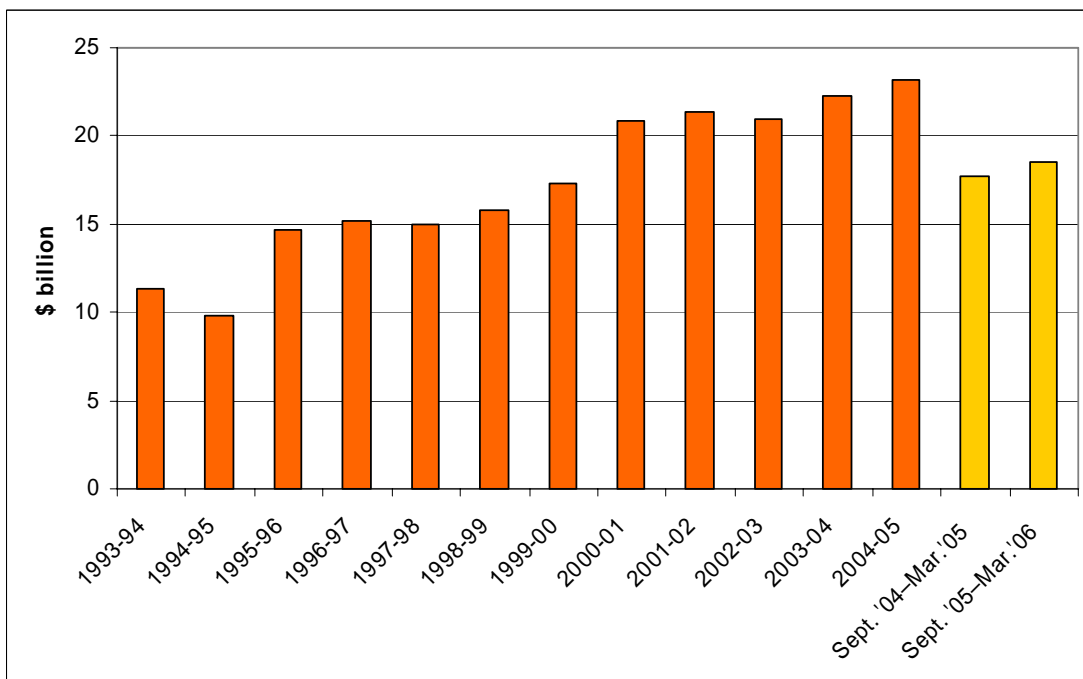
Chart 2: Services exports and imports (nominal) 1989–90 to 2005–06 YTD



Source: ABS Cat. No. 5302.0

Tourism-related travel exports recovered from the combined impacts of SARS and the Iraq conflict, which negatively impacted on international travel to Australia in the first half of 2003. Since this period, tourism export receipts have increased to a record \$23.2 billion—by 6.6 per cent in 2003–04 and by 4.2 per cent in 2004-05 (Chart 3).

Chart 3: Tourism credits (nominal), 1993-94 to 2005–06 YTD

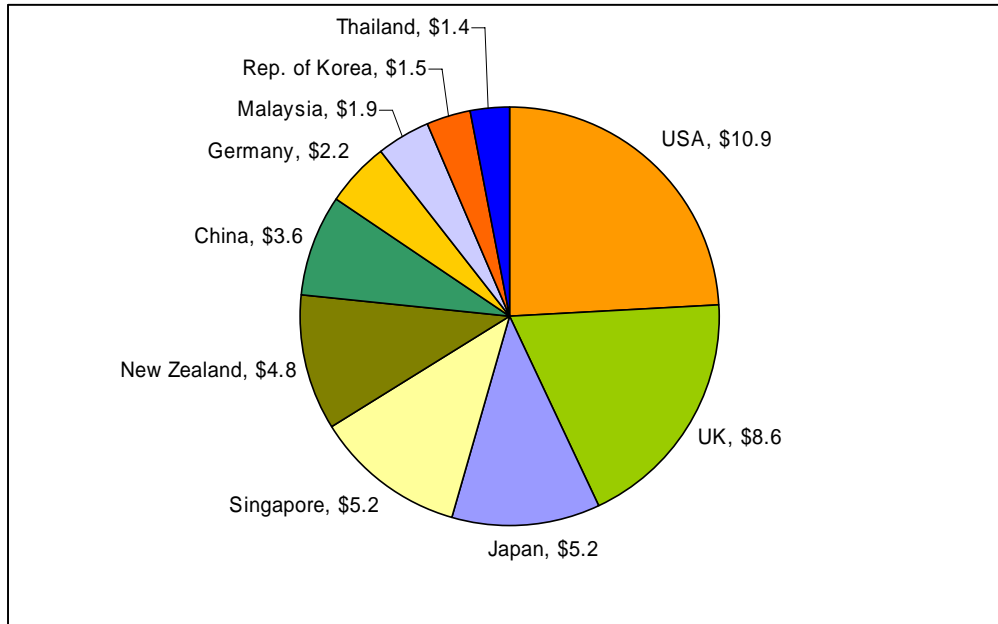


Source: ABS Cat. No. 5302.0

The largest export destination for services exports in 2005 was the USA, which was Australia's number two trading partner in aggregate after Japan. Australia's other key services destinations include the UK, Japan and Singapore (Chart 4). Relative to five years

ago, the largest growth in service exports has been in exports to the UK, New Zealand and Singapore, while service exports to Japan have fallen over the past five years.

Chart 4: Value of services component of exports to Australia's top 10 trading partners, \$A billion, 2005



Source: DFAT *Trade at a Glance*, 2006

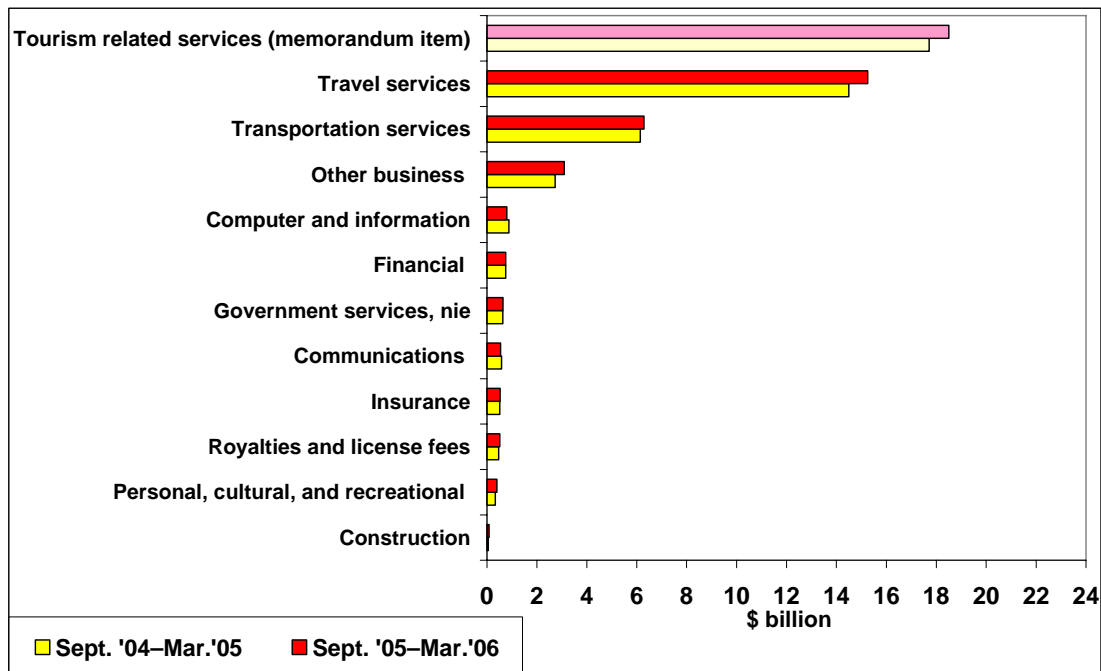
Chart 5 shows the services export levels in 2004–05 YTD and 2005–06 YTD for the major services export components and industries, as well as a new measure for exports of 'tourism related services', which incorporates 'travel services' and components of 'transportation services'³. Education services, which accounted for around \$3.7 billion of services exports in 2000 (the most recent year in which expenditure by overseas students was measured) is largely incorporated into travel services.

Exports of 'travel services' make by far the largest contribution to services exports, accounting for 53.0 per cent of services exports in 2005–06 YTD. Exports of 'travel services' increased by more than 5 per cent—from \$14.5 billion in 2004–05 YTD to \$15.3 billion in 2005–06 YTD.

Other large increases in services sector exports in 2005–06 YTD, compared with the corresponding period a year earlier, occurred in 'personal, cultural and recreational services' (up 20.7 per cent), 'other business services' (up 13.5 per cent) and in 'royalties and licence fees' (up 8.9 per cent). Sharp falls occurred in two smaller exporting sectors: 'computer and information services' (down 9.3 per cent) and 'communication services' (down 6.8 per cent).

³ It should be noted that the measure of 'tourism related services' in the BOP differs from the measure of 'tourism exports' in the ABS *Tourism Satellite Account 5249.0*. The 'tourism related services' in the BOP provides a timely indicator of the movements in tourism related activities, not an absolute measure of these activities. It is not compiled on a BOP conceptual basis, however does provide a reasonable approximation of world tourism related activities. 'Tourism related services' has been derived by combining total 'travel services' (including business, education-related and other personal travel) with components of 'transportation services' (being passenger fares and the air transport component of other transportation services – which relates to agency fees and commission receipts). The primary difference in the *Tourism Satellite Account* measure is that it does not include the value to the economy of any international visitor who is in Australia for more than one year in line with the ABS definition of tourism.

Chart 5 Services exports (nominal), 2004–05 YTD and 2005–06 YTD



Source: ABS Cat. No. 5302.0

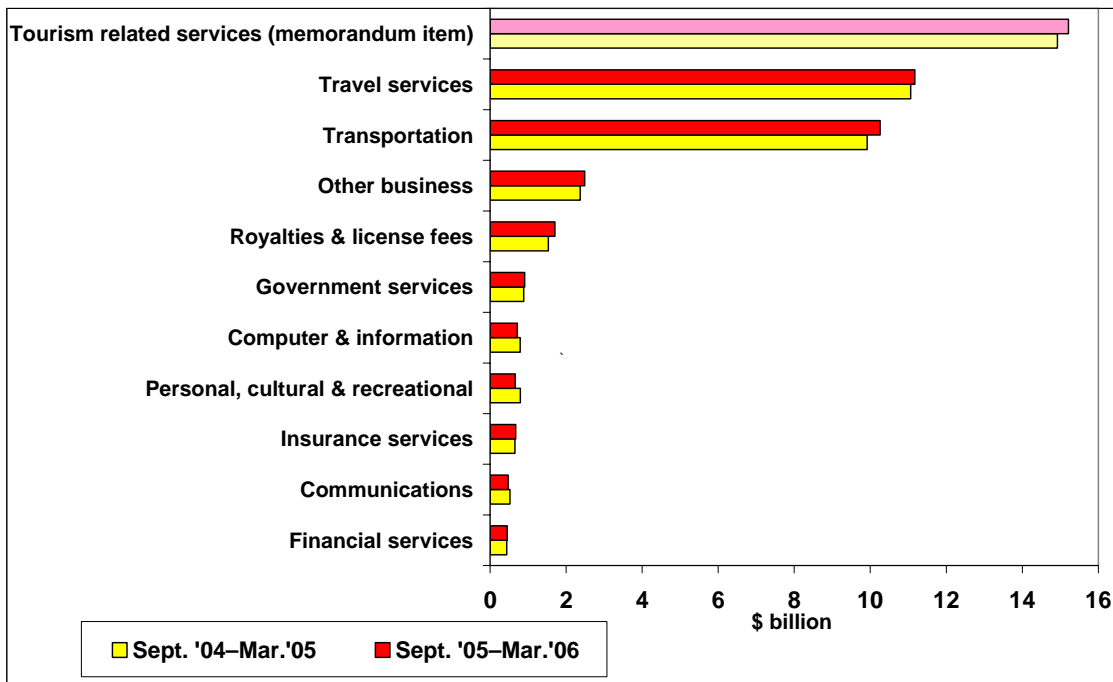
Note: Tourism related services (memorandum item) is a composite of those parts of the other categories that are related to the tourism industry and this item should not be counted in addition to the other categories.

The level of services imports in 2003–04 and 2004–05 varies widely between the major services sectors and industries. Of the major sub-sectors, 'travel services' showed the strongest growth (up by 16.2 per cent), followed by 'transportation' (up by 13.8 per cent), 'personal, cultural & recreational services' (up by 13.3 per cent) and 'tourism related services' which incorporates 'travel services' and components of 'transportation services'⁴, (up by 12.0 per cent). The industries that recorded lower levels of imports in 2004–05 were 'communication services' (down by 21.2 per cent) and 'other business services' (down by 6.7 per cent).

The levels of services imports in 2004–05 YTD and 2005–06 YTD for the major services sectors are shown in Chart 6. Of the services sub-sectors, 'royalties and licence fees' showed the strongest growth (up by 11.2 per cent), followed by 'other business services' (up by 4.9 per cent). The sectors recording the largest falls were 'personal, cultural and recreational services' (down by 17.1 per cent), and 'computer and information services' (down by 9.6 per cent).

⁴ 'Tourism related services' has been derived by combining total 'travel services' (including business, education-related and other personal travel) with components of 'transportation services' (being passenger fares and the air transport component of other transportation services – which relates to agency fees and commission receipts).

Chart 6 Services imports (nominal), 2004–05 YTD and 2005–06 YTD



Source: ABS Cat. No. 5302.0

Note: Tourism related services (memorandum item) is a composite of those parts of the other categories that are related to the tourism industry and this item should not be counted in addition to the other categories.

Measurement Issues

The relationship between services as a sector in the economy (and its opportunities for international expansion) and exports raises important measurement issues.

Many opportunities for Australian service companies to expand internationally involve establishing operations and providing services in other countries, in which case they are not recorded as exports.

Exports are defined as 'goods commodities and services sold by residents to non-residents. The services component of the current account is defined as services rendered by Australian residents to non-residents (credits) and by non-residents to residents (debits)⁵.

Central to the measurement issue is the correct distinction between *income* and *production* in the context of a country's national accounts. Australia's gross domestic product (GDP) is a measure of the aggregate of all economic value produced within the geographical borders of Australia in a given year. It is an aggregate (based on these geographical parameters) of particular interest to all sovereign governments. The sub-aggregate, *exports*, is defined as that component of GDP that is taken up by agents outside Australia's defined borders. It is therefore inappropriate (and counter to the definition of 'exports') to seek to include in the exports of services (or any other sector) the value of those services provided by Australian owned affiliates overseas, as these services are not, by definition, part of Australia's GDP.

⁵ *International Investment Position Australia, Concepts, Sources and Methods 5331.0*, (1998) Australian Bureau of Statistics, Commonwealth of Australia.

In the ABS definition of exports, 'credits' are considered exports and 'debits' are considered imports.

The issue can be usefully looked at within the framework of the International Monetary Fund (IMF) *Balance of Payments Manual*. According to newly introduced classifications, they divide the provision of services into four modes of supply, namely modes 1, 2, 3 and 4. These are defined as follows:

- Mode 1: *Cross border supply*, which occurs when a service is delivered from a supplier abroad to a consumer in their country of residence, without either the supplier or the consumer moving into the country of the other;
- Mode 2: *Consumption abroad*, which occurs when a consumer resident in a country moves to another country to obtain a service;
- Mode 3: *Commercial presence*, occurring when a commercial presence is established abroad to supply services to the consumer in their country of residence; and
- Mode 4: *Presence of natural persons*, which occurs when an individual moves to the country of the consumer in order to provide a service without becoming a resident of that country (modes 2 and 4 were statistically insignificant in value terms and were combined with mode 1).

Australia includes services provided by modes of supply 1, 2 and 4 in its service exports. However, mode of supply 3 is not counted as an export as it represents the gross value of services provided by Australia's foreign affiliates overseas—and as such is included in the GDP of the country of residence. While the economic activity of foreign affiliates of Australian resident enterprises is not treated as *exports*, the domestic sales of goods and services by foreign affiliate companies operating in Australia to other Australian residents, likewise is not treated as *imports* (but rather included in Australian GDP).

However, the establishment of an Australian foreign affiliate company abroad is currently reflected in the *capital and financial account* of the balance of payments (BOP) as direct investment, while profits (or losses) of foreign affiliate companies are recorded in the *income account* of the BOP. The profits can be seen as the net of the income and expenditure of the affiliate company accruing to the Australian owner. The profit component of the value of services provided by Australian foreign affiliates abroad therefore adds to Australia's economic *income*.

Therefore opportunities for Australian service firms to establish operations overseas can be important to generate profit for Australian shareholders. They can also create some royalty and fee income as well as, through facilitating economies of scale and international engagement, improve efficiency in domestic operations. However the scope for this to generate direct exports is limited.

Embodied Exports

While around 77 per cent of Australia's exports are in sectors other than the services sector (mining, agriculture and manufacturing), many of those goods will contain significant inputs from the services sector. For example, the export of aluminium, a manufactured good, will include services inputs such as electricity and transport. According to the latest available ABS input-output tables, services inputs (predominantly transport and storage, wholesale and a range of business and technical services) contributed on average about 20 per cent to the value of the output of the goods sectors.

While not always producing a direct export, the performance of our service industries remains integral to our overall export competitiveness. Moreover the distinction between the service industries accounting for around 80 per cent of industry value added and only

around 25 per cent of total exports understates the export significance of the service sector as inputs embodied in other products. The Bureau of Industry Economics in a 1994 study estimated that when embodied exports were taken into account, the services sector contributed 43 per cent of exports, the highest of any sector.

These measurement issues can understate the significance of the services sector to Australia fully capturing the opportunities provided by global integration. It is important to realise that simply because direct exports are comparatively low, services can contribute to exports in other sectors and can contribute to wealth generated abroad through providing returns on Australian investment rather than exports.

TOURISM - KEY ECONOMIC INDICATORS

Tourism is an important contributor to the Australian economy and is essentially part of the wider service industries that respond to consumer demand. The ABS defines tourism as:

'activity of persons travelling to and staying in places outside their usual environment for not more than one consecutive year for leisure, business and other purposes not related to the exercise of activity remunerated from within the place visited'⁶.

Tourism is a significant contributor to Australia's GDP, as is evident from recent key economic statistics for 2004-05:

- the tourism industry employed over 550,000 people an increase of 2.5 per cent from the previous financial year;
- employment in the tourism industry was greater than that of mining and agriculture combined;
- tourism contributed \$26.5 billion or 3.2 per cent of gross value added across all industries;
- tourism contributed \$32.6 billion or 3.7 per cent of GDP;
- tourism exports were \$18.6 billion, an increase of 5.4 per cent from 2003-04; and
- tourism generated \$75 billion in consumption.

From 1997-98 to 2004-05, tourism exports have represented approximately half of services exports. Australia's tourism exports increased by almost \$5.5 billion during this period, and represented almost half the growth in Australian services exports⁷.

Exports of tourism goods and services contributed 11.1 per cent of Australia's total export earnings in 2004-05. This was higher than: coal, coke and briquettes (10.5 per cent) or iron, steel and non-ferrous metals (5.3 per cent), and comparable with food and live animals (12.0 per cent)⁸.

Global Positioning

The United Nations World Tourism Organization's (UNWTO) 'World's Top Tourism Destinations' ranked Australia 34th in the total number of international arrivals during 2004 (5.2 million visitors). This equates to 0.68 per cent of international market share. However,

⁶ *Tourism Satellite Account 5249.0*, (2006), Australian Bureau of Statistics, Commonwealth of Australia, Canberra.

⁷ *Tourism Satellite Account 5249.0*, (2005), Australian Bureau of Statistics, Commonwealth of Australia, Canberra.

⁸ *Ibid.*

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Australia ranked 10th in the world in terms of total earnings from international tourists⁹. This is of significance as Australia has not been previously ranked in the top ten. Furthermore, such rankings highlight the importance of the tourism industry and government focusing on high yield tourism in order to maximise global opportunities in an increasingly competitive market.

The Tourism Forecasting Committee (TFC) April 2006¹⁰ forecasts indicate that the total inbound economic value (TIEV) of tourism for Australia is projected to be \$35.6 billion by the year 2015. According to TFC's forecast, the TIEV of tourism and the average annual growth from 2006 to 2015, by market, are as follows:

Chart 7: Total inbound economic value of tourism and the average annual growth from 2006 to 2015 by market

Market	Current Economic Value (\$billion) (real, base = Q4 2005)	Economic Value by 2015 (\$billion) (real, base = Q4 2005)	Average Annual Growth From 2006 to 2015 (%)
China	\$1.5	\$7.1	17.6
India	\$0.2	\$0.8	15.7
United Kingdom	\$3.1	\$5.2	5.5
United States	\$1.8	\$3.5	7.5
New Zealand	\$1.6	\$2.4	4.7
Japan	\$2.1	\$2.0	-0.3
Other Europe (includes Eastern Europe)	\$0.8	\$1.3	6.0

Source: *Forecast April 2006*, Tourism Forecasting Committee¹¹

With Australia's international profile raised in recent years through the arts; film; sport; academia; the Sydney 2000 Olympic Games; and the 2006 Commonwealth Games, Australia is now one of the world's most desired tourism destinations. However, with a small global market share, Australia's international marketing challenge continues to be shifting international consumers from wanting to visit Australia, to actually visiting Australia.

In 2004, the Tourism White Paper (TWP) provided \$120.6 million over four and a half years for international marketing to increase arrival and yield, to maintain market penetration, and to build Australia's brand equity.

Domestic Tourism

Notwithstanding the importance of inbound tourism, domestic tourism is also an essential component of the tourism industry. Australians travelling in Australia are the biggest market for most tourism businesses¹². This important domestic market segment represented about 97 per cent of all trips and about 81 per cent of all tourism spending in Australia in 2005. Domestic visitors generated 76 per cent of tourism industry gross domestic product in 2004–05¹³.

⁹ *Tourism Highlights 2005*, (2005), United Nations World Tourism Organization.

¹⁰ *Forecast April 2006*, (2006), Tourism Forecasting Committee - Tourism Research Australia, Commonwealth of Australia, Canberra.

¹¹ (2006), Tourism Research Australia, Commonwealth of Australia, Canberra.

¹² *Tourism Satellite Account 5249.0*, (2006), Australian Bureau of Statistics, Commonwealth of Australia, Canberra.

¹³ *Ibid.*

The domestic tourism market consists of two main segments—overnight travel and day travel. Overnight travel is defined as a stay away from home for at least one night at a location at least 40 kilometres away from home. Day travel refers to a round trip distance of travelling at least 50 kilometres away from home for at least four hours and not spending a night away.

Domestic day and overnight visitors spent \$51.7 billion in Australia during 2005, accounting for four fifths of total expenditure. During this period, \$27.4 billion (or 53 per cent) was spent in regional Australia (excluding the Gold Coast)¹⁴.

As suggested by Tourism Australia¹⁵, some key factors driving domestic tourism trends include—but are not limited to—the following:

- levels of personal and household debt;
- changing household consumption;
- changes in the overall cost of domestic tourism;
- leakages from domestic to outbound leisure travel;
- value of the Australian dollar;
- changes to labour market; and
- busier and changing lifestyles.

IMPACT OF RESOURCES BOOM ON TOURISM

The resources boom is imposing some additional short-term challenges on the Australian tourism industry, through a stronger Australian dollar impacting on reduced export competitiveness, and through more acute competition for skills and labour.

In some regions, the tourism industry may benefit from improved infrastructure and services generated through increased investment and activity from the mining industry.

Fundamentally, the tourism industry faces a range of underlying challenges which it will need to overcome if it is to achieve its potential export growth, and therefore continue to play a vital role in providing a diversified and sustainable export base for Australia during and beyond the resources boom. The tourism industry and governments have been working to address these challenges for a number of years, and these continue to be an imperative going forward.

Stronger Australian Dollar

Analysis by the Reserve Bank of Australia¹⁶ points to the dual impacts of the resources boom over the last three years on the Australian economy: a sharp increase in world resource commodity prices, and hence Australia's terms of trade and national income; and an exchange rate level above its post-float average, tending to make imports cheaper and to make Australia's exports less price competitive. The net effect of these two impacts differs between industries and between regions.

The resources sector is showing sustained strong growth. This sector is receiving the direct stimulus of improved resource commodity prices, and is enjoying continuing strong

¹⁴ *Tourism Research Australia's International Visitor Survey (IVS), 1999- 2005*, (unpublished data), Tourism Research Australia, Commonwealth of Australia, Canberra.

¹⁵ *Maximising Competitiveness*, (2006), Tourism Australia, Commonwealth of Australia, Sydney.

¹⁶ *Statement on Monetary Policy*, (May 2006), Reserve Bank of Australia.

demand for Australia's resource exports despite the much higher prices, largely driven by China's economic growth.

The RBA has identified overall negative effects in many manufacturing sectors, and in manufacturing-oriented states such as Victoria and South Australia. There have been some benefits to these areas by way of increased demand flow through the additional national income being generated through resources. These benefits have been outweighed, however, by the exchange rate impact of loss of competitiveness in manufactured exports, and separately, balance sheet adjustment in the household sector as households become more cautious in taking on debt after the housing boom, and thereby cutting back on consumption.

Although the tourism industry is not specifically considered by the RBA, it is affected by the resources boom in the short term in a similar way to the manufacturing sector. With the significant role played in tourism by discretionary consumer spending, exchange rate effects are a well established factor affecting global competitiveness of destination countries. For example, recent analysis by Tourism Australia suggests that in some markets, such as Japan, the sustained appreciation of the Australian dollar against the local currency has been a major contributing factor to Australia's loss of market share in recent years¹⁷.

The Australian tourism industry has proven quite resilient in recovering from and adapting in response to moderate short term challenges. Notable examples in recent years are the setbacks in tourism demand from the SARS outbreak, from increased global terrorism, and from rising fuel prices¹⁸.

Overall, the current appreciation of the Australian dollar presents a moderate short term adverse impact on Australian tourism exports. Over recent years, in spite of the appreciation of the Australian dollar, the Australian tourism industry has achieved strong overall growth in inbound tourism arrivals (with visitor numbers up by 9.4 per cent from 2003 to 2004, and by a further 5.2 per cent to 2005¹⁹) and has broadly maintained total tourism export earnings (with international visitor expenditure increasing by 5.5 per cent in nominal terms from 2003 to 2004, and 3.2 per cent to 2005²⁰), despite the dampening effects of declining average spend per visitor²¹.

In the medium term, the tourism industry is factoring in a depreciation of the Australian dollar, as the resources boom eases, with an associated lift in competitiveness for Australian tourism net exports. In its latest 10 year forward projections, the TFC comments²²:

¹⁷ Australia's share of outbound Japanese travellers by number is estimated to have fallen from 4.70% in 2003 to 3.90% in 2005. Source: *Maximising Competitiveness*, (2006), Tourism Australia, Commonwealth of Australia, Sydney.

¹⁸ The potentially much larger impact of an outbreak of avian flu virus currently poses a serious threat to the industry. Industry and government are currently working together to develop risk management and response strategies as discussed later in this submission.

¹⁹ *International Visitor Survey*, Tourism Research Australia.

²⁰ *Ibid.*

²¹ *Statement on Monetary Policy*, May 2006, Reserve Bank of Australia.

²² April 2006 Forecast: Release by the Tourism Forecasting Committee. The Tourism Forecasting Committee is an independent body drawing on expertise from the public and private sectors in tourism and finance.

"A modest decline in the value of the Australian dollar against most major currencies over the forecast period [2006 to 2015] is expected to increase the competitiveness of Australia as a travel destination and support spending per trip by international visitors. A lower Australian dollar will also increase the cost of outbound travel to Australians and thus lower growth in departures while supporting growth in domestic travel."

Importantly, however, the TFC points to a range of longer term factors that continue to put downward pressure on Australia's tourism export earnings potential, beyond any short term effects of a strong Australian dollar. These factors include:

- impacts on consumer discretionary spending such as: expected moderating of global economic growth; consumer budget pressures from higher interest rates and fuel prices; and increased competition from other consumer goods and services (eg:entertainment technology);
- general declines in propensity to travel because of global uncertainties such as terrorism;
- continued strong competition from other destinations, particularly for higher spending visitors; and
- aviation capacity constraints on some routes and increases in fuel surcharges have increased the cost of travelling to Australia.

Labour Shortages

The tourism industry is likely to experience increasing pressure to find suitably skilled labour in an economy characterised by an aging population. The supply of labour to the tourism industry is a complex combination of the availability of labour; attraction of the job opportunities relative to other industries; the effectiveness of the training system to provide appropriately skilled labour; the amount of training undertaken by the private sector; and the skills strategies developed and implemented by government and industry.

The tourism workforce is young relative to other industry sectors. ABS data in the March quarter 2005 indicate that more than 35 per cent of employees in the accommodation, cafes and restaurants and retail trade sectors are aged between 15 and 24 years—more than double the all-industry average. Part-time positions in the tourism industry record higher rates of young workers aged less than 25 years, particularly females. Overall, the tourism industry accounts for around 10-11 per cent of total national employment in the 15-24 years age-group—double its share of total employment of 5.6 per cent.

The tourism industry is vulnerable for its reliance on young workers in light of Australia's increasing age profile. This is particularly the case given the number of persons aged 15-24 years is projected to remain relatively unchanged at 2.5 million to 3.0 million over the next 50 years, while much faster growth will be recorded in the population as a whole. This means the 15-24 year age group will account for a sharply decreasing share of the population, measuring 17.4 per cent in 1971, and projected to decline to 10.5 per cent by 2051.

The pool of available young workers from which the tourism industry can draw is therefore shrinking, increasing the relative importance of competition for these workers across industries. Industry consultation suggests many students normally employed on a part-time or casual basis in tourism are now finding part-time work in other areas.

The tourism industry is also characterised by a high proportion of occupations requiring minimal skills and training to perform well. More than 60 per cent of tourism employees require less complex skills compared with just 40 per cent across all industries. As a

result, tourism employees generally have a higher tendency to switch between jobs, both within and outside the industry, compared with other workers, reflecting the casual and part-time nature of many jobs, the seasonality of the industry, the competitiveness for qualified staff and the high share of jobs not requiring formal qualifications²³.

There may be a correlation between rising demand for labour in the mining sector and an increase in the level of demand or vacancies for the tourism industry. In the twelve months to April 2006, at a national level there has been a trend increase in employment in the mining industry of between 16 and 30 per cent, per quarter, where as in the accommodation, cafes, and restaurants sector (a leading indicator of tourism employment), the trend ranged between minus six per cent and three per cent. During the same period, DEWR data indicates that trend vacancies at a national level in the accommodation, cafes and restaurants sector remained flat. The data suggests a correlation between trend employment growth in the mining industry and continuing difficulty recruiting labour to skilled occupations in the tourism industry.

Skills Shortages

Tourism skills shortages are particularly acute in regional Australia where all states/territories reported difficulties in attracting and retaining skilled staff. This is evidenced by findings from the recent Tourism Transport Forum (TTF) member surveys and skills shortage analysis by DEWR. For example, the South Australian Government noted that availability and retention of skilled staff is a key risk factor to regional tourism investment. This could have serious implications for the South Australian tourism industry, where its key tourism strengths lie in remote locations such as Kangaroo Island, Flinders and Outback, Eyre Peninsula.

In Western Australia, the skills shortage has become more evident since the resources and building boom started almost three years ago. The tourism industry is facing a shortage of workers in the north-west of the State, forcing hotels to import chefs under skilled migrant and employer nominated migration visa schemes, and where possible from interstate²⁴. Additionally, there are ongoing vacancies for waiters and bartenders. As an example, the Karratha International Hotel imported interstate chefs to meet demand during the 2005 Christmas period, yet still had 20 vacancies as at late January 2006. As a result, the hotel closed a poolside bar due to staff shortages.

Much of the growth in emerging tourism markets is occurring in regional and remote areas through the development of nature-based tourism attractions and activities²⁵. This is placing further pressure on available labour and the skills base in these locations. A challenge for the tourism industry, training bodies, and the Service Industry Skills Council (which manages and reviews National Training Packages) is to keep pace with these market changes.

There are a number of other factors that impact on the demand for skilled labour in the tourism industry, particularly in remote and regional areas. There are seasonal fluctuations in the tourism industry, particularly in the Northern Territory and Tasmania, impacting on decisions by employers to invest in training and skills development for seasonal labour. This, coupled with the tourism industry's propensity to utilise a significantly high rate of casual and part-time labour, and characterised by high turn-over, contribute to the

²³ *National Tourism Investment Strategy*, (2006) AEC Group Research Report.

²⁴ *Ibid.*

²⁵ *National Tourism Investment Strategy*, (2006), AEC Group Research Report.

difficulties for the tourism industry in attracting and retaining skilled labour, in comparison to other industries.

It follows that any reduction in the demand for skilled labour in the mining industry resulting from a down-turn in the resources boom, would result in a relative relaxation of the demand for skilled labour in the tourism industry, particularly in remote and regional areas where much mining activity is located. However, there are limitations to the specific skills required in the industry, and the industry's ability or willingness to invest in training and skills development. These issues will need to be addressed in detail if the industry is to successfully compete for skilled labour as demand in the mining industry eventually falls.

Benefits to Regional Australia

The growth in investment²⁶ and activity in the resources sector is likely to have flow-on benefits in improved private and public infrastructure in mining regions, such as roads, transport facilities, and town services. This offers potentially significant synergies for regional tourism operators to exploit in terms of improved access and services. Further, the development of mining-based tourism products and services is a niche market opportunity for some tourism businesses,

Particular regions identified as offering high potential for the tourism industry to exploit synergies with mining industry infrastructure development are the north-west and south-west of Western Australia, and the Hunter region of NSW. These regions have a strong resources industry presence and are also among the top ten Australian regions visited by inbound tourists during 2005²⁷.

FUTURE GLOBAL OPPORTUNITIES FOR TOURISM EXPORTS

The Australian tourism industry is working to capitalise on global opportunities, and to increase its already major contribution to Australia's export earnings.

While Australia is currently enjoying a resources boom, ongoing reliance on this industry could be at the detriment of service industries, in particular tourism. As a result, Australia may lose a significant part of an already small international market share.

Australia has invested significant resources to maximise global opportunities, resulting in achieving a top ten ranking in terms of total earnings from international tourists for the first time in 2004 (as referred to above) through:

- the Brand Australia initiative;
- realising future opportunities in our mature markets such as the United Kingdom, United States and New Zealand, in addition to emerging markets such as China and India;
- the development of tourism business events in Australia;
- exploring opportunities in regional Australia; and
- actively pursuing education tourism.

²⁶ *Statement on Monetary Policy*, Reserve Bank of Australia, February 2006.

²⁷ *Tourism Research Australia's International Visitor Survey (IVS), 1999- 2005*, (unpublished data), Tourism Research Australia, Commonwealth of Australia, Canberra.

Brand Australia

The branding of Australia as a premier holiday destination is a long term strategic plan based on increasing Australia's market presence in its traditional markets such as the United Kingdom and New Zealand and in emerging markets such as China and India. The Tourism White Paper provided \$120.6 million over four and a half years for international marketing, making the revitalised Brand Australia initiative the biggest ever campaign promoting Australia to the world. The results are expected to provide benefits to Australian tourism in the long term through increased visitor arrivals. Failure to support international marketing could result in forgoing these long term benefits and possibly damaging Australia's brand equity.

Realising Opportunities in Australia's Mature and Emerging Markets

The TFC's April 2006 forecasts indicate the real TIEV of tourism is expected to grow in real terms at an average annual rate of 7.1 per cent between 2006 and 2015, to reach \$35.6 billion. This is higher than the forecast average growth in visitor arrivals of 5.5 per cent a year over the forecast period, reflecting continued gains in spending per visitor that are partly associated with an assumed depreciation of the Australian dollar against major currencies in the long run²⁸. Moreover the forecasts show the top six inbound markets in 2005²⁹ contributed 59 per cent of TIEV of tourism. While China is forecast to become the number one inbound market by 2015, the same six markets will continue to be Australia's top inbound markets, forecast to generate 62 per cent of TIEV of tourism by 2015.

Mature Markets

Mature markets are those which are well established and provide the bulk of international arrivals to Australia. Australia's more mature markets are the United Kingdom, New Zealand, Japan, the United States, Germany, and South Korea. Along with China, these markets are classified by Tourism Australia as Australia's major, 'tier one', international markets. These markets deliver the vast majority of total spend for Australia's inbound tourism. In 2004-05, leisure travel from these markets had a TIEV of approximately \$7.4 billion. Tourism Australia is targeting these markets to deliver the bulk of planned growth in such value, which it hopes will reach approximately \$9.3 billion by 2008-09.

Emerging Market – China

In 1999, Australia and New Zealand were the first two western economies to be designated as an approved destination for tourists from China, under the Approved Destination Status (ADS). The ADS is a bilateral tourism arrangement between the Chinese Government and a foreign destination that permits Chinese tourists to undertake leisure travel in groups to that destination. The ADS scheme is an important part of Australia's inbound tourism growth, particularly as China is Australia's fastest-growing inbound tourism market with a forecast of a 17.6 per cent annual growth rate.

Initially residents from just three regions in China were permitted to travel to Australia. However, in 2004 this was extended to nine regions, and in late 2005 the Minister for Immigration and Multicultural Affairs announced plans to roll out the ADS arrangements to the remaining provinces, municipalities and autonomous regions in China. The proposed expansion could see Australia become a travel destination for an additional 855 million Chinese citizens. The opportunity exists for tourism businesses to cater to this growing market, by providing unique products and services or specifically tailoring these products or services to meet the needs of Chinese tourists.

²⁸ *Forecast April 2006*, (2006), Tourism Forecasting Committee - Tourism Research Australia, Commonwealth of Australia, Canberra.

²⁹ United Kingdom, Japan, the United States, New Zealand, China and South Korea.

Emerging Market - India

According to the TCF, the TIEV by 2015 for tourists from India is forecast to be \$800 million with an expected average annual growth rate from 2006 to 2015 of 15.7 per cent. Such is the appreciation for the economic benefits that India presents that the Australian Government has strengthened its bilateral ties with India. In strengthening this relationship, the Australian and Indian governments agreed, at the Australia-India Tourism Business Forum in March 2006, to pursue opportunities for exchanging expertise in a number of areas of joint interest including eco-tourism, sustainable tourism, health and medical tourism, food tourism, enhancement of sites and investment in infrastructure.

India is experiencing a growing wealthy middle class and as forecasts suggest, India has the potential to become one of Australia's most lucrative tourism markets in the long term. Australia's ties with India bring forth two immediate opportunities, the first is the opportunity for Australian consultants and researchers to take their expertise to India to assist India developing its infrastructure and/or planning and delivering strategic long term plans in the areas of eco-tourism and sustainable tourism. The second opportunity exists in building tourism growth by tailoring holiday packages that perfectly match the needs of Indian tourists' to Australia.

Eastern Europe

'Aussie Enthusiasts' is a Tourism Australia initiative designed to assist the travel industry develop and promote Australia as a tourism destination in markets where Tourism Australia does not have an active presence, such as Eastern Europe. It recognises the contribution of industry in these markets to tourism to Australia and seeks to enhance their contribution to the export tourism industry in Australia. It is delivered through Tourism Australia's website (www.tourism.australia.com) and Austrade's network in 57 countries around the world. The 'Aussie Enthusiast' program is a major component of Tourism Australia's activities in Eastern Europe.

In 2006, Tourism Australia coordinated the first Eastern European media tour under the 'Aussie Enthusiast' program. A number of key travel journalists from the Czech Republic, Hungary, Poland and Austria spent three days in New South Wales and four days in Queensland experiencing some of the highlights these states have to offer.

Business Events

As part of taking advantage of future global opportunities in the area of business events, Tourism Events Australia (TEA) became a new business unit within Tourism Australia to focus on marketing Australia as a business and major events destination. The business events sector attracts around 550,000 visitors each year and makes a significant contribution to tourism revenue. In addition to attracting further inbound tourism, major events also provide an excellent branding opportunity for Australia.

Such is the value of attracting business events, state and territory governments have also worked toward capturing this market segment. For example, in 2005, over 439,900 or 58 per cent of all international business visitors to Australia visited New South Wales (NSW). At least 99 events between 2006 and 2014, worth over \$841 million, have been secured for Sydney and regional NSW by the Sydney Convention and Visitors Bureau. Sydney was ranked sixth in the Asia Pacific for the number of international meetings held in 2005³⁰.

³⁰ *Business Events*, (2006), New South Wales Department of State and Regional Development, Government of New South Wales, Sydney.

Western Australia (WA) has also recognised the potential of attracting business events and provides assistance to help meeting organisers stage national or international conventions in WA. This assistance, involving both government and private sector funding, provides bid development packages in order to secure high profile and high yield conferences for WA. Business tourism in WA generates in excess of \$630 million dollars annually through the convention, exhibition and incentive travel sector³¹.

Opportunities in Regional Australia

Separate research conducted by Tourism Australia on how Australia can maximise its global competitiveness has shown that regional dispersal for the leisure spend sector of mature markets is higher than average for all but China and South Korea³². This signals an opportunity for tourism businesses in regional Australia to continue to improve the quality of tourism product it has to offer to attract a greater share of the inbound market into the future. As demonstrated in the table below, while the number of visitor nights has decreased, spending in regional Australia has increased by 1.2 per cent from December 1999 to September 2005. In contrast, visitor nights and spending has decreased in capital cities.

Chart 8: Domestic overnight visitor dispersal in Australia
(Percentage change – Year Ending (YE) December 1999 to Year Ending September 2005)

	Visitors (%)	Nights (%)	Expenditure (%)
Regional Australia	4.4 ↓	4.1 ↓	1.2 ↑
Capital cities	0.1 ↑	3.6 ↓	9.5 ↓
Total Australia	3.2 ↓	3.9 ↓	3.4 ↓

Source: *Tourism Research Australia's International Visitor Survey (IVS), 1999- 2005*, (unpublished data), Tourism Research Australia, Commonwealth of Australia, Canberra.

The research also suggests that Italy, France, Netherlands, Scandinavia, Switzerland, Gulf Countries and Thailand spend an average of \$4,022, and have a higher than average dispersal rate, highlighting further opportunities for tourism development in regional Australia³³.

Education Tourism

Australia has the third largest number of international students in the English-speaking world behind the US and UK and is recognised globally as having high-quality institutions and colleges, with graduates successful in finding jobs and holding prominent positions worldwide. Educational institutions in Australia have considerable expertise in teaching English at the highest standard and increasing numbers of students are choosing Australia for their language study.

Education tourism represents a growing part of the Australian tourism industry with more than 261,400 international students studying in Australian schools, colleges and universities in 2005³⁴. While there is some difference in the measurement of education arrivals by the ABS, Tourism Research Australia and the Department of Education,

³¹ *Business Events*, (2006), Tourism Western Australia, Government of Western Australia, Perth.

³² *Maximising Competitiveness*, (2006), Tourism Australia, Commonwealth of Australia, Sydney.

³³ *Maximising Competitiveness*, (2006), Tourism Australia, Commonwealth of Australia, Sydney.

³⁴ *Overseas Arrivals and Departures 3401.0* (May 2006), Australian Bureau of Statistics, Commonwealth of Australia, Canberra, which is based on DIMA passenger arrivals and departures cards 'main purpose of journey' question.

Science and Training, all show that education arrivals are growing substantially on a calendar year basis.

Tourism Australia (TA) continues to promote Australia as a destination for education/study tourism. The TA website includes a number of interactive tools for students, teachers and parents. The website also provides educational information regarding Australian history and culture for students, pre-visit course material and information about organising school tours in Australia for teachers, and information about safety and educational value for parents.

The Australian education sector shows a remarkable ability to adapt to global demand. From a modest \$190 million industry in 1986, the export of education services, grew to \$3.7 billion in 2000 and \$7.3 billion in 2005³⁵. Education is one of Australia's largest services exports (approximately half of this revenue is from student fees and the other half is derived from expenditure on goods and services).

International students are high yield visitors comprising 5.7 per cent of inbound arrivals to Australia, and a sizable 27 per cent of visitor nights and 26 per cent of total visitor expenditure in Australia in 2005³⁶. They also contribute significantly through visitations from friends and relatives.

The Australian Government has produced a brochure *Study and Explore Australia*, which encourages students to combine learning English with tourism activities and experiences such as visiting wildlife sanctuaries, rainforest walks, horse riding and scuba diving.

To maintain a high quality and reliable education system for international students, the Australian Government encourages international education and training providers to follow codes of conduct and has legislated to ensure a stable, supportive and regulated environment.

Australia has taken steps to further build on this excellence with a focus on additional improvements to quality, establishing International Centres of Excellence (including in the area of tourism), and better promoting Australia overseas to educational stakeholders.

POLICIES FOR REALISING GLOBAL OPPORTUNITIES IN TOURISM

Australian industries, including tourism, need to work toward achieving further efficiencies to become more internationally competitive. China's continuing economic growth appears set to continue as it expands its share of world exports, placing pressure on Australia to maximise opportunities arising from current competitive advantages while actively seeking out niche market opportunities.

In addition to maintaining its current export performance, the Australian tourism industry requires an ongoing commitment by the Australian Government if it wishes to build on economic growth experienced to date.

As a measure of support for the tourism industry to become more internationally competitive, the Australian Government committed on 1 January 2004, \$235 million over four and a half years a package of initiatives under the TWP. As discussed the bulk of this

³⁵ *Ibid.*

³⁶ *Tourism Research Australia's International Visitor Survey (IVS), 1999- 2005*, (unpublished data), Tourism Research Australia, Commonwealth of Australia, Canberra.

funding is directed at international marketing. Other initiatives are directed at boosting supply side capability.

Supply Side Initiatives

Australian Tourism Development Program

The Government increased the allocation for the Australian Tourism Development Program (ATDP) to \$31 million over the four years to 2007-08, to encourage the development of tourism, particularly in rural and regional Australia. ATDP delivers support and assistance to regional tourism, and aims to increase the diversity of tourism products and services in regional Australia. Successful applicants for Round 2 (2005-06) were announced on 26 October 2005. Forty-nine projects will receive grants totalling over \$7.6 million. Assessment of a third round is currently underway.

Business Ready Program for Indigenous Tourism

The Business Ready Program for Indigenous Tourism is a four-year, \$3.83 million program running until June 2008. Currently six business mentors are assisting established and start-up Indigenous tourism businesses. Mentors are tasked with helping Indigenous businesses develop the skills and knowledge required to run a commercially viable tourism operation. Each mentor is expected to have a portfolio of at least 10 businesses.

Tourism and Conservation Partnership Initiative

The Tourism and Conservation Partnership Initiative encourages the tourism industry, protected area managers, private landholders and conservation groups to engage in business projects that benefit tourism, conservation and help regional communities create economic opportunities. In 2005-06, \$737,520 in seed funding was provided to 14 ventures to undertake feasibility studies into, and develop business plans for, products that derive economic and social benefits whilst making positive contributions to conservation. In addition, \$165,000 in implementation funding was provided to an Indigenous nature conservation project in Western Cape York, to construct 'eco-tents' and a solar energy plant.

Tourism Accreditation

The Tourism Business and Accreditation Portal went live in July 2006. The portal, 'Quality Tourism' (www.qualitytourism.com.au), is an Australian Government funded initiative from \$2 million of TWP funding directed toward tourism accreditation. 'Quality Tourism' was developed to provide a single access point for tourism business improvement, with on-line accreditation capability for tourism accreditation program managers and individual businesses.

China Approved Destination Status (ADS) Scheme

As outlined above, DITR continues to tackle unethical and economically damaging business practices in the Chinese inbound tourism market, through the reforms introduced in June 2005 and in cooperation with other Australian Government agencies. In 2005-06, DITR conducted two application rounds for the ADS scheme, and continues to monitor

licensed operators' compliance with the ADS Code of Business Standards and Ethics. An additional \$3.9 million in funding has been approved to support a further four years of the strengthened ADS arrangements.

National Tourism and Aviation Advisory Committee

The National Tourism and Aviation Advisory Committee (NTAAC) provides strategic policy advice to the Australian Government on tourism and aviation issues. The NTAAC

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has high-level representation from the Australian, and state and territory governments, and industry. During 2005–06, the NTAAC commissioned a report highlighting air travel impediments to the regional dispersal of international visitors, and is monitoring the implementation of its main recommendations. The NTAAC also commissioned a study to facilitate the use of economic modelling in the tourism and aviation industries and for policy development.

Skills and Labour Shortages

In addition to the TWP initiatives, the Australian Government has actively pursued a number of initiatives to address skills and labour shortages across a number of industries. These initiatives include:

- allocating \$3.6 billion to increase workforce participation, with hospitality and retail being key industries targeted and \$2.5 billion for vocational and technical education in the 2005-06 Federal Budget;
- extending the Working Holiday Maker visa provisions to allow workers to stay for 6 months with one employer effective from 1 July 2006;
- reviewing the Migration Occupations in Demand list bi-annually;
- convening, through DITR, an Industry-Government Working Group on the Tourism and Hospitality Industry Labour Market;
- taking the lead within COAG, which led to a strong commitment by all levels of government, at its 10 February 2006 meeting to tackle issues relating to human capital; and
- asking COAG to build on the work already underway on measures designed to underpin a new genuinely national approach to apprenticeships, training and skills recognition, and to alleviate skill shortages currently evident in some parts of the economy, following the interim response to the 'Rethinking Regulation' report prepared in January 2006.

Strategic Initiatives

To realise the potential of Australia's tourism future, the Australian Government has developed a range of policies addressing futures strategies to ensure Australia's tourism sustainability. These policies include, but are not limited to, the following:

- National Tourism Investment Strategy (NTIS);
- National Tourism Emerging Markets Strategy: China and India (EMS);
- Action Plan for Japanese Tourism: Embracing Change; and
- Korea: Building the Framework for Inbound Sustainable Tourism.

Each of these strategies is outlined below.

NTIS and EMS

In recognition that the Australian tourism industry must maintain and improve its competitive position, the Australian Government committed to developing two key strategies to ensure sustained and strategic growth in the industry. The two reports were

prepared during 2005 by industry consultative groups. The National Tourism Emerging Markets Strategy: China and India (EMS) contains 21 recommendations while the National Tourism Investment Strategy (NTIS), contains 44 recommendations.

The EMS seeks to demonstrate the need for more in-depth market research to build a greater understanding of the needs and wants of potential visitors from China and India. It emphasises the responsibility of the private sector to engage and provide leadership during

the early years of market development, and the supporting role of government in entering new markets.

Recommendations in the NTIS report cover accommodation, transport infrastructure, workforce and training, border and security issues, niche markets and research and innovation, with particular emphasis on adopting a whole-of-government approach and the importance of destination management plans.

A detailed whole-of-government response to recommendations for each report is due to be completed in the second half of 2006.

Action Plan for Japanese Tourism: Embracing Change

The Minister for Small Business and Tourism, the Hon Fran Bailey MP, launched the Action Plan for Japanese Tourism on 26 January 2006 in Japan, following a downturn in tourism from Japan. The Action Plan provides an assessment of the Japanese market as it now stands, recognising the major changes that have occurred in recent years and maps out a way forward to reinvigorate this \$2 billion market. The four key recommendations of the Action Plan focus on:

- restoring the Australian brand to recapture the attention of travellers;
- strengthening collaboration between industry and Australian governments to improve marketing and distribution;
- ensuring airline pricing and products meet consumer needs; and
- encouraging product development that delivers experiences attractive to the increasingly sophisticated Japanese market.

A Japan Industry Monitoring Group has been established to oversee the implementation of the recommendations of the Action Plan.

Korea: Building the Framework for Sustainable Inbound Tourism

The Action Plan *Korea: Building the Framework for Sustainable Inbound Tourism* provides a framework for removing impediments to growing the Korean inbound tourism market.

The Hon Fran Bailey MP commissioned the Korea Action Plan Implementation Group (KAPIG) to roll-out the 12 actions outlined in the Action Plan in mid 2005. KAPIG studied detailed market intelligence, Tourism Australia marketing activities, and held consultation meetings with various government bodies to assist in the implementation of the Action Plan. The Action Plan and proposes several new activities under the following recommendations:

- Marketing: Build sustainable tourism business between Australia and Korea through Tourism Australia marketing initiatives and industry participation activities;
- Pricing and Quality: Encourage the profitability and sustainability of the Korean inbound tourism market;
- Aviation: Encourage a competitive and sustainable aviation environment which facilitates travel, encourages new destinations and drives new capacity; and
- The Future of KAPIG: KAPIG continue to operate (to deliver the initiatives outlined above).

CONCLUSION

The current resources boom, in particular the mining sector, has had an overall positive impact on the Australian economy. Of particular note, Western Australia's economy has flourished, evidenced by an increase in house prices and incomes³⁷. Furthermore, service industries, in particular finance and transport have benefited from the spill over effects of inputs required by the resources industry, including the need for sophisticated technology, intellectual property and operational skills.

For the tourism sector, the resources boom is likely to be having a moderately negative impact in the short term. While the resources boom is currently exacerbating some problems for the tourism industry, in global competitiveness and in shortages of skills and labour, most of the challenges facing the tourism industry relate to underlying factors. However, the tourism industry, working with Australian and state and territory governments, has an ongoing focus to address underlying competitiveness and growth factors so that the industry can continue and grow its vital contribution to Australia's export earnings and the economy.

One underlying challenge facing the tourism industry, like many others across the Australian economy, is that future growth is significantly dependent on the quality of education and the suitability of skilled labour. This has implications for productivity, innovation and international competitiveness.

Other challenges are specific to improving the competitiveness of Australian tourism in the context of global tourism industry conditions. On a global scale, the Australian tourism industry appears small, however, as discussed, it is a high yield market and among the fastest growing industries, offering long term potential benefits to regional areas and employment opportunities. A particular focus of industry and government efforts is the need for international marketing in order for the tourism industry to capitalise on the global opportunities that exist. In the absence of support, the opportunities that exist to realise Australia's tourism export potential in the medium to long term may not be fully realised.

³⁷ *Some Impacts of the Resources Boom on Non- Resource Sectors With A Focus on Certain Services*, (2006 unpublished data), Department of Industry, Tourism and Resources, Commonwealth of Australia, Canberra.