

The inbound tourism industry

Introduction to the inbound tourism industry

- 4.1 The inbound tourism industry plays a vital role in Australia's economy – a fact that was recognised throughout the committee's evidence. Tourism is officially defined as:

The activities 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 an activity remunerated from within the place visited.¹

- 4.2 Tourism is subject to an Australian Bureau of Statistics 'satellite account', which attempts to quantify the contribution of the tourism industry to the economy. The satellite account from 2005-06 reveals the importance of tourism to the Australian economy:

- the tourism industry employed over 460,000 people, a 4.6 per cent share of total employment in the economy;
- tourism contributed \$37.6 billion or 3.9 per cent of GDP;
- tourism generated \$80 billion in consumption; and
- tourism exports were \$20.5 billion, an increase of 4.7 per cent from 2004-05.²

1 Tourism Australia, *Submission no. 41*, p. 5.

2 Australian Bureau of Statistics, *Tourism satellite account 2005-06*, cat. no. 5249.0, ABS, Canberra, May 2007.

4.3 While the above data show that tourism is one of Australia's most important industries, since 2001 its share of GDP has reduced from 4.7 per cent to 3.9 per cent. This fall was primarily caused by a reduction in the contribution of domestic tourism (3.6 per cent to 2.9 per cent), although that of inbound tourism has also reduced (1.2 per cent to 0.9 per cent).³ The performance of domestic tourism is discussed in detail later in this chapter.

4.4 The inbound tourism industry enjoyed remarkable growth in the past three decades, as described by the Australian Tourism Export Council (ATEC):

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. [In 2005] Australia welcomed 5,497,000 visitors contributing \$18.2 billion in export revenue.⁴

4.5 In more recent times, however, the inbound industry has experienced less impressive growth. The industry has endured a number of challenges following the high of the Sydney Olympics, including the 9-11 terrorist attacks, the Bali bombings, and the SARS epidemic. As a result, international visitor arrivals declined in 2002 and 2003.

4.6 Recovering from these shocks, arrival numbers have rebounded in recent years with a record 5.5 million international visitors coming to Australia in 2006.⁵ Tourism exports also reached a record level in 2005-06 (\$20.5 billion), although post-Olympic growth has again been moderate. In real terms exports have only grown by around 1.4 per cent annually since 1999-00.⁶

4.7 Australia's biggest markets in terms of visitor numbers are New Zealand, the United Kingdom, Japan and the United States (see table 4.1 below). Visitor numbers from New Zealand and Great Britain have grown strongly in recent years, although numbers from New Zealand fell in 2006. Growth from the United States has been slow but consistent, while the Japanese market has been in steady decline. The highest growth in visitor numbers

3 Australian Bureau of Statistics, *Tourism satellite account 2005-06*, cat. no. 5249.0, ABS, Canberra, May 2007.

4 Australian Tourism Export Council, *Submission no. 3*, p. 3.

5 Australian Bureau of Statistics, *Overseas arrivals and departures*, cat. no. 3401.0, ABS, Canberra, February 2007.

6 Australian Bureau of Statistics, *Tourism satellite account 2005-06*, cat. no. 5249.0, ABS, Canberra, May 2007.

has occurred from China, which has grown by around 280 per cent in the past seven years. Growth from India has also been impressive, although total visitor numbers remain relatively small.⁷

Table 4.1 Australia's top 10 tourism markets in terms of visitor numbers, 2005 and 2006

Number	Place of residence	No. of visitors 2005	No. of visitors 2006	% change
1	New Zealand	1,098,700	1,075,800	-2.1
2	United Kingdom	708,300	734,200	3.7
3	Japan	685,500	651,000	-5.0
4	United States	446,200	456,100	2.2
5	China	285,000	308,500	8.2
6	South Korea	250,400	260,800	4.2
7	Singapore	265,300	253,400	-4.5
8	Hong Kong	159,500	154,800	-2.9
9	Malaysia	165,900	150,300	-9.4
10	Germany	146,400	148,200	1.2
	Total Top 10	4,211,200	4,193,100	-0.4
	Total of all arrivals	5,497,000	5,532,400	0.6

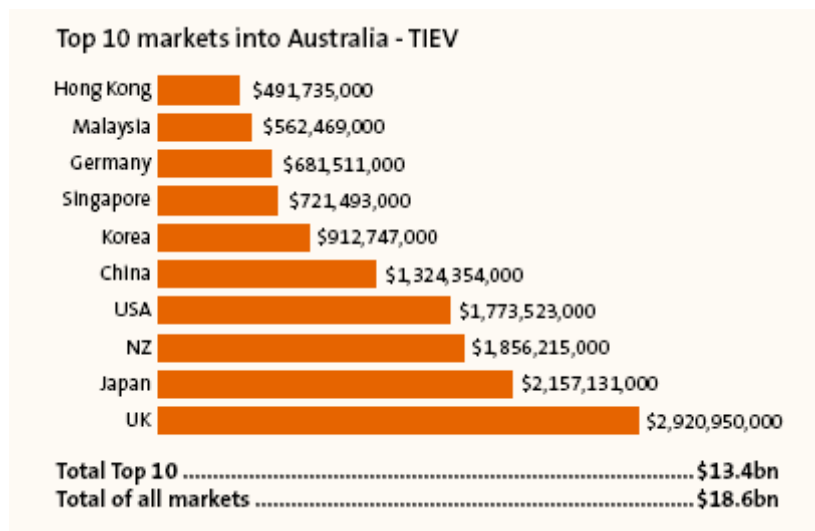
Source Australian Bureau of Statistics, *Overseas arrivals and departures*, cat. no. 3401.0, ABS, Canberra, February 2007.

4.8 The United Kingdom is the most important market to the inbound industry in terms of its total economic value. This reflects the fact that travellers from the UK tend to stay much longer than others. Tourism Australia estimates that UK visitors contributed around \$3 billion to the economy in the year ended December 2005. The other high-value markets are Japan (\$2.2 billion), New Zealand (\$1.9 billion), and the United States (\$1.8 billion) (see figure 4.1 below).⁸

7 Australian Bureau of Statistics, *Tourism satellite account 2005-06*, cat. no. 5249.0, ABS, Canberra, May 2007.

8 Tourism Australia, *Market insight tourism facts*, Tourism Australia, December 2005.

Figure 4.1 Australia's top 10 tourism markets in terms of economic value, 2005



Source Tourism Australia, *Market insight tourism facts*, Tourism Australia, December 2005

- 4.9 The Tourism Forecasting Committee has predicted strong growth for inbound tourism in the next decade. It has forecast that visitor arrivals to Australia will reach approximately 8.3 million in 2015 at an annual growth rate of 4.3 per cent. The Chinese and Indian markets are expected to be the main drivers of this growth, with arrivals from these countries forecast to increase annually by 12.3 and 17 per cent respectively. The total economic value of inbound tourism is also predicted to grow strongly, reaching \$31.6 billion in 2015 – an annual growth rate of 5.2 per cent.⁹
- 4.10 The tourism industry receives a considerable level of federal government assistance. At present, the level of funding is driven by measures announced in 2003 in the government's *Tourism white paper: A medium to long term strategy for tourism*. Among the key components of the white paper were the amalgamation of various government tourism bodies to form Tourism Australia, and an increase in funding for tourism promotion. The increased funding for promotion allowed the creation of the significant 'where the bloody hell are you' campaign.¹⁰

9 Tourism Forecasting Committee, *Forecast: The fifth release from the Tourism Forecasting Committee*, Tourism Australia, 2006, pp. 18-20.

10 Productivity Commission, *Trade and assistance review 2004-05*, Productivity Commission, Canberra, 2006.

Issues for the industry

- 4.11 Evidence to this inquiry was dominated by discussion of the inbound tourism industry. The section below will outline and discuss some of the most important issues facing the industry. However, before discussing specific issues, the committee believes there is an overarching issue which can be addressed.
- 4.12 Inbound tourism has performed modestly since the Olympics, but nonetheless remains one of Australia's most important export industries. Its continued success is vital to the Australian economy.
- 4.13 To support growth in the industry, the government, with the assistance of industry, has produced a range of reports in recent years on the future of inbound tourism. These reports include: a national tourism investment strategy; a strategy for the emerging Chinese and Indian markets; an action plan for the declining Japanese market; and the biannual reports of the Tourism Forecasting Committee.
- 4.14 One of the strengths of this research is that it is produced in collaboration between government and industry, and therefore encompasses a range of stakeholder views. However, this strength may also be a weakness, as industry participants are likely to retain an overly optimistic outlook for the industry.
- 4.15 The committee therefore believes there is scope for an independent inquiry to examine and recommend initiatives for the future of the inbound tourism industry. The inquiry could be undertaken by an independent consulting firm, or could be headed by a leading business figure and supported by a secretariat from a government agency such as Treasury.
- 4.16 The committee is of the view that the inbound industry would benefit from this kind of objective analysis to complement the research it has undertaken with the government.

Recommendation 7

- 4.17 **The committee recommends that the government commission an independent inquiry on the future of the inbound tourism industry.**

Rogue operators

4.18 'Rogue operators' – tourism operators who mistreat and take advantage of foreign tourists – have been a longstanding issue for the tourism industry. It is an issue that unfortunately remains prevalent, as the committee heard throughout its inquiry.

4.19 The Queensland Tourism Industry Council (QTIC) outlined the issue in the following terms:

Serious concerns persist in the industry, particularly in major international destinations, about the activities of inbound and tour operators who do not operate to acceptable business and customer service standards

...

The industry is concerned that the damage done to Australia's reputation has the potential to affect the broader tourism export market, notwithstanding the undesirable practices being limited to only a few operators.¹¹

4.20 ATEC provided some specific examples of how rogue operators deceive and mislead international tourists:

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.¹²

4.21 The markets particularly at risk from these operators are emerging markets for the Australian industry, including China, South Korea and Taiwan.¹³

4.22 At the committee's tourism roundtable in Sydney, witnesses cited two surveys of Asian visitors conducted between 2001 and 2003 which reported a significant level of dissatisfaction with Australian holidays. The Department of Industry, Tourism and Resources (DITR) later clarified the details of these surveys. The first survey, which was exclusively of Chinese tourists, reported 40 per cent dissatisfaction. The second, which surveyed visitors from Japan, Korea, China and Taiwan, reported 22 per cent

11 Queensland Tourism Industry Council, *Submission no. 12*, p. 8.

12 Australian Tourism Export Council, *Submission no. 3*, p. 13.

13 Mr M Hingerty, Australian Tourism Export Council, *Transcript of evidence*, 15 March 2007, p. 2.

dissatisfaction.¹⁴ The level of dissatisfaction, while clearly concerning for the industry, is not directly attributable to rogue operators according to DITR:

While the report highlighted the importance of focussing on providing quality tourism experiences, it did not identify unethical practices in the industry.¹⁵

Current protection for international tourists

Consumer protection and fair trading legislation

4.23 Under current state and federal laws there are a number of ways in which international tourists should be protected from the actions of rogue operators. Most obviously, tourists should be protected under consumer protection and fair trading legislation at both a state and federal level. As noted by DITR, 'the Trade Practices Act and [state and territory] fair trading legislation have strong application to addressing unethical conduct in inbound tourism.'¹⁶

4.24 This legislation is supported by the Inbound Tourism Compliance Taskforce which comprises state and federal tourism, fair trading and police agencies. DITR reported that:

All enforcement agencies on the Taskforce, including the Australian Competition and Consumer Commission (ACCC), have at all times indicated their willingness to thoroughly investigate any matter regarding unethical practices in the tourism industry that is brought to their attention.¹⁷

4.25 Despite this undertaking, there have been very few investigations into rogue operators. The ACCC told the committee it does not receive sufficient evidence to take action against specific operators:

There are a lot of anecdotes and rumour in relation to concerns, but upon working with the taskforce and meeting with the industry associations, we find as we drill down below the anecdotes to seek substantive information and facts there is very little evidence.¹⁸

14 Department of Industry, Tourism and Resources, *Submission no. 45*, p. 1.

15 Department of Industry, Tourism and Resources, *Submission no. 45*, p. 1.

16 Department of Industry, Tourism and Resources, *Submission no. 45*, p. 5.

17 Department of Industry, Tourism and Resources, *Submission no. 45*, p. 9.

18 Mr N Ridgway, Australian Competition and Consumer Commission, *Transcript of evidence*, 1 March 2007, p. 1.

Queensland specific legislation

- 4.26 The Queensland government introduced specific legislation to regulate tourism operators—the *Queensland Tourism Services Act 2003*. The Act requires inbound tour operators to register with the government, and also to comply with an enforceable code of conduct which outlaws unconscionable behaviour. The tourism industry is highly supportive of this move; however, they are concerned that 'the resources provided for enforcement are limited.'¹⁹

The ADS scheme

- 4.27 The federal government has implemented the Approved Destination Status (ADS) scheme—a scheme which *only* applies to Chinese leisure tourists. DITR explain the ADS scheme as follows:

The China ADS scheme is a bilateral tourism arrangement between the Chinese government and a foreign destination. Countries with ADS status are permitted by China to host Chinese tourists undertaking leisure travel in groups on specified itineraries.

...

In China, the scheme regulates the outward travel of Chinese leisure tourists to approved destinations. In Australia, it regulates inbound tour operators that service this market.²⁰

- 4.28 Tour operators that wish to service Chinese leisure groups must be approved by DITR under the ADS scheme. Once approved, operators must comply with a compulsory code of conduct, and are subject to random compliance checks.²¹
- 4.29 While the ADS scheme should protect all Chinese leisure tourists, ATEC asserts that 'some [inbound tour operators] are operating illegally outside the scheme.'²² Further, many Chinese citizens travel to Australia outside of the ADS scheme on non-ADS visa types—study, business, or visiting family and friends. ADS scheme travellers only account for about 30 per cent of Australia's Chinese market.²³ Travellers on non-ADS visa types can make leisure travel arrangements with operators not approved under the ADS scheme.

19 Australian Tourism Export Council, *Submission no. 3*, p. 15.

20 Department of Industry, Tourism and Resources, *Submission no. 45*, p. 6-7.

21 Department of Industry, Tourism and Resources, *Submission no. 45*, p. 7.

22 Australian Tourism Export Council, *Submission no. 3*, p. 14.

23 Mr M Hingerty, Australian Tourism Export Council, *Transcript of evidence*, 15 March 2007, p. 5.

Voluntary codes of conduct

- 4.30 In addition to the regulatory protections outlined above, industry and government have developed 'a range of voluntary codes of conduct that promote ethical practices in inbound tourism.'²⁴ DITR provided details of three important codes:
- ATEC has developed a Tourism Export Code of Conduct voluntary accreditation program for tourism operators dealing in any inbound market. The Code was made available online in July 2006 through the Quality Tourism Portal at www.qualitytourism.com.au;
 - Guiding Organisations Australia (GOA) has developed the Guides of Australia national tour guide accreditation framework, which was launched in June 2006. The framework provides minimum benchmarks for tour guide professional standards and links to existing specialist accreditation programs and professional development. Information is available through the Quality Tourism portal at www.qualitytourism.com.au; and
 - a voluntary Code of Conduct is being developed specifically for inbound tour operators in the Korea market, and will provide a voluntary industry standard accreditation framework administered by the Korean Inbound Tour Operators Council of Australia. There was discussion regarding progressing the Code at a Korean Tourism Industry Forum hosted by Australia in Seoul on 24-25 October 2006.²⁵
- 4.31 While stressing the importance of these codes, DITR noted they are only recent and therefore 'it is premature to judge their effectiveness'.²⁶

The need for a national approach

- 4.32 Tourism lobby groups have strongly urged governments to take a national approach to the issue of rogue operators. One of the primary concerns is that an inconsistent, state-by-state approach encourages rogue operators to locate in the state with the weakest regulation and enforcement. QTIC summarised this viewpoint, asserting: 'a state-based approach to this issue has only limited reach and encourages cross-boarder shifting of activities to avoid detection and prosecution.'²⁷

24 Department of Industry, Tourism and Resources, *Submission no. 45*, p. 8.

25 Department of Industry, Tourism and Resources, *Submission no. 45*, p. 8.

26 Department of Industry, Tourism and Resources, *Submission no. 45*, p. 8.

27 Queensland Tourism Industry Council, *Submission no. 12*, p. 8.

- 4.33 This view was supported by ATEC, who also argued it is important for the federal government to think of rogue operator regulation as a form of export protection:

If I can draw the analogy to the primary sector and the commodity sector where, if we are sending a kilo of beef anywhere overseas, significant effort, regulation and Commonwealth dollars are put in to ensuring that that kilo of beef is in fact a kilo of beef, that it is not tainted with drugs and so on. A significant amount of effort is put into export protection in that area. ATEC believes that that same sort of effort—maybe not to the same degree in terms of dollars, but at least some effort—is put into export protection from the Commonwealth in our sector in combination with the states.²⁸

To regulate or not to regulate

- 4.34 It seems that everyone agrees that rogue operators are a problem; however, there is far less agreement on what can be done to stop their operation. Essentially, there are two schools of thought on the solution. The first argues that there needs to be better enforcement of *existing* legislation in all jurisdictions, while the second contends that there needs to be *new* federal legislation introduced, which will require the licensing of all tour operators.

- 4.35 The strongest advocate of greater enforcement of existing legislation is the federal government. DITR summarised the government's position, stating:

To address the current concerns regarding unethical practices in the tourism industry, by a small number of operators in relation to targeting North Asian markets, achieving increased complaint activity to facilitate greater enforcement under existing legislation, and pursuing industry-based and non-legislative solutions is appropriate.²⁹

- 4.36 The government's approach on better enforcement of existing legislation includes new processes to make it easier for mistreated tourists to make complaints. DITR summarised the new approach:

Consumer protection information on TA's multilingual site targeted to intending visitors to Australia, www.australia.com, has been updated. The Shopping Guidelines information highlights that visitors are protected under Australia's consumer protection

28 Mr M Hingerty, Australian Tourism Export Council, *Transcript of evidence*, 15 March 2007, p. 2.

29 Department of Industry, Tourism and Resources, *Submission no. 45*, p. 8.

laws, and provides tips on purchasing tourism products and services in Australia. This information is currently positioned under the *Plan your trip/Useful Travel Information* area of the site.

The information on TA's site also advises that if a visitor feels they have been treated unfairly by a business in Australia and they wish to lodge a complaint, two national tourist complaint mechanisms are made available by DITR:

- a national telephone hotline 1300 552 263, with telephone interpreter services available by ringing 131 450; and
- an online tourist complaint form hosted on the DITR site at www.industry.gov.au/touristcomplaints.

Submitted complaints automatically forward to State and Territory Fair Trading Agencies for response.³⁰

- 4.37 Somewhat unusually, it is the industry seeking new legislation to regulate all tour operators. The industry's position was outlined by Matt Hingerty of ATEC, who told the committee:

We are a bit *Ripley's Believe It Or Not!* in terms of industry sectors. We actually support regulation of our particular part of the industry. We believe that the distribution chain, at least the Australian end of it, as I discussed earlier, should have mandatory licences and regulation. We are happy to support mandatory regulation. To use a common buzzword, there is an area of mutual responsibility here. We are happy to call down and abide by regulation—that is for ITOs, for tour guides in particular, for the shops, and for the whole distribution chain. I guess it is a measure of our despair surrounding this particular issue. The other side of mutual responsibility is for governments to enforce consumer laws and export protection laws against those people who are not doing the right thing. We fully understand that in calling for regulation of our sector we are swimming against the stream—in relation to all state and federal governments, regulation is not a sexy issue—but we see no other significant way out of this particular issue.³¹

Committee conclusions

- 4.38 Tourism rogue operators are an issue the committee looked at in some detail. It is a long standing issue for the industry and one that needs to be solved as a matter of urgency. It is fundamentally important to the tourism

30 Department of Industry, Tourism and Resources, *Submission no. 53*, p. 2.

31 Mr M Hingerty, Australian Tourism Export Council, *Transcript of evidence*, 15 March 2007, p. 3.

industry—one of Australia's biggest export industries—that rogue operators are not allowed to continue to damage our reputation as a tourism destination.

- 4.39 There is disagreement on how action against rogue operators should proceed. The federal government argues that stronger enforcement of existing state and federal legislation is the answer. Conversely, the industry advocates a new federal regulatory regime for tour operators, requiring all operators to be licensed and comply with a mandatory code.
- 4.40 The committee is of the view that there is little sense in adding an extra level of regulation when sufficient regulatory powers already exist. Doing so would come at significant cost to both tourism operators and the government. The industry has argued for a new regulatory regime, not because existing powers are insufficient, but because existing powers have not been enforced by federal and state bodies.
- 4.41 The committee was concerned by the attitude of the ACCC in relation to this matter. It acknowledged that its powers are in most cases sufficient to act against rogue operators, but argued that it has not received sufficient evidence to do so. Of course, it very difficult for international tourists to provide evidence, particularly for those who cannot speak English, and there are also very few tourists that would go to the effort to make a complaint. The ACCC appears to have shown no initiative in attempting to stamp out the practices of rogue operators.
- 4.42 The ACCC is, of course, not the only government agency with responsibility for trade practices and consumer protection; the various state and territory fair trading bodies also have a role. The *Trade Practices Act* gives the ACCC responsibility for trade practices (such as unconscionable behaviour) and consumer protection (such as misleading and deceptive conduct), but only in relation to *corporations*. As such, sole traders and partnerships, which many rogue operators may be, are not covered by the Act. They are instead covered under state and territory fair trading legislation. These shared responsibilities mean that there must be a cooperative national approach to eradicating rogue operators.
- 4.43 The establishment of the combined state and federal Inbound Tourism Compliance Taskforce is a positive step toward better national coordination on this issue. However, the taskforce meets irregularly and appears to have had little impact to date. The taskforce, led by DITR and the ACCC, must do more.
- 4.44 To assist members of the taskforce in making a case against alleged rogue operators, it is vital that tourists are able to make complaints easily. The

multi-language web-based measures the government has recently implemented appear to be a good start in facilitating a simplified complaints process. Adding to this process, it would be useful if tourists were advised of their rights, as well as ways in which they can make complaints, prior to their arrival. For example, information could be provided when visas are granted, and video messages (in several languages) could be played on all planes arriving into Australia.

Recommendation 8

4.45 **The committee recommends that governments, both state and federal, take proactive steps to eradicate rogue tourism operators. This process should include:**

- **Increased federal resources for the Australian Competition and Consumer Commission to actively seek out and prosecute alleged rogue operators; and**
- **Increased state and federal funding for the Inbound Tourism Compliance Taskforce to enable more effective national coordination on this issue.**

Skills and labour shortages

4.46 Skills and labour shortages were discussed in detail in chapter 3 which looked at issues for the services sector as a whole. Much of the evidence used in that discussion was from the tourism industry, reflecting the fact that the shortages are seen as a significant issue in the industry. This section will not repeat that lengthy discussion nor will it repeat the committee's conclusions and recommendation.

4.47 The committee once again notes that the House of Representatives Standing Committee on Employment, Workplace Relations and Workforce Participation is conducting an inquiry focussing entirely on workforce challenges in the tourism industry. This committee will closely monitor the conclusions and recommendations reached by its counterpart.

Competitive issues for inbound tourism

- 4.48 The inbound tourism industry is facing a number of competitive pressures at present. These will be discussed separately below.

The Australian dollar

- 4.49 One of the effects of the resources boom has been the appreciation of the Australian dollar. Most tourism-focussed submissions discussed the appreciating dollar as a constraining influence on tourism exports. The dollar and the apparent impact on tourism was summarised in Qantas's submission:

The Australian dollar has strengthened considerably against a number of major currencies in recent times. As a result, growth in the number of foreign visitors to Australia in some markets has slowed, while the number of Australian residents travelling has risen sharply.³²

- 4.50 The dollar has appreciated 60 per cent against the US dollar since 2001 when the dollar was below US 50c. At the time of writing, the Australian dollar was consistently above the US 80c mark. This appreciation is significant for the tourism sector as the United States is the fourth biggest market in terms of visitor numbers, and may explain why growth in visitor numbers has been slow.
- 4.51 The Australian dollar has also appreciated significantly against the currency of the third most frequent visitors to Australia, the Japanese. The dollar has appreciated approximately 70 per cent against the yen since October 2000, reaching above ¥100 at the time of writing. Japanese visitor numbers have been in steady decline in recent years and the appreciation of the Australian dollar is one of the possible explanations for this decline (see more detailed discussion of the Japanese market below).
- 4.52 The dollar has been comparatively stable against our two most significant tourism export markets, New Zealand and the United Kingdom. This stability is reflected in the consistent growth in visitor numbers from these markets.
- 4.53 While the dollar's appreciation against the currency of trading partners explains some decline in visitor numbers, it also appears to have supported the strong growth in outbound tourism (Australians travelling overseas). This was recognised by ATEC who concluded that the growth
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32 Qantas, *Submission no. 37*, p. 15.

in outbound tourism 'has partly been attributed to the strong Australian dollar.'³³

Cheap flights in other markets

- 4.54 Another competitive pressure for the inbound tourism industry is the advent of low-cost airlines in Europe and, more recently, Asia. Essentially, the availability of these flights make short-haul, intra-continental travel more appealing, and consequently long-haul flights (like the flight to Australia) less appealing. John Hawkins of Treasury commented on the impact of cheaper flights:

The problem that we are facing is that, although people would like to go to Australia, it is quite a bit more expensive than regional destinations because there are now very cheap fares within Europe and, increasingly, very cheap fares within Asia and there has not been the same advent of low-cost, no frills airlines flying internationally.³⁴

- 4.55 Tourism Australia discussed budget airlines in the context of Asia:

In South East Asia, the low cost carrier revolution is having major impacts on the effective price relativities of visiting Australia versus visiting a short haul regional destination.

For example, the Air Asia website indicated on 13 July 2006 that flights from Kuala Lumpur to Bali, vary from MRY100 (A\$35) to MRY280 (A\$100) one way depending on fare conditions. This compares to much higher airfares offered by Malaysia Airlines to Australia. The cheapest return flight found on Malaysia Airlines website on 13 July was MRY2,097 (A\$730) from Kuala Lumpur to Sydney, or over ten times that of the cheapest return Air Asia flight to Bali.

When a similar environment emerged in Europe over recent years, the share of total travel going short haul by air increased at the expense of long haul travel and traditional carriers were forced to make cost rationalisations.³⁵

- 4.56 Overall, it is clear that the introduction of budget, intra-continental airlines poses a significant competitive threat to Australia's inbound industry.

33 Australian Tourism Export Council, *Submission no. 3*, p. 8.

34 Mr J Hawkins, *The Treasury, Transcript of evidence*, 1 December 2006, p. 1.

35 Tourism Australia, *Submission no. 41*, p. 39.

The tyranny of distance

4.57 Australia's relative distance from source markets has always been an issue for the inbound tourism industry. It is an issue the industry has been able to overcome to some extent, as flight times and in-flight service and comfort have improved over the years.

4.58 However, the 'tyranny of distance' has re-emerged according to the evidence of this inquiry. It has done so for a number of reasons. Firstly, there is an increasing tendency toward shorter breaks. As such, the attraction of long-haul destinations has suffered. The trend toward shorter breaks and the effect on inbound tourism was discussed by Tourism Australia:

Globalisation has created pressures on employees to avoid taking extended breaks. This reduces the attractiveness of an Australian holiday. Adding to this in some Asian countries, official hours of work are heading downwards, towards a five day week. This is creating greater opportunities for short breaks away from home around weekends.³⁶

4.59 The trend for shorter breaks is, of course, supported by the emergence of low-cost, short-haul airlines discussed above.

4.60 Secondly, the increased price of oil acutely affects the price of long-haul flights. Karl Flowers of Tourism Australia discussed this impact:

There has been quite strong growth in international airfares, including fuel surcharges, over the last 18 months. When you have fuel surcharges between \$300 and \$400 to return to Europe, that does have an impact on demand.³⁷

4.61 Finally, the increasing public interest in climate change has the potential to exacerbate the tyranny of distance for the inbound tourism industry. Aircraft currently contribute approximately 2-3 per cent of global carbon emissions. This figure is estimated to reach 4-5 per cent in coming years if airline travel continues to grow at the current rate.³⁸

4.62 ATEC, among others, has highlighted the potential for 'global guilt' on climate change—particularly from European markets—to impact

36 Tourism Australia, *Submission no. 41*, p. 39.

37 Mr K Flowers, Tourism Australia, *Transcript of evidence*, 15 November 2007, p. 9.

38 D Robertson, 'Virgin to fly non-stop from London to Sydney', *The Australian*, 25 April 2007, viewed 26 April 2007, < <http://www.theaustralian.news.com.au/story/0,20867,21618411-643,00.html>>.

Australia's inbound industry.³⁹ There has also been a recent push from within Europe for consumers to avoid long-haul flights. If significant numbers of Europeans decide to reduce the number of long-haul flights they take, the Australian inbound tourism industry may suffer.

- 4.63 The Tourism Minister, the Hon Fran Bailey MP, recently announced that a 'Tourism action plan on climate change' would be developed. The press release announcing the action plan highlighted that tourism is one of the sectors most vulnerable to climate change.⁴⁰

Committee conclusions

- 4.64 Inbound tourism is by nature a hugely competitive industry. Almost every country in the world is vying to become a popular tourism destination. Over recent decades, Australia has been able to compete well in the global market, building a strong inbound industry. However, it is clear that there are a number of competitive challenges facing the industry both now and into the future.
- 4.65 The high Australian dollar is an issue for the industry, but perhaps not as big of an issue as some might suggest. The dollar is considerably above its post-float average against the US dollar. Nonetheless, the number of visitor arrivals from the United States continues to grow – albeit at more moderate levels than other markets.
- 4.66 The dollar has appreciated significantly against the Japanese yen in recent years, which has coincided with a steady decline in visitor numbers from Japan. However, the yen is only marginally above its post-float average. Further, in 1997-98 when a record 797,000 visitors arrived from Japan, the yen was at similar levels to those seen today. The appreciation of the dollar against the yen is certainly a factor in the decline of the Japanese market, but it is probably not the definitive factor. The decline of the Japanese market is discussed in more detail below.
- 4.67 Cheap intra-Asia and intra-Europe flights are providing significant competition to Australia's inbound tourism industry. There is very little the industry can do about the advent of these airlines other than continuing to offer a quality product and continuing strong overseas marketing. It is, however, encouraging that there are low-cost carriers, such as Jetstar and Tiger, starting to fly to Australia from various Asian hubs.

39 L Allen, 'Tourism to joint climate debate', *The Australian Financial Review*, 18 April 2007, p. 5.

40 The Hon F Bailey MP, *Tourism action plan on climate change*, Media Release, 18 April 2007.

- 4.68 Distance has always been an issue for the inbound industry. It appears there are a number of factors which may exacerbate this issue looking forward. The global trend for shorter breaks is potentially harmful for Australia and other long-haul destinations. Similarly, the high cost of oil may impact the inbound industry. Oil prices have increased in early 2007 and may soon approach the record levels seen in mid 2006. The resultant fuel surcharges on long haul flights can be significant. There is, once again, very little the industry can do about these issues except for continued marketing and offering a quality product.
- 4.69 An emerging challenge for the industry is the increasing public interest in climate change. Air travel does contribute to global carbon emissions, but it is also very important to the operation of the world's economy. As global trade continues to increase, so too will the need to transport people and goods by air. Australia's relative distance from the rest of the world means that we are more reliant than most on international air travel and air freight.
- 4.70 In the coming years governments around the world may implement mechanisms to reduce carbon emissions by aircraft (such as carbon emissions trading or carbon taxes). If this occurs, the cost of air travel will increase. The Australian inbound tourism industry, because of Australia's distance from source markets, would be particularly hard hit by any price rises. The government has recently announced that it will develop a tourism action plan on climate change. The committee believes it is important that the action plan include consideration of the potential effects of global policies to reduce carbon emissions.
- 4.71 Though a little outside the scope of this inquiry, the committee also believes that it is important for the government to consider the potential impact on the agricultural and manufacturing sectors, both of which rely heavily on air freight.
- 4.72 In recent times there have been calls from within Europe for its citizens to avoid long-haul flights, and give preference to consumer products which have not been freighted long distances. The committee believes that these calls are based on Euro-centric protectionist motives, more so than a desire to address climate change. The government and industry must attempt to ensure that the increasing public interest in climate change is not exploited by groups with protectionist interests.

Recommendation 9

- 4.73 The committee recognises the challenge that the increasing public focus on climate change poses for the inbound tourism industry, as well as the manufacturing and agriculture sectors. The committee therefore recommends that:
- The government's tourism action plan on climate change consider the potential impact of carbon emission reduction policies on the inbound tourism industry;
 - The government separately consider the potential effects on sectors that rely on air freight; and
 - The government be prepared to argue Australia's case against Euro-centric protectionist policies which exploit the increasing public interest in climate change.

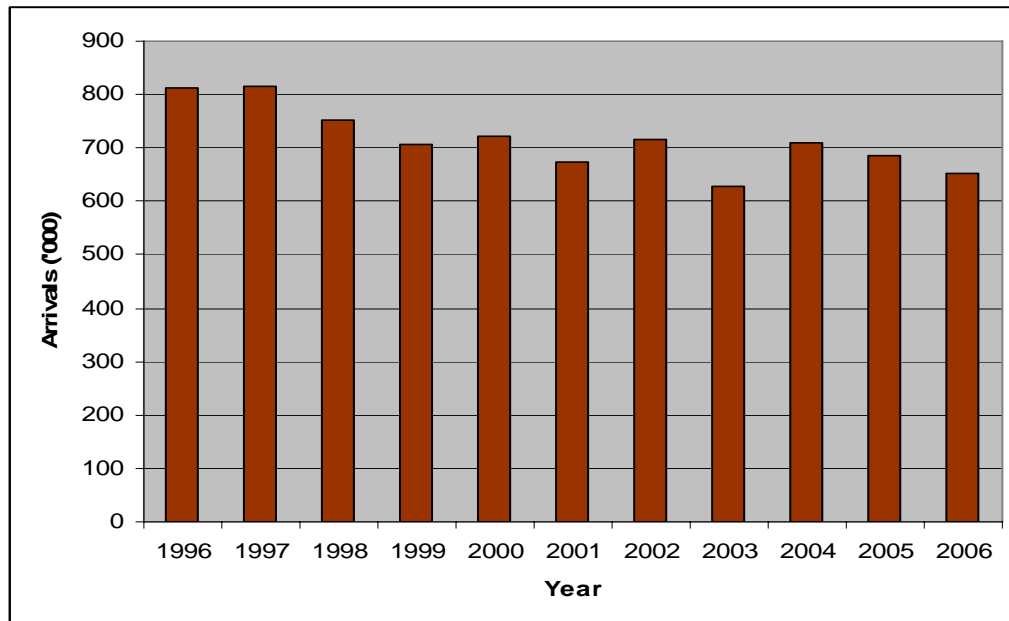
The declining Japanese market

- 4.74 While the industry has experienced strong growth from markets such as China and India (these markets will be discussed in detail below), there has been a consistent decline in the Japanese market. Evidence to this inquiry highlighted this fact and suggested it is an area needing some attention.
- 4.75 In 1997-98, 797,000 Japanese visitors came to Australia; in 2004-05, this figure had fallen to 700,800.⁴¹ From January 2006 to January 2007, this figure had fallen further to 638,600.⁴² In 1997-98 Japanese were the most frequent visitors to Australia; now they are only the third most frequent behind New Zealand and the United Kingdom. Overall, there has been almost a 20 per cent decline in the Japanese market since 1996 (see figure 4.2 below).
- 4.76 Despite this decline, and the fact the Japanese are now third in terms of visitor numbers, the Japanese market remains the second most important for the inbound industry in terms of total economic value.

41 Australian Bureau of Statistics, *Tourism satellite account*, cat. no. 5249.0, ABS, Canberra, 2006.

42 Australian Bureau of Statistics, *Overseas arrivals and departures*, cat. no. 3401.0, ABS, Canberra, 2007.

Figure 4.2 Japanese visitors to Australia, 1996-2006



Source Australian Bureau of Statistics, *Overseas arrivals and departures, cat. no. 3401.0, ABS, Canberra, 2007.*

- 4.77 One factor which has undoubtedly hurt the Japanese market is the appreciation of the Australian dollar against the Japanese yen. The dollar has increased against the yen by approximately 70 per cent since 2000.
- 4.78 A number of witnesses and submissions highlighted the obvious correlation between the appreciation of the dollar and decline in Japanese tourism to Australia. Qantas, for example, reported 'relative exchange rate movements have heavily influenced Japanese leisure travel patterns in recent years.'⁴³
- 4.79 The high dollar is certainly a factor in the decline in the Japanese market, but it is not the *only* factor. This was recognised by the Action Plan for Japanese Tourism Committee, who recently studied the Japanese inbound market. The committee highlighted numerous factors contributing to the decline, including the Japanese economic downturn, changing traveller types for Australia, airline developments, competition, and inconsistency in Australia's presence and activity.⁴⁴
- 4.80 The committee made four key recommendations for recapturing the Japanese market. These are:

43 Qantas, *Submission no. 37*, p. 15.

44 Action Plan for Japanese Tourism Committee, *Embracing change: Action plan for Japanese tourism*, Commonwealth of Australia, January 2006, p. 9

- Restore the Australian brand and refresh the product representing it in order to make Australia a 'must see' destination for our newly defined best prospect segments.
 - Build a strong, aligned and collaborative approach to marketing and distributing product to target markets, led by Tourism Australia in conjunction with the state/territory tourism offices.
 - Ensure airline pricing and products for the Australia–Japan route are competitive and promote market growth.
 - Adopt a new experience-based approach to product development to match the needs identified by new market segmentation for Japan and closely target appropriate products to key segments.⁴⁵
- 4.81 The Tourism Forecasting Committee is predicting visitor arrivals from Japan will return to the peak of the mid nineties, but not until 2014. Despite this, the committee forecasts that the economic value of inbound tourism from Japan, in real terms, will decline by 0.3 per cent to 2015. This presumption is based on reduced spending per visitor.⁴⁶

Committee conclusions

- 4.82 The Japanese have long been one of Australia's best export markets. It is therefore concerning for the inbound tourism industry that this important market has been in decline in recent years. There are clearly a number of reasons behind this decline. Some of these reasons – the exchange rate and the Japanese economic downturn, for example – are beyond the industry's or the government's control.
- 4.83 However, there are also reasons that can be addressed by industry and government. It is encouraging that the government commissioned a committee to produce an action plan for Japanese tourism. The recommendations of that committee include improving marketing, aviation and product development.
- 4.84 Japan is one of the few countries for which the Tourism Forecasting Committee is forecasting a decline in economic value. It is therefore important that the government and industry implement the recommendations of the action plan committee.

45 Action Plan for Japanese Tourism Committee, *Embracing change: Action plan for Japanese tourism*, Commonwealth of Australia, January 2006, p. 7.

46 Tourism Forecasting Committee, *Forecast: The fifth release from the Tourism Forecasting Committee*, Tourism Australia, 2006, p. 23.

Recommendation 10

- 4.85 **The committee supports the findings of the Action Plan for Japanese Tourism Committee's report and urges the government and the inbound industry to implement the report's recommendations.**

Underperforming domestic tourism

- 4.86 This inquiry focussed primarily on tourism exports; however, there was also some discussion about domestic tourism. As was noted by the Tourism and Transport Forum (TTF), 'the success of the export sector or inbound market is inextricably linked to the health of the domestic sector.'⁴⁷

- 4.87 DITR also commented on the importance of the domestic market:

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 businesses ... generat[ing] 76 per cent of tourism industry gross domestic product in 2004-05.⁴⁸

- 4.88 Given the significance of domestic tourism, several groups were concerned about its performance in recent times. Tourism Australia outlined some of the recent figures which highlight the concerning state of domestic tourism:

Domestic tourism has not performed as strongly as inbound tourism since the end of the SARS crisis in the second quarter of 2003. The most recent data from Tourism Research Australia for 2005 shows a heavy fall in domestic tourism and in particular domestic leisure tourism. In 2005, there was a decline in total domestic nights (-7 per cent), trips (-6 per cent) and spend (-2 per cent, before inflation). There were also significant falls in visitor nights for the purposes of visiting friends and relatives (-14 per cent) and holiday (-5 per cent).⁴⁹

47 Tourism and Transport Forum, *Submission no. 27*, p. 12.

48 Department of Industry, Tourism and Resources, *Submission no. 21*, p. 9.

49 Tourism Australia, *Submission no. 41*, p. 18.

4.89 ATEC commented on the effect the declining domestic market can have on inbound tourism:

The risk of a poorly-performing domestic sector is under-investment in business development and the provision of poor quality experiences to international tourists.⁵⁰

4.90 A recent report commissioned by DITR, *An assessment of the Australian domestic tourism market*, concluded there are three broad trends leading to the decline in domestic tourism:

- Australians are travelling less – in 2005 Australians took an average of 4.3 trips per capita, down from 5 trips in 1998. Visitor nights per capita also declined from 19.7 nights in 1998 to 16.9 nights in 2005.
- A smaller portion of household consumption is being allocated to tourism activity – in 2005 tourism contributed 14.3 per cent of household consumption, down two percentage points from 1998.
- Domestic travel is in decline relative to overseas travel – outbound visitor nights increased by 29 per cent in the two years to the March quarter 2006, while domestic visitor nights declined 8 per cent over the same period.⁵¹

4.91 A follow-up report, also commissioned by DITR, inquired into the reasons behind the trends identified. One of the conclusions was that domestic travel is not well regarded by Australians: ‘Semantically, travel within Australia has shifted from not being real travel, to not being travel at all.’⁵² The report also found that domestic tourism is not seen as providing value for money. The report cited three main issues in this regard:

- Accommodation – This is either luxury product or neutral and characterless. Further, there is little to help the consumer differentiate product thanks to a lack of accreditation that is both national and neutral.
- Lack of packages – These help make tourism tangible. Although the content of packages should vary for different groups, almost everyone agreed this would encourage them to travel more. It is also important

50 Australian Tourism Export Council, *Submission no. 3*, p. 8.

51 A Maurer et al, *An assessment of the Australian domestic tourism market*, Tourism Research Australia, Canberra, 2006; in D Collins et al, *Changing consumer behaviour: Impact on the Australian domestic tourism market*, Tourism Research Australia, Canberra, 2007, p. 2.

52 D Collins et al, *Changing consumer behaviour: Impact on the Australian domestic tourism market*, Tourism Research Australia, Canberra, 2007, p. 23.

that packages are a lead in; flexibility in the final shape of the package should be allowed.

- Lack of attractions – There is felt to be insufficient things to do on holidays within Australia, especially for younger travellers and for families. Those attractions which are available are felt to be a long way apart.⁵³

4.92 One of the most significant findings was that domestic tourism is unlikely to ever be as important as it once was:

Unless the pressures and competition for share of wallet and time reduce (which is highly unlikely), travel domestically will never regain the primary status it had in people's spending 10-15 years ago.⁵⁴

4.93 However, the report's final conclusion was that 'despite the very significant challenges domestic tourism faces, there is a good case to be made for addressing them.'⁵⁵

4.94 Tourism Australia noted that the federal government has a lesser role in promoting domestic tourism compared to its role in inbound tourism:

The Australian government is not a major provider of funding for domestic tourism marketing

...

It is the primary responsibility of the states and territories as well as regional organisations to promote particular destinations and products to domestic ... tourists.⁵⁶

4.95 Tourism Australia itself acknowledged that more federal government involvement in domestic tourism may assist in reversing the current trends:

Increased support from the Australian Government for domestic tourism could provide a useful role by increasing the status of Australian holidays and encouraging less stockpiling of leave.⁵⁷

53 D Collins et al, *Changing consumer behaviour: Impact on the Australian domestic tourism market*, Tourism Research Australia, Canberra, 2007, p. 24.

54 D Collins et al, *Changing consumer behaviour: Impact on the Australian domestic tourism market*, Tourism Research Australia, Canberra, 2007, p. 23.

55 D Collins et al, *Changing consumer behaviour: Impact on the Australian domestic tourism market*, Tourism Research Australia, Canberra, 2007, p. 24.

56 Tourism Australia, *Submission no. 41*, pp. 11 & 28.

57 Tourism Australia, *Submission no. 41*, pp. 44.

- 4.96 Evidence to the inquiry also commented on the role of state governments in the promotion of both domestic and inbound tourism. It was argued that while some state governments do a good job, others do a poor one. Owen Johnstone-Donnet of TTF commented:

Victoria spends twice the amount of money that New South Wales spends. New South Wales has the distinct record of being the only city in the world to have hosted an Olympic Games where the number of visitors before the games was greater than after the games ... We need to look at how some states are doing a wonderful job ... but there are other states where we need to look at the mix.⁵⁸

- 4.97 In a stronger criticism, Mike Cannon of the Australian Association of Convention Bureaux (AACB) stated:

I have heard criticism of state marketing, and some states—for example, the one we are sitting in (New South Wales)—are abysmal.⁵⁹

Committee conclusions

- 4.98 Domestic tourism is fundamentally important, not only to the Australian economy as a whole, but also to the inbound tourism industry. Domestic and international tourists utilise the same infrastructure and services. The provision of quality tourism infrastructure and services is largely dependant on income from domestic tourists, given that domestic tourists comprise approximately 75 per cent of tourism spending.
- 4.99 Contributors to this inquiry were rightly concerned about the steady decline in domestic tourism. There are numerous causes of this decline, as shown in the recent reports commissioned by the federal government. Some of the causes—such as the reduced ability to spend time and money on a holiday—may be difficult to rectify. There are, however, other causes—like the attitude to travelling in Australia and the perception of value for money—which can and should be addressed.
- 4.100 Domestic tourism is primarily the responsibility of state governments. Evidence to this inquiry suggested that some states are promoting their tourism industries well, while others—New South Wales, in particular—are not. It is clear that some states must improve their tourism promotion.

58 Mr O Johnstone-Donnet, Tourism and Transport Forum, *Transcript of evidence*, 15 November 2007, p. 16.

59 Mr M Cannon, Australian Association of Convention Bureaux, *Transcript of evidence*, 15 November 2007, p. 57.

- 4.101 The federal government plays a lesser role in domestic tourism. Having said this, the Tourism White Paper recognised the importance of, and committed the government to, improving domestic tourism. It is encouraging that the federal government has commissioned detailed research into why the domestic industry is in decline. It is important that the government continues this leadership and coordination role.

Aviation policy

- 4.102 Aviation policy is crucial for Australia's inbound tourism industry. Reflecting this, a number of submissions and witnesses raised issues regarding aviation during the inquiry. The most prominent debate was about whether there is sufficient capacity operating on routes into Australia, and whether air services agreements are constraining growth in inbound tourism.
- 4.103 There was a view that on some routes there is insufficient capacity operating into Australia. This view was expressed by Cameron Macphee of Brisbane Airport in relation to flights into Brisbane:

We have a gap developing between, shall we say in the immediate sense, the reduction in seat capacity coming from key hubs and the expectation of growth that we have from some of the emerging markets.⁶⁰

- 4.104 One of the reasons given for capacity shortages was the delay in production of the Airbus A380 aircraft, and the consequent commercial decisions by airlines to use the planes they have available on more profitable routes. Cameron Macphee provided an example of this situation materialising:

We have lost from Singapore Airlines seven services a week out of 21, come next April. Those aircraft are going to be flying Singapore-Shanghai. They are flying Singapore-Shanghai because they do not have the A380s that they were going to use on those routes.⁶¹

- 4.105 Similar evidence was given by Philip Noonan of DITR, who stated:

We do have evidence of airlines who have flown to Australia in the past diverting their flight to Shanghai because that is a more

60 Mr C Macphee, Brisbane Airport, *Transcript of evidence*, 21 November 2007, p. 12.

61 Mr C Macphee, Brisbane Airport, *Transcript of evidence*, 21 November 2007, p. 12.

profitable market and they had planned to fly a 747 there when they got an A380 for our route, or vice versa. So for the next two years, we do face a difficult issue.⁶²

- 4.106 While acknowledging some of the problems caused by the delayed A380 aircraft, Mr Noonan argued that on the whole airline capacity was not a major concern for the industry:

I would say there are very few routes into Australia where the capacity is a major constraint. There are far more routes where there may not be enough services or direct services, but when you look at the reasons you see they are commercial reasons – that is, airlines are not able to make a profit out of adding the extra plane or they are able to make a greater profit out of taking the plane on routes to China, for instance.⁶³

- 4.107 Bilateral air services agreements control access to air routes into and from Australia. There was some debate as to whether these agreements are overly restrictive and therefore causing capacity shortages on certain routes. When asked the department's opinion on this claim, Mr Noonan said:

I think there are a number of ports in Australia that would like more flights and perhaps more flights could be made profitable to Australia but the reasons why those are not happening in most cases are not air services agreements but rather commercial decisions by airlines that they cannot make as much money on the flight to Australia as they can somewhere else.⁶⁴

- 4.108 The federal government has recently reviewed its policy approach to air services agreements. The government concluded that into the future its air services policy will:

- recognise 'open skies' as an aspirational goal to be sought on a case-by-case basis, where it is in the national interest;
- negotiate capacity for air services ahead of demand, to allow airlines to make decisions and provide for competition and growth;
- maintain and expand access to a range of aviation hubs;

62 Mr P Noonan, Department of Industry, Tourism and Resources, *Transcript of evidence*, 1 December 2006, p. 40.

63 Mr P Noonan, Department of Industry, Tourism and Resources, *Transcript of evidence*, 1 December 2006, p. 39.

64 Mr P Noonan, Department of Industry, Tourism and Resources, *Transcript of evidence*, 1 December 2006, p. 40.

- recognise the contribution an Australian-based airline industry makes to the economy;
- encourage major foreign carriers to commit to a long-term presence in Australia;
- address Australia's trade and economic interests;
- continue to attract more services to the regions and smaller states by offering unlimited access for airlines to all airports other than the four gateways of Sydney, Melbourne, Brisbane and Perth;
- grow the air freight market by seeking unlimited access for freight aircraft from Australian markets to and beyond the markets; and
- continue to reform the bilateral air services system by:
 - ⇒ seeking to designate airlines through their principal place of business, rather than through ownership criteria; and
 - ⇒ continuing to seek liberalisation through multilateral forums such as the International Civil Aviation Organisation (ICAO) and World Trade Organisation (WTO).⁶⁵

Committee conclusions

- 4.109 Aviation policy is of great importance to the inbound tourism industry. Unlike other countries—European countries, in particular—Australia relies almost exclusively on air travel to bring in its inbound tourists.
- 4.110 It appears that capacity may be a problem on some routes. However, it also appears that capacity is an issue primarily because of delayed aircraft acquisitions and the consequent commercial decisions of airlines, not because of restrictions imposed by air services agreements. If this statement is true, the solution to any current capacity constraints will come in the next few years when the Airbus A380 comes into service.
- 4.111 Having said this, continued liberalisation of air services agreements will be important into the future if we are to accommodate the 3.5 million additional visitors predicted by the Tourism Forecasting Committee. The government's recent policy framework on air service agreements, including the aspirational goal of 'open skies', should assist in the negotiation of appropriate agreements.

65 Department of Transport and Regional Services, *Submission no. 29*.

Opportunities for growth and policies for realisation

4.112 Submissions to this inquiry have highlighted numerous growth opportunities for the inbound tourism industry. The section below will discuss these opportunities under two broad headings:

- Emerging markets; and
- Niche markets.

Emerging markets

4.113 The pillars of the inbound tourism industry in Australia have long been countries like Japan, New Zealand and the United Kingdom. While these markets remain important, the industry has a number of emerging markets that are likely to be of increasing importance into the future. Some of the regions from which visitor numbers are expected to increase significantly include Eastern Europe, South America and the Middle East.⁶⁶

4.114 The government's Emerging Markets Consultative Group explained the importance of emerging markets for the inbound industry:

Australia has a number of designated 'core' markets, which provide the bulk of inbound tourism revenue. As new markets emerge and are developed, they add to strength of these existing markets in delivering increased export revenue benefits for Australia.⁶⁷

4.115 Submissions to this inquiry, as well as research outside of this inquiry, have focussed primarily on two particular emerging markets: China and India. These markets are discussed separately below.

China

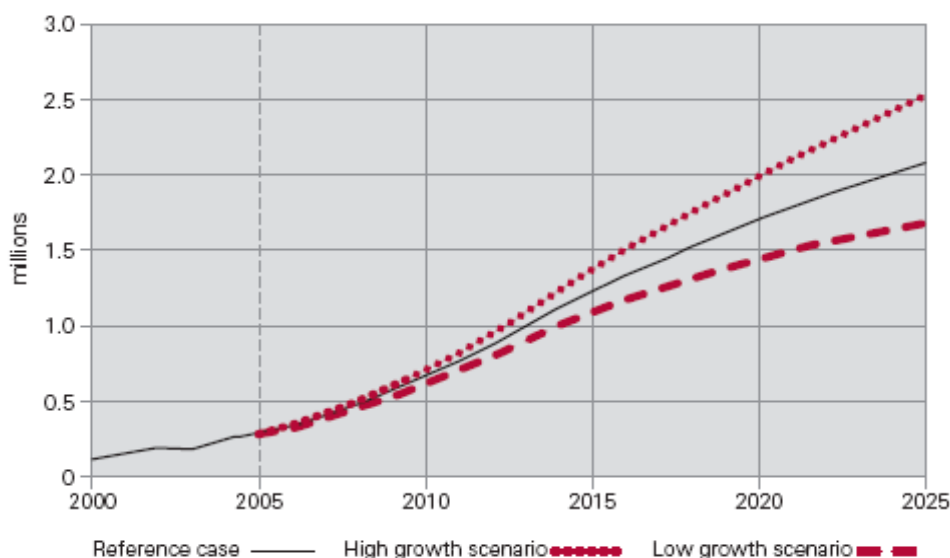
4.116 The industrialisation of China is fuelling Australia's current resources boom. This industrialisation is also fuelling another boom for the Australian economy – a boom in the number of Chinese citizens coming to Australia as tourists.

⁶⁶ Tourism Australia, *Submission no. 41*, pp. 41-42.

⁶⁷ Emerging Markets Consultative Group, *Investing in today for tomorrow, national tourism emerging markets strategy: China and India*, Department of Industry, Tourism and Resources, December 2005, p. 53.

- 4.117 Between 1997-98 and 2004-05 visitor numbers from China grew by approximately 280 per cent. This growth has seen China become the inbound industry's fifth largest market, both in terms of visitor numbers and total economic value.⁶⁸
- 4.118 The Tourism Forecasting Committee has forecast very strong growth in the Chinese market over the medium term. The committee has estimated that visitor arrivals from China will grow from 285,000 in 2005 to 911,000 in 2015 – an annual growth rate of 12 per cent (see figure 4.3 below). If this level of growth materialises, China will become Australia's third largest market in terms of visitor numbers, and largest in terms of total economic value.⁶⁹

Figure 4.3 Forecast visitor arrivals from China, 2005 to 2025



Source *Emerging Markets Consultative Group, Investing in today for tomorrow, national tourism emerging markets strategy: China and India, Department of Industry, Tourism and Resources, December 2005, p. 10.*

- 4.119 Recognising the importance of the Chinese market, the government appointed a consultative group to produce an emerging markets strategy for the Chinese and Indian markets. The consultative group was tasked with identifying strategies to ensure the inbound industry captures the expected demand, and also strategies to address any impediments to growth.

68 Australian Bureau of Statistics, *Tourism satellite account*, cat. no. 5249.0, ABS, Canberra, 2006.

69 Tourism Forecasting Committee, *Forecast: The fifth release from the Tourism Forecasting Committee*, Tourism Australia, 2006, pp. 34-35.

4.120 The group came up with 12 recommendations to assist in the development of the Chinese market. The recommendations focussed on the following areas:

- Engagement with the China market:
 - ⇒ Identifying best prospect visitors;
 - ⇒ Creating awareness of the Australian brand;
 - ⇒ Making Australia a competitive destination with product appeal;
 - ⇒ Ensuring interest visiting Australia is converted to action; and
 - ⇒ Developing a strategy for product distribution and promotion.
- Access:
 - ⇒ Continued monitoring of air capacity; and
 - ⇒ Best practice customs, immigration and quarantine arrangements.
- Delivery of the promise:
 - ⇒ Reviewing the accommodation needs of the Chinese market;
 - ⇒ Address language and skills shortages in the industry;
 - ⇒ Enact national legislation to eradicate rogue operators; and
 - ⇒ Develop standards for tour operators and guides.
- Investment in the future:
 - ⇒ Engagement with the Chinese travel industry and government.⁷⁰

4.121 The government responded to this report in early 2007, summarising that 'the majority of recommendations ... are supported by or already implemented in current government policy and arrangements.'⁷¹

India

4.122 India, like China, has been one of the world's fastest growing economies in recent years:

Since the 1990s when the Indian Government adopted economic reforms, its economy has emerged as one of the fastest growing in the world. Annual growth during the last decade averaged 6 per

70 Emerging Markets Consultative Group, *Investing in today for tomorrow, national tourism emerging markets strategy: China and India*, Department of Industry, Tourism and Resources, December 2005, pp. 19-38.

71 Department of Industry, Tourism and Resources, *Australian government response to the national tourism emerging markets strategy report and the national tourism investment strategy report*, DITR, January 2007, p. 3.

cent, making it Asia's fourth largest economy and ranking it twelfth in the world.⁷²

- 4.123 The Indian economy is forecast to grow at approximately 7 per cent annually over the next decade, making it the world's third largest economy.⁷³ Resulting from this impressive growth will be an increase in the number of Indian citizens seeking overseas tourism experiences.
- 4.124 This increase has been evident in Australia's inbound tourism numbers over the past decade. In 1995-96, 19,000 Indian tourists came to Australia; in 2004-05, 59,000 arrived—an increase of some 210 per cent. Despite this impressive growth, the Indian market remains very small for the industry, representing just 1 per cent of inbound tourism's total contribution to the Australian economy. India is only the fourteenth largest single-country market for the inbound industry.⁷⁴
- 4.125 While the Indian market is small at present, India's massive population and continued economic growth make it a priority emerging market for the industry. The Tourism Forecasting Committee has reported that 'anecdotal feedback suggests interest in travelling to Australia is increasingly rapidly.'⁷⁵ Matt Hingerty of ATEC outlined some of Australia's advantages in attracting Indian tourists:

The opportunity is that it is a predominantly English-speaking, high-yielding market which is looking to travel internationally. We have good cultural links with India. They come from a Western democratic type system, so they understand the way Australia operates. There are not the same cultural barriers that we are having in engaging with China.⁷⁶

- 4.126 The Tourism Forecasting Committee has forecast that the number of Indian inbound tourists to Australia will increase to 327,000 in 2015—an average annual growth rate of 17 per cent (considerably faster even than the expected Chinese growth rate, and far above the growth rate expected

72 Emerging Markets Consultative Group, *Investing in today for tomorrow, national tourism emerging markets strategy: China and India*, Department of Industry, Tourism and Resources, December 2005, p. 13.

73 Emerging Markets Consultative Group, *Investing in today for tomorrow, national tourism emerging markets strategy: China and India*, Department of Industry, Tourism and Resources, December 2005, p. 13.

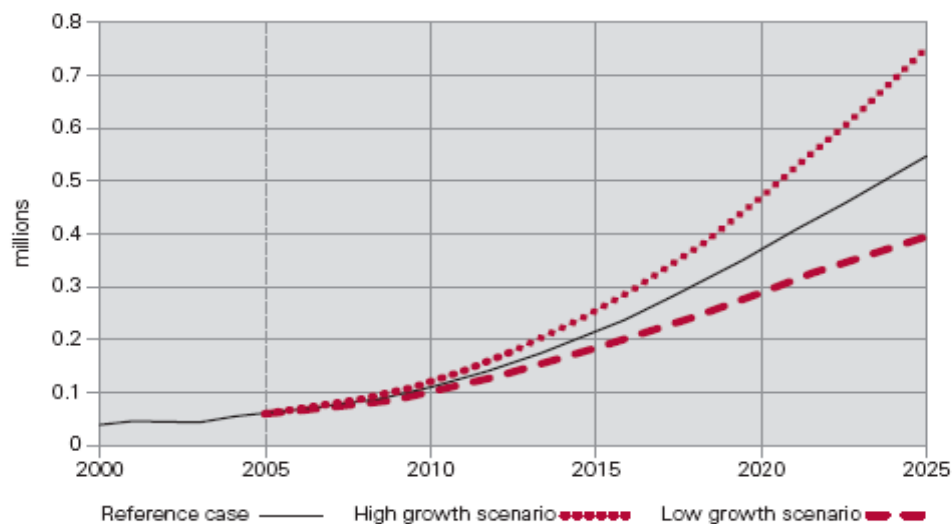
74 Tourism Forecasting Committee, *Forecast: The fourth release from the Tourism Forecasting Committee*, Tourism Australia, 2006, pp. 9-11.

75 Tourism Forecasting Committee, *Forecast: The fourth release from the Tourism Forecasting Committee*, Tourism Australia, 2006, p. 40.

76 Mr M Hingerty, Australian Tourism Export Council, *Transcript of evidence*, 15 November 2007, p. 20.

in other markets). If this situation eventuates, India will become Australia's seventh largest market in terms of visitor numbers and total economic value.⁷⁷ If the inbound industry is able to achieve higher than forecast growth, India may become a top five market by 2025 (see figure 4.4 below).⁷⁸

Figure 4.4 Forecast visitor arrivals from India, 2005 to 2025



Source *Emerging Markets Consultative Group, Investing in today for tomorrow, national tourism emerging markets strategy: China and India, Department of Industry, Tourism and Resources, December 2005, p. 16.*

4.127 As outlined in the discussion on China, the government recently commissioned research on strategies to develop, and policies to address issues, in the Indian and Chinese markets. The consultative group's recommendations in relation to the Indian market are very similar to those for the Chinese market. The government has generally supported the recommendations in the report.

Committee conclusions

4.128 It is not surprising that the world's two most populous countries, with two of the world's fastest growing economies, are considered to be the two primary emerging markets for the inbound tourism industry. The Chinese market is already very significant for the industry, and will become the

77 Tourism Forecasting Committee, *Forecast: The fourth release from the Tourism Forecasting Committee*, Tourism Australia, 2006, pp. 9-11.

78 Emerging Markets Consultative Group, *Investing in today for tomorrow, national tourism emerging markets strategy: China and India*, Department of Industry, Tourism and Resources, December 2005, p. 16.

most significant within the next decade. The Indian market is comparatively small but will become increasingly important over time.

- 4.129 The committee commends the government-commissioned research that has been conducted into these markets. The strategies identified, if implemented, will place the industry in a good position to capitalise on the market opportunities.
- 4.130 Some of the issues identified earlier in this chapter are relevant to the future of these markets. A swift solution to the issue of rogue operators will be particularly important for the Chinese market—a fact that was recognised by the Emerging Markets Consultative Group. The issue of rogue operators is less of an issue for Indian travellers as they are more likely to be English speaking.
- 4.131 The issue of airline capacity will need to be monitored by the government into the future as more and more Indian and Chinese tourists seek to travel here. Clearly, current capacity would not be able to service the millions of extra annual arrivals expected from these markets in coming years.
- 4.132 It is also important that tourism-related infrastructure—airports, roads, hotels etc.—are progressively updated and improved upon to ensure the inbound industry can service the expected increased demand. As noted above, there is potential for infrastructure development to be hindered by the under-performance of the domestic industry. The importance of infrastructure for the development of emerging markets was raised not only by the Emerging Markets Consultative Group, but also by numerous submissions and witnesses to this inquiry.
- 4.133 Finally, the committee believes it is important for the government to conduct research into other emerging markets, having done so for the Chinese and Indian markets. Understanding and targeting opportunities in other markets will broaden the base of the inbound industry.

Niche markets

- 4.134 Tourism is a highly competitive industry. It is therefore imperative that Australia's inbound industry differentiates itself from other destinations by offering unique tourism products and experiences. Doing so will provide the industry with a competitive advantage over other markets, which in turn should ensure continued success for the inbound industry.
- 4.135 Evidence to this inquiry discussed the importance of targeting unique products and experiences—often termed targeting 'niche' markets. DITR

and Tourism Australia have identified and are targeting a number of niche markets, including:

- Food and wine tourism;
- International students and study tourism;
- Nature-based tourism and ecotourism;
- Caravanning;
- Business tourism;
- Cultural and heritage tourism;
- Sports tourism;
- Seniors;
- Indigenous tourism;
- Backpackers;
- Cruise shipping; and
- Cycling tourism.⁷⁹

4.136 Each of the above is an area where Australia has a comparative advantage over other destinations. While every niche market is important for the inbound industry, evidence to this inquiry focussed primarily on three in particular: Business events tourism, medical tourism and study tourism. The business and medical niche markets are discussed separately below – study tourism is discussed in the following chapter on international education.

Business tourism

4.137 The niche market most frequently raised in evidence was business tourism. Business tourism is already an important market for the industry, but there remains scope for significant growth.

4.138 A strong business tourism industry holds a number of advantages over the leisure tourism industry. For example, business tourists tend to spend more money:

⁷⁹ Department of Industry, Tourism and Resources, *Niche tourism markets overview*, DITR, Canberra, 7 February 2007, viewed 3 May 2007, <<http://www.industry.gov.au/content/itrinternet/cmscontent.cfm?objectID=F294F506-96C7-EC89-7E8ED5CAD0751824>>.

Studies show that visitors attending a convention, meeting or conference generally spend double the amount of a holiday tourist.⁸⁰

Whichever way you measure our sector, [business tourists] buy more beers in the pub. There is a much higher yield whichever way you measure it.⁸¹

4.139 According to Tourism Australia, business tourism also tends to be a more stable market than ordinary holiday makers:

Non-leisure travel is commonly less influenced than leisure travel by economic variables like source country economic growth and exchange rates.⁸²

4.140 Australia has a number of advantages in attracting businesses to hold events here, as noted on the website of the association for business events marketing organisations, AACB:

- Well recognised as a base for trading within Australasia.
- One of the world's most deregulated economies.
- Producer of well planned, executed and managed world class events.
- A natural business hub in the Asia Pacific Region. It is forecast that the world GDP share of major economies within the Asia Pacific region will rise from 38% to 45% over the next 10 years.
- A wealth of internationally recognised science and technology professionals in all industry sectors.
- Excellent hotels and meeting places.⁸³

4.141 The Australian Hotels' Association asserted that Australia has potential as a business venue but 'more needs to be done to ensure a co-ordinated national approach to this market.'⁸⁴ AACB shared a similar view:

Simply, whilst Australia is very well recognised as a destination for the leisure visitor, the holidaymaker – or tourist, it is not as well known as a destination for business events.⁸⁵

80 Australian Hotels Association, *Submission no. 16*, p. 11.

81 Mr M Cannon, Australian Association of Convention Bureaux, *Transcript of evidence*, 15 November 2007,, p. 66.

82 Tourism Australia, *Submission no. 41*, p. 8.

83 Australian Association of Convention Bureaux, *The case for holding your next corporate meeting in Australia*, AACB, Sydney, 2007, viewed 3 May 2007, <http://www.aacb.org.au/page/the_case_for_braustralia.html>.

84 Australian Hotels Association, *Submission no. 16*, p. 11.

- 4.142 AACB quoted recent data supporting the view that Australia is underachieving in business tourism:

Not only have we failed to maintain our market share, our share has fallen in absolute and real terms (11% over 10 years). For example:

- In 2001 Australia hosted 295 international meetings;
- This has fallen by 32% over 5 years to 200 meetings in 2005; and
- This in turn has resulted in a decline in total market share from 3.1% to 2.2% for the same period.⁸⁶

- 4.143 DITR noted that the government has allocated resources to business tourism:

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.⁸⁷

- 4.144 However, Mike Cannon of AACB was critical of the resources allocated to the TEA:

It has three [people] at the moment ... It had five in 1999. In 1999, it spent about \$4 million per annum. At the moment, it is quoted as spending about the same. But its role has become promoting Australia as not only a business events destination but also a major events destination. We have no criticism of that, but the fact is that it is a bigger share of the pie to promote with a far lesser amount in the barrel.⁸⁸

- 4.145 In addition to concerns about the level of Tourism Australia assistance, there was also a view that there could be more effective coordination between other agencies who promote Australia. Mr Cannon explained this concept as follows:

There is a great sync. For example, we would love to be able to afford to go to every trade mission that Austrade attends so that we can join them and Invest Australia in promoting Australia as a business event destination to all the buyers at that trade show

...

85 Australian Association of Convention Bureaux, *Submission no. 43*, p. 1.

86 Australian Association of Convention Bureaux, *Submission no. 43*, p. 1.

87 Department of Industry, Tourism and Resources, *Submission no. 21*, p. 16.

88 Mr M Cannon, Australian Association of Convention Bureaux, *Transcript of evidence*, 15 November 2007, p. 65.

It will be Tourism Australia, Invest Australia and Austrade promoting Australia across the board.⁸⁹

- 4.146 Overall, there was some agreement that governments need to place greater emphasis on promoting Australia as a business events destination.

Medical tourism

- 4.147 Medical tourism was another niche market opportunity discussed in the committee's evidence. Interestingly, medical tourism is not one of the high priority niche markets listed above and detailed on DITR's website.

- 4.148 Matt Hingerty of ATEC described the opportunity that exists to develop medical tourism industry:

We are very excited about the potential in Australia to develop a health tourism sector. It is a multibillion dollar industry globally. We are well set up to service that industry, but we have not in any significant way put a toe in the water. It is a burgeoning industry, particularly in our region.⁹⁰

- 4.149 ATEC highlighted that a medical tourism industry has the potential to be 'extremely high-yielding'.⁹¹

- 4.150 The Service Industry Research Centre (SIRC) also discussed medical tourism as a significant growth opportunity, stating:

Medical tourism has the potential to increase tourist volume, average daily visitor spend and also average length of stay. These are significant metrics for the tourism industry, and medical procedures are widely acknowledged to be a true export of services.⁹²

- 4.151 SIRC provided three examples of successful medical tourism industries which Australia could look to emulate:

- **India**, who have targeted their marketing at European markets based on the premise of medical 'queue jumping';
- **Singapore**, who promote their product in the Middle East as a 'world class' medical tourism experience;

89 Mr M Cannon, Australian Association of Convention Bureaux, *Transcript of evidence*, 115 November 2007, pp. 65-66.

90 Mr M Hingerty, Australian Tourism Export Council, *Transcript of evidence*, 15 November 2007, p. 16.

91 Australian Tourism Export Council, *Submission no. 3*, p. 19.

92 Service Industry Research Centre, *Submission no. 13*, p. 3.

- **South Africa**, who have developed a highly regarded spa and retreat industry.⁹³

4.152 An extensive Australian medical tourism industry would have a number of potential competitive advantages over other destinations according to Brett Wilson of the Australian Health Export Industry Council (AHEIC):

Our competitive situation is very favourable in that, as Australia has one of the highest standards of health service provision in the world, we are well equipped to handle cultural sensitivities in terms of Asian visitation and we have surplus capacity where we are looking at optimising the capacity that is underutilised in the country at the moment.⁹⁴

4.153 Mr Wilson emphasised that there is an important role for government in developing a medical tourism industry:

The Australian government needs to invest in the marketing of our services. The Australian health industry is quite fragmented and many of the major facilities—hospitals, imaging facilities, pathology clinics and medical clinics—vest in the interest of corporate or state ownership.⁹⁵

4.154 Mr Wilson also commented on the role other countries' governments have played in developing medical tourism industries:

Since 2003 Singapore have injected some \$2 billion to their biomedical and health tourism marketplace in order to grow Singapore as a more recognised health hub in the Asian region. India are investing heavily. They are looking at revenues of over \$2 billion in the next few years.⁹⁶

4.155 While medical tourism does appear to have significant potential, there are potential problems for governments, as described by a former member of this committee:

In Australia ... there is a problem on the supply side in terms of surgeons. If you take the time surgeons spend in the private sector—of course your customers are going to have significant capacity to pay, I suspect—then you are potentially going to have

93 Service Industry Research Centre, *Submission no. 13*, pp. 3-4.

94 Mr B Wilson, Australian Health Export Industry Council, *Transcript of evidence*, 15 November 2007,, p. 17.

95 Mr B Wilson, Australian Health Export Industry Council, *Transcript of evidence*, 15 November 2007,, p. 18.

96 Mr B Wilson, Australian Health Export Industry Council, *Transcript of evidence*, 15 November 2007,, p. 18.

an impact on the supply-demand equation in the public sector, and therefore you might face criticisms that this could lead to longer waiting lists in the public health system.⁹⁷

- 4.156 In response to this comment, Brett Wilson of AHEIC said that the extra revenue from international patients may actually help keep surgeons in Australia, rather than being attracted overseas:

That criticism ignores the fact that we already compete internationally for the skills and services of those surgeons, and that is likely to increase dramatically in the near term as governments which are investing billions of dollars in this particular category look at how they are going to grow their own jurisdictions as competitive health hubs.⁹⁸

- 4.157 On the whole, medical tourism appears to be an area of potential growth for Australia.

Committee conclusions

- 4.158 The development of niche markets in which Australia has a competitive advantage is a good strategy for the future. Many of the markets identified by DITR and Tourism Australia are high-yielding markets, adding to their appeal.
- 4.159 There are a multitude of markets in which Australia can specialise. Food and wine tourism, ecotourism and indigenous tourism are already important industries, and will become increasingly important into the future.
- 4.160 While there are numerous niche markets for Australia, two in particular drew detailed evidence in this inquiry – business tourism and medical tourism. Both markets are potentially lucrative and, according to evidence, are underdeveloped in Australia.
- 4.161 Business tourism requires greater government attention. The organisation responsible for coordinating business events promotion, Tourism Events Australia, appears to be under-resourced. Another problem for the business tourism sector is that, as discussed in chapter 3, Australia's overseas brand is predominantly directed toward leisure tourism, to the detriment of our other capabilities. The recommendation in chapter 3

97 Mr J Fitzgibbon, *Transcript of evidence*, 15 November 2007, p. 19.

98 Mr B Wilson, Australian Health Export Industry Council, *Transcript of evidence*, 15 November 2007, p. 18.

about broadening Australia's brand and introducing a 'Brand Australia Council' would certainly assist the business tourism sector.

- 4.162 The further development of Australia's medical tourism industry is an interesting concept. It is evident that there is significant international demand for medical services, as demonstrated by the burgeoning medical tourism industries which have developed in the Asian region—Thailand, Singapore and India, in particular. However, medical tourism may be controversial if additional international patients have the effect of extending current waiting lists in the public system. If the medical services offered by Australian providers were limited to cosmetic-type surgeries, as well as spa and retreat services, this concern would not materialise. Overall, the concept of extending medical tourism in Australia is worth further consideration.

Recommendation 11

- 4.163 **The committee recommends that the government provide additional funding to Tourism Australia to:**
- **Extend the international marketing of Australia's business events capabilities; and**
 - **Conduct research into the issues and opportunities arising from the development of an extensive medical tourism industry.**

