



The peak body for the Australian **Accommodation** Industry

11 August 2006

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

By e-mail: efpa.reps@aph.gov.au

Dear Sir/Madam

**INQUIRY INTO THE CURRENT AND FUTURE DIRECTIONS
OF AUSTRALIA'S SERVICE INDUSTRIES**

It is my pleasure, on behalf of the Hotel Motel and Accommodation Association (HMAA), to present this submission on behalf of the Australian Accommodation Industry.

HMAA is the peak national body for the Australian Accommodation Industry, representing a range of accommodation establishments including 5, 4 and 3 star hotels, resorts, motels, motor inns, serviced and holiday apartments, bed and breakfasts, guesthouses, backpackers and time share establishments, combining a membership base of over 2,000 properties and 60,000 guest rooms.

HMAA looks forward to the opportunity to further discuss these matters over the course of this Inquiry, and to present to the Committee in session.

Please do not hesitate to contact me should you require any further information.

Yours sincerely

A handwritten signature in purple ink, appearing to read 'P. Olah', is written over a light blue horizontal line.

Peter Olah
National Affairs Manager

Hotel Motel & Accommodation Association

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HOUSE STANDING COMMITTEE ON ECONOMICS,
FINANCE AND PUBLIC ADMINISTRATION

**INQUIRY INTO THE CURRENT AND
FUTURE DIRECTIONS OF
AUSTRALIA'S SERVICE INDUSTRIES**

A SUBMISSION BY THE
HOTEL MOTEL AND ACCOMMODATION ASSOCIATION
ON BEHALF OF
THE AUSTRALIAN ACCOMMODATION SECTOR

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EXECUTIVE SUMMARY

The Hotel Motel and Accommodation Association (HMAA) appreciates the opportunity to provide this submission to this Inquiry of the House Standing Committee on Economics, Finance and Public Administration (the Committee).

HMAA is the peak body for the Australian accommodation industry, representing 5, 4 and 3 star hotels, resorts, motels, motor inns, serviced and holiday apartments, bed and breakfasts, guesthouses, backpackers and time share establishments nationally.

This submission addresses the tourism services industry, with a specific focus on the tourism accommodation sector. The positions taken by HMAA are informed by data from a number of public and private sector sources, as well as information from HMAA members.

The current state and recent performance of the tourism industry are outlined. However, the core focus of this submission is in describing broad areas of concern to HMAA and its members, including:

- the need to ensure a healthy domestic market as the bedrock for a healthy inbound market;
- the operational and financial impacts of a discounting culture and “margin squeeze” on operators;
- the negative impact of low returns and an unattractive investment climate in the industry;
- a lack of industry “people” capacity and reliable, accessible and timely data;
- the cost of dealing with legislative and regulatory inconsistency nationally; and
- the labour and skills shortage.

In each case, potential remedies are recommended for consideration by the Committee.

HMAA looks forward to the opportunity of directly addressing the Committee regarding the strengths of the accommodation sector, the challenges facing it, and of course assisting this Inquiry to arrive at commonsense and achievable recommendations addressing the long term growth and viability of the industry.

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HMAA AND ITS MEMBERSHIP

The Hotel Motel and Accommodation Association is the peak national body for the Australian accommodation industry.

HMAA represents a range of accommodation establishments including 5, 4 and 3 star hotels, resorts, motels, motor inns, serviced and holiday apartments, bed and breakfasts, guesthouses, backpackers and time share establishments, combining a membership base of over 2,000 properties and 60,000 guest rooms.

HMAA is the only organisation representing this full range of accommodation types and interests nationally, and in rural, regional and metropolitan Australia as well as the major cities. HMAA offers a range of services and opportunities which assist accommodation properties and corporate businesses in their day-to-day activities.

HMAA was formed to represent the interests of registered accommodation operators within the Tourism and Hospitality Industry and is registered as an Industrial Organisation of Employers.

HMAA'S UNDERSTANDING OF THE CONTEXT OF THIS INQUIRY

HMAA understands that this Inquiry arises from a reference by the Treasurer, the Hon Peter Costello MP, to the House Standing Committee on Economics, Finance and Public Administration to conduct an Inquiry into where the service export sector now sits in Australia's export (and import competing) environment, focusing on, but not limited to:

- the tourism and education service sectors;
- the impact of the resources boom on the service sector;
- future global opportunities for Australian service exports; and
- policies for realising these opportunities.

HMAA's sectoral interests reside in the broad tourism sector, including export tourism, and this submission therefore focuses on that component of the export services sector relating to tourism, with a key focus on accommodation. It should be noted that all references to "accommodation" in this document should be taken as referring to tourist accommodation.

It is with this understanding that HMAA makes this submission on behalf of its members and the accommodation industry across Australia. This submission outlines key concerns of HMAA members and the accommodation sector and makes recommendations for consideration by the Committee, where appropriate. HMAA looks forward to detailing these approaches to the Committee in session at a future date.

HMAA'S SOURCES AND USE OF DATA

This HMAA submission has been informed by data and information from a number of public sector, private sector and industry sources, including:

- the Australian Bureau of Statistics;
- Tourism Australia, including Tourism Research Australia;
- the Department of Industry, Tourism and Resources;
- the Sustainable Tourism CRC;
- various state and territory Tourism Commissions;
- The National Tourism Alliance;
- various state and territory Tourism Industry Councils and Alliances;
- EconTech;
- Jones Lang LaSalle Hotels;
- Westpac Hotel Outlook Report; and
- Sonnenblick-Goldman 2006 Survey of Australia-New Zealand Accommodation Investors.

HMAA anticipates that the Committee will have ready access to these sources and therefore, for the sake of brevity and readability, has elected not to quote this data extensively through this submission. HMAA is of course ready to provide such data supporting its positions if and when required by the Committee.

Additionally, HMAA has utilised information from a number of internal sources including:

- the 2006 Annual Survey of HMAA Membership;
- other HMAA Member and Industry surveys; and
- documentary and anecdotal information from HMAA members.

Again, HMAA is prepared to provide this information if required by the Committee.

THE TOURISM SERVICE SECTOR AND THE ACCOMMODATION INDUSTRY

A SNAPSHOT OF THE TOURISM INDUSTRY

Tourism is worth \$75 billion annually to Australia; it earns Australia more than \$18 billion in exports (adding nearly \$8 billion to GDP). Importantly, over 75% of the tourism industry is accounted for by domestic tourism. Clearly, a healthy domestic tourism sector is the key underpinning for a sustainable export tourism product.

Tourism is very different to most industries: it is highly labour intensive; it requires the input of many service providers into a single “product” to the end consumer; it is dominated by a significant number of small businesses; tourism competes against all other discretionary expenditures for the “hearts and minds” and expenditure of the consumer; it operates in a highly complex environment requiring significant compliance skills and costs.

Accommodation accounts for approximately 10% of the tourism industry, making it a \$7 billion+ industry in its own right. Accommodation is clearly a vital and integral part of the tourism market. Indeed, accommodation and travel are the two unavoidable components of tourism.

Tourism is more labour intensive than most industries, providing over 530,000 direct jobs and nearly 400,000 indirect jobs, including 13,500 new jobs in the last financial year. Tourism is the point of entry for many entrants to the job market and provides significant numbers of jobs in regional communities as well as capitals cities and tourist centres. Accommodation accounts for approximately 100,000 direct jobs in the sector.

THE RECENT PERFORMANCE OF THE TOURISM INDUSTRY

The Australian economy has performed strongly in recent times, especially in resource-rich states positively impacted by the global boom in demand for minerals.

This has led to fears of a “two-speed” economy with more traditional states, regions and industries lagging, while those exposed to the resources boom show unprecedented strength. It is the position of HMAA that, in the context of a two-speed economy, much of the tourism industry is stuck in the slow lane.

Local consumers have reduced discretionary spending due to high fuel prices and rising interest rates. Additionally, research from Tourism Research Australia suggests that tourism is losing its share of this spend to other expenditures: travel’s “share of wallet” has declined from over 16% to just over 13% in the last eight years¹.

The impact is clear. In the last calendar year total domestic travel decreased by 2% in total trips, and 7% in total nights, whilst outbound travel increased by 9%.² Both leisure and business travel have decreased. Importantly, this decline in domestic tourism has impacted every part of Australia, bar the Gold Coast³.

¹ Tourism Research Australia, Per Capita and Nights Per Trip 1985-2005

² Tourism Australia, year on year growth for Spending, Trips & Nights – Y/E December 2005

³ Tourism Research Australia, Domestic Tourism: Regional Changes 1999-2005

Overseas tourists, in the meantime, have also turned away from Australia for a variety of reasons, most significantly an Australian dollar artificially inflated by the success of resource exports.

Output in the sector declined 2.2 per cent in the year ending March 2006. The industry appears likely to continue to stagnate as the artificially high dollar, fuel prices, and interest rate increases harm both domestic and inbound tourism.

THE INBOUND TOURISM MARKET

The Inbound tourism market is split nearly 50/50 between holidaymakers and business, convention and education travellers.⁴ Approximately \$18 billion in export earnings is generated by the inbound tourism market annually.

Unlike the domestic market there are some positive signs for inbound tourism, many impacted directly by the record funding and innovative programmes delivered through the Tourism White Paper. There is real reason to hope for even stronger growth in the coming decade, especially driven by a proactive and tailored approach to the emerging markets of China and India.

However, 75% of the Australian tourism industry is domestic, and domestic tourism is in trouble.

⁴ ABS Overseas Arrival and Departures Survey July 2006

A HEALTHY DOMESTIC MARKET AS THE BEDROCK FOR A HEALTHY INBOUND MARKET

75% of Australian tourism revenue is domestically derived; derived from a market which has been faltering for some time.

Whilst there is a not unexpected national policy focus on the international market, given the reality of an uncertain world it is the larger domestic base which allows for certainty leading to investment (and reinvestment) in land, buildings, systems and human capital. The delivery of a quality tourism “experience”, and the renewal of that experience, is built largely upon the revenue derived from the domestic market.

Put simply, if domestic tourism falters, inbound tourism will suffer. As a result of a number of factors including fuel prices, interest rate increases, and the high Australian dollar, there is a real risk of this scenario occurring.

Australia as a whole is not a destination for domestic tourists, but state/territories, regions and attractions are. Significant work must be done to ensure that Australian regions and destinations are attractive to the local market, and competitive with other choices for discretionary expenditure. This requires an ongoing and reliable commitment to marketing and brand building. Some state and territory governments, and local government generally, have failed in this area.

Recommendations:

1. That the Inquiry consider whether COAG should be requested to arrive at a commitment from all Australian Governments to an appropriate, reliable and consistent level of ongoing funding for the tourism industry development and marketing of local tourism experiences to domestic markets.
2. That the Inquiry consider whether a nationally consistent framework for state and regional tourism masterplans and destination plans should be developed, funded and implemented, with a broad focus including marketing, destination and brand development.
3. That the Inquiry consider whether nationally uniform legislation should be implemented requiring each local government to design and implement a Local Tourism Action Plan following consultation with its community and local tourism operators.

THE DISCOUNTING CULTURE AND “MARGIN SQUEEZE”

Tourism is a sector dominated by small and medium sized business: there are over 100,000 employers in the Australian tourism industry. It is the combination of services provided by these disparate businesses which provides the “Australian tourism experience”. Overwhelmingly, these are SMEs operating on narrow margins and relatively low yields, with little room to manoeuvre in terms of costs and pricing.

They face the difficulty of marketing to an Australian public which has been taught to expect price discounting as a regular fact of life in the pursuit of their discretionary spend: both inside the tourism industry (low cost airlines and regular airfare sales) and outside it (large retailers offering regular sales for electricals, furniture, consumer goods and motor vehicles). Unlike most tourism businesses, these are usually large, integrated businesses with significant capacity to control their supply chains and to absorb short-term cashflow impacts.

Significantly, these myriad small tourism businesses are negotiating with these large companies at both ends of their supply chain. At one end, suppliers to the industry include major multinationals including credit card suppliers. At the other end, there are a small number of significant and important distribution channels, and this is being reinforced by the current process of mergers and acquisitions in the industry.

Clearly, these small tourism businesses are at a negotiating disadvantage: the large suppliers and channels can afford to walk away from virtually any individual tourism business, knowing that its place can be filled by many others. On the other hand, the failure to do business with key suppliers or distributors can be highly damaging (or fatal) to a small tourism business.

The result over many years has been a continuing squeeze on the margins of small business operators from both ends of their supply chain. Some of this has been returned to the end customer in the form of cheaper travel; most has simply gone to the bottom line of large businesses, at the cost of lower levels of profitability, viability and reinvestment into the businesses which provide the core tourism experience.

Indeed, HMAA has viewed draft contracts issued to its members by major distributors which are clearly anti-competitive, but are usually acceded to simply because of the disparity in the resources between the two parties, and the uncertain nature and significant risk of any challenge.

HMAA believes that this cycle is damaging the longer term viability of the entire industry, and does not promote optimal outcomes for the industry or the end customer. This can be achieved best by “levelling the playing field” in negotiations along the tourism supply chain.

Recommendations:

4. That the Inquiry consider whether legislation should be introduced to allow the formation and operation of industry-based cooperative negotiating organisations for the accommodation industry and other parts of the tourism industry, on the basis that such mechanisms are most likely to deliver optimal competitive outcomes within the industry and to the end customer.
5. That the Inquiry consider whether it is appropriate for Government to fund the establishment and initial period of operation of such organisations.

LOW RETURNS AND AN UNATTRACTIVE INVESTMENT CLIMATE

Whilst all business investment decisions are made on the basis of many factors; the key financial measure is return on investment. The factors mentioned above lead to low yield and relatively low ROI in the tourism industry.

Major tourist accommodation properties require significant financial investments with longer break-even periods than many other capital investment options, making investment (and reinvestment) in tourist accommodation a relatively unattractive option in the current climate. A relatively unstable global travel market (due to factors such as terrorism and disease epidemics), compounded by the aforementioned decline in domestic travel and artificially high dollar, add to the unpredictability and relative unattractiveness of this investment option.

Any unpredictability or inconsistency in the application of charges, taxes and fees to the sector adds to this problem, and is one area which HMAA believes should be addressed by all Australian Governments. In addition, consistency in tourism marketing, brand building and industry

development initiatives (as mentioned above) is vital to building some degree of reliability and attractiveness back into the tourist accommodation investment climate.

Additionally, consideration must be given to introducing industry-specific measures to improve the viability and attractive of investment in tourist accommodation such as income averaging, accelerated depreciation allowances and modifications to the application of fringe benefits tax.

Recommendations:

6. That the Inquiry consider whether COAG should develop options for the consistent national application of taxes, charges and fees levied against tourism businesses.
7. That the Inquiry consider whether industry-specific taxation concessions to “kick start” investment and reinvestment in the tourist accommodation industry are appropriate, and what form they should take.

LACK OF INDUSTRY CAPACITY AND DATA

The Australian tourism industry is both enhanced and hindered by its domination by a large number of SMEs.

On the positive side this structure delivers many differing tourism options, different marketing and customer service approaches, significant new thinking and occasional risk-taking, and the very real option for significant “tailoring” of the tourism experience to individual needs and wants.

Unfortunately, this fragmentation of the industry can also mean a lack of experience in decision-making roles, low levels of entrepreneurship and management experience, some disconnectedness from market realities and sources of data, and lack of access to capital for start-up and reinvestment.

The development of the industry must therefore focus on developing the human capacity of the decision-makers within it. Shorter term fixes focusing on growing market numbers will always be welcomed by struggling businesses. However they cannot, by themselves, achieve the change and growth in industry capacity necessary to achieve longer term growth and sustainability.

Additionally, both industry and business development programmes, and sources of data, must be made easier to access and less bureaucratic. The current application process for the Australian Tourism Development Programme, for instance, makes it unlikely that the small tourism businesses most in need of assistance will have the time, knowledge or expertise to apply successfully. The Export Market Development Grants Scheme is not available to the operators of strata-titled hotels and resorts (a rapidly growing segment of the market), who may be best equipped to successfully utilise such support.

Finally, it is vital that there be one reliable “pool” of industry data which is up-to-date, relevant, easily accessible, and available free-of-charge to everyone in the industry. The current situation is that the quality and reliability of data is variable, there are usually significant gaps in the available information, overlapping data is often contradictory, and information can be hard to access and costly.

Recommendations:

8. That the Inquiry consider recommending a mix of both short term business development and longer term industry development initiatives in planning for future funding beyond the Tourism White Paper.

9. That the Inquiry consider whether all tourism grant programmes should be simplified in availability, application and reporting and, where necessary, funding be made available for mentors to assist small tourism businesses in accessing such programmes.
10. That the Inquiry consider whether the Department of Industry, Tourism and Resources should be made responsible for the collation of industry statistics and data, and its timely provision to the industry free-of-charge.
11. That the Inquiry consider whether appropriate funding should be provided to ensure that this data encompasses all required strategic, financial and operational data, and both historical and projective information.

LEGISLATIVE AND REGULATORY INCONSISTENCY

The tourism industry, due to its diverse nature and high proportion of SMEs, is exposed to the full gamut of business and other legislation, regulation and policy of all three tiers of government. The capacity of these small businesses to deal with the cost and skill requirements of compliance is low and the consequences costly (and, for some, fatal).

Tourism, as a nationally operating industry, also carries significant compliance costs and risks due to inconsistent legislation, regulation, and application thereof between different state and local jurisdictions.

Areas of concern at Commonwealth level include:

- the unfair and arbitrary application of tax rulings across service industries, with little or no consultation and no understanding of the operational realities in the services context (the most recent example being the ATO's ruling regarding the application of GST to deposits);
- the probability that the WorkChoices legislation significantly extends the availability of a fifth week of paid annual leave to tourism workers, at significant cost and with no trade-off in productivity to employers; and
- the requirement for small business operators to pay FBT for staff business meals outside the workplace, a cost not borne by large employers with in-house facilities.

Areas of concern at the state/territory and local government level include:

- the inconsistent and unreliable application of planning rules, especially with regard to the application of Building Code of Australia requirements to refurbishments of existing accommodation premises;
- the lack of state and local government focus or action against the operation of illegal hotel rooms from buildings approved for residential accommodation, at significant cost to legally operating hotels and motels bearing higher operating costs;
- the lack of transparency, inconsistent application, and unfairness of the application of land taxes which are levied differently based on types of property holdings, but are effectively carried by the business operating on the property;
- the lack of action by some states to meet GST commitments on payroll taxes, which disproportionately harm the labour-intensive service industries;

- the lack of a national approach to each jurisdiction’s Innkeepers Act;
- the inconsistent national application of liquor licensing legislation, a lack of flexibility in usage of licensed areas and the recent trend towards unreasonably increasing the consultation, reporting and measurement requirements for “low impact” license types;
- the lack of a national approach to industry operational requirements in the Responsible Service of Alcohol; and
- the lack of clarity, consistency and decisiveness in the application of smoking bans in public premises.

Recommendations:

12. That the Inquiry consider recommending a “top to bottom” COAG review of all legislation, regulation and policy negatively impacting on the tourism industry, with a view to eradicating unnecessary burdens and, wherever possible, achieving nationally consistent approaches.

THE LABOUR AND SKILLS SHORTAGE

The most immediate operational issue facing many businesses in the accommodation sector is the difficulty in attracting and retaining appropriate staff. This problem occurs not simply for skilled occupations in limited supply; increasingly, the problem is striking across the full range of positions required in an accommodation business, including semi and unskilled jobs.

HMAA is concerned that the debate in this area continues to focus on the skills shortage which is a single (albeit very important) component of the broader problem of a general shortage of labour in many areas of Australia, especially those impacted by the resources boom. This is not to underestimate the vital importance of achieving appropriate training standards and delivery mechanisms for both employees and employers.

It is also of concern to HMAA that the political and policy debate in this area seems to be informed by perceptions driven through three decades of unemployment. HMAA’s position is that a more appropriate policy analogy in the current (and coming) circumstance is that of post-World War II Australia, requiring significant inputs of labour - skilled, semi and unskilled - over many years to maintain economic growth.

For many workers, tourism is the “job of entry” into the workforce and therefore, in an environment where new workers are an increasingly scarce resource, tourism is likely to be amongst the most drastically impacted sectors should this issue not be properly addressed.

This is an especially complex problem requiring a number of policy and legislative settings to appropriately address it. HMAA is aware that the House of Representatives Standing Committee on Employment, Workplace Relations and Workforce Participation is undertaking an Inquiry into workforce challenges in the tourism sector. HMAA will be making a submission to this Inquiry which will fully address the many issues relating to the tourism labour force.