



**Tourism Australia's submission to the House of Representatives  
Economics, Finance and Public Administration Committee's Inquiry into the  
"Current and future directions of Australia's services industries"**

## **Converting the Opportunity**

**The current role, challenges and potential of  
tourism in Australia's trading future**

### **Terms of Reference:**

**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.**

## Executive Summary

Tourism makes a vital contribution to diversified, sustainable export earnings for Australia. Tourism is already one of Australia's most successful service industries, constituting more than 60% of Australia's service exports. Due to its labour intensive nature, the industry directly employs more than 550,000 people, five times more than the current boom sector, the mining industry.

The two primary Tourism Australia targets of inbound leisure tourism and domestic leisure overnight tourism added up to \$40 billion in economic value for Australia (in 2003/04 dollars), or 60 per cent of total tourism economic value.

Tourism Australia's budget in 2004/05 was \$140 million, representing around four tenths of one cent in each dollar of economic value to the Australian economy from its core target markets.

A critical foundation for this contribution is the strength of Australia's brand (what Australia means in the minds of potential visitors) as a tourist destination. The brand is highly recognised – it is the second most well-known destination although it has not yet been in the top ten places visited by international tourists.

On the back of this overall success story, there are a number of future growth opportunities for the industry. These opportunities include:

- Capturing traffic from new growth economies such as India and China;
- Recapturing the imagination of domestic travellers who are currently trending towards travel overseas; and
- Increasing yield and encouraging visitation to regional destinations.

On the surface, an industry with these opportunities and with a record of export growth of more than 50% over the last 12 years would appear robust. However, the tourism industry's continued major contribution to Australia's economy is fragile because:

- The industry competes worldwide and is highly sensitive to the strength of the A\$ in recent years and international events that reduce travel like SARS and 9/11;
- Australia's tight labour market is restricting the availability investment and employees, particularly in major regional centres;
- Distance from major export markets exacerbates the impact of the trend towards shorter breaks; and
- The brand is responsive to relative changes in marketing by competitor destinations.

Moreover, there is overwhelming evidence to suggest that marketing and research activity, critical to a brand-intensive industry like tourism, will receive under-investment if governments do not have a significant role. This is because the benefits of these expenditures cannot be entirely retained by the party funding them – an example of what economists call "market failure".

Tourism Australia has a central role in this environment, as recognised in the Government's Tourism White Paper. Tourism Australia as the national tourism organisation plays a critical role in promoting Australia as a destination internationally and to a lesser extent domestically through its activities which include maintaining Australia's brand strength in the face of international competition. Tourism Australia will continue to focus on making a beneficial difference in the competitive field of global tourism.

*Tourism Australia's Government funding represented less than four tenths of one per cent of the economic value of targeted areas of tourism.*

Tourism Australia's brief in the period ahead is to maximise the impact of Government funding and to press on with tasks which will:

- Deliver the most effective implementation of strategies within the source markets through increasing knowledge of Australian opportunities among our priority target market 'experience seekers', in close consultation with marketing partners, travel distributors, the local media and visiting Australian tourism product suppliers;
- Deliver a global Brand Australia campaign to;
  - Raise intention to travel to Australia among 'Experience Seekers';
  - Develop website and global digital programmes that support the development of the global brand campaign;
  - Co-ordinate with private sector marketing partners to deliver the global brand campaign via multi-channel environments in the world's media;
- Encourage positive media reporting of leisure tourism opportunities in Australia, through a visiting journalists program and providing targeted communication to journalists in their home markets;
- Promote inbound business tourism through specialised programs;
- Develop more focussed understanding of particular tourism product experiences among overseas consumers and travel sellers;
- Work with Australian tourism suppliers to ensure they take maximum advantage of Tourism Australia services and align their marketing with Brand Australia strategies;
- Organise key trade events to bring buyers and sellers of Australian tourism together; and
- Research overseas consumers' views of Australia and developments in distribution, aviation and economies that influence tourism in Australia.

A slowing of inbound leisure tourism in the year ending March 2006, supports a timely launch of Australia's new global campaign "So Where the bloody hell are you?" in late February 2006. This campaign has been progressively rolled out globally from its initial launch and is expected to build momentum and influence arrivals and spending over the coming two years.

Tourism Australia is the driving force behind Australia's global marketing as a leisure and business travel destination. The vision, leadership and resources provided by Tourism Australia will contribute to Australia's capacity to benefit from the tourism services based boom.

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## **Section 1. Defining and Measuring Tourism**

### Definitional issues

The current international standard and official Australian definition for tourism, as used by a range of agencies which include the United Nations, the OECD, Eurostat and the World Tourism Organization, is:

*'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'* (Source: ABS, Tourism Satellite Account: Recommended Methodological Framework, para 2.1).<sup>1</sup>

This definition includes travel for business or other reasons, such as education, provided the destination is outside the person's usual environment. This definition has been adopted by the Australian Bureau of Statistics (ABS). While inclusive in comparison to some other analyses, this definition does not include the considerable value of education travel which involve stays in Australia of more than one year, for example with degree or post graduate degree studies.

A challenge in developing tourism policy results from tourism being defined in terms of its consumers, whereas economic activity is historically measured by monitoring goods and services producers.

The ABS first provided data on tourism's contribution to the economy in late 2000 in producing the Tourism Satellite Account in October 2000.<sup>2</sup>

It is widely accepted that tourism makes an important contribution to the nation's current account balance, to employment and skills development and to the sustainability of regional economies.

As Australia's National Tourism Organisation, Tourism Australia uses the international definition of tourism, recognising the value of this approach in providing a consistent base for statistics and comparisons around the world, including the use of Tourism Satellite Accounts.

### Measuring tourism's trade impact

Tourism is the most trade exposed of Australia's major industries, whether for services or goods. This arises from the healthy export earnings of inbound tourism and because domestic tourism competes directly with outbound tourism. In contrast, industries such as agriculture and education have considerable natural advantages in winning domestic markets, and as a result are less trade exposed to competing imports than tourism. Similarly, the largest manufacturing sector, food processing, is dominated by local consumption.

Tourism related services credits represented 13 per cent of Australia's total goods and services exports in the year ending March 2006 according to the ABS.<sup>3</sup>

This exposure to international trade has forced Australia's tourism reliant businesses into highly competitive operations, but also made them uniquely vulnerable to global

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<sup>1</sup> *ibid*, page 23.

<sup>2</sup> ABS (2006), 'Tourism Satellite Account – Australian National Accounts 2004-05', Cat. No. 5249.0

<sup>3</sup> Australian Bureau of Statistics (2006), ABS Cat. No.5302.0.

*Nearly two thirds of Australia's services exports are tourism and over half of our services imports are tourism.*

economic shifts, such as the recently rising Australian dollar (from 2003), and to social shifts such as the trend toward shorter break travel.

Tourism dominates both Australia's exports and imports of services. In 2005, tourism represented 64 per cent of Australia's exports of services and 52 per cent of Australia's imports of services.<sup>4</sup>

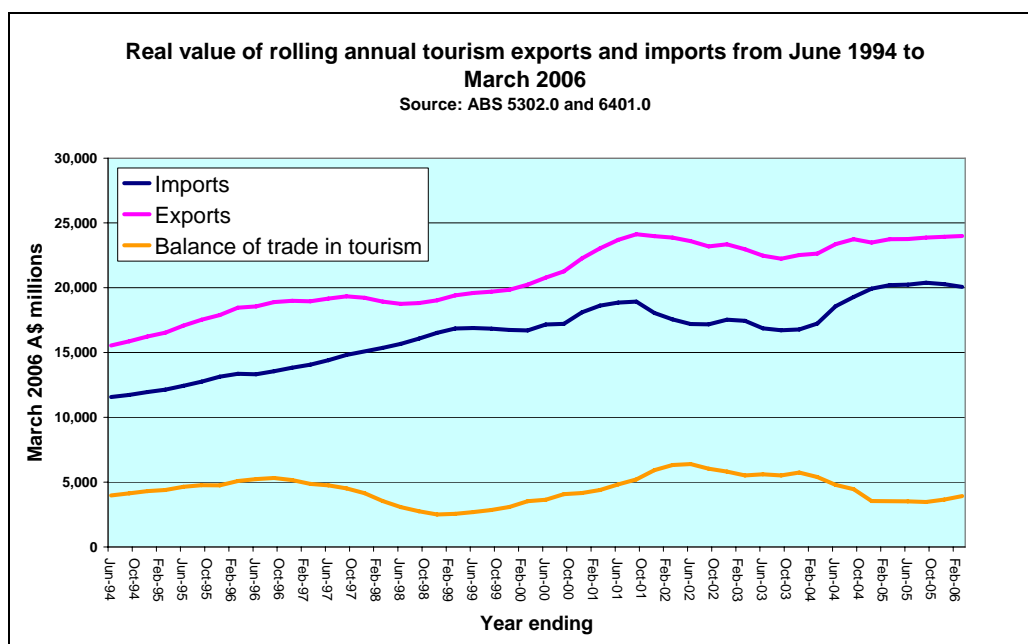
There has been healthy growth of 54 per cent in real tourism exports since June 1994. As a result, the share of tourism in services exports has increased by two percentage points since June 1994 (62 to 64 per cent).

Despite these positive indicators, Australia is a minor player in a very large international game. Australia receives less than one per cent of all international arrivals. That Australia was ranked tenth largest tourism export earner in 2004 is a tribute to the success of marketing campaigns that have created motivation to visit that overcomes the tyranny of distance, and to the development of tourism experiences that have encouraged longer visits to our shores.

With domestic tourism spending flat in real terms since June 1994, the 73 per cent growth in real tourism imports in this period has meant that Australian domestic tourism has lost market share to outbound travel. The share of tourism in services imports has increased by 11 percentage points since June 1994 (41 to 52 per cent).

Unlike in other industries, both international and domestic tourism compete with every country in the world. Other industries commonly have only a small range of competing countries.

**Chart 1 highlights the strong positive contribution of tourism to Australia's current account balance using trade in goods and services data for tourism produced by the Australian Bureau of Statistics from June 1994 on a rolling year ended basis, to mid 2004.**



<sup>4</sup> *ibid.*

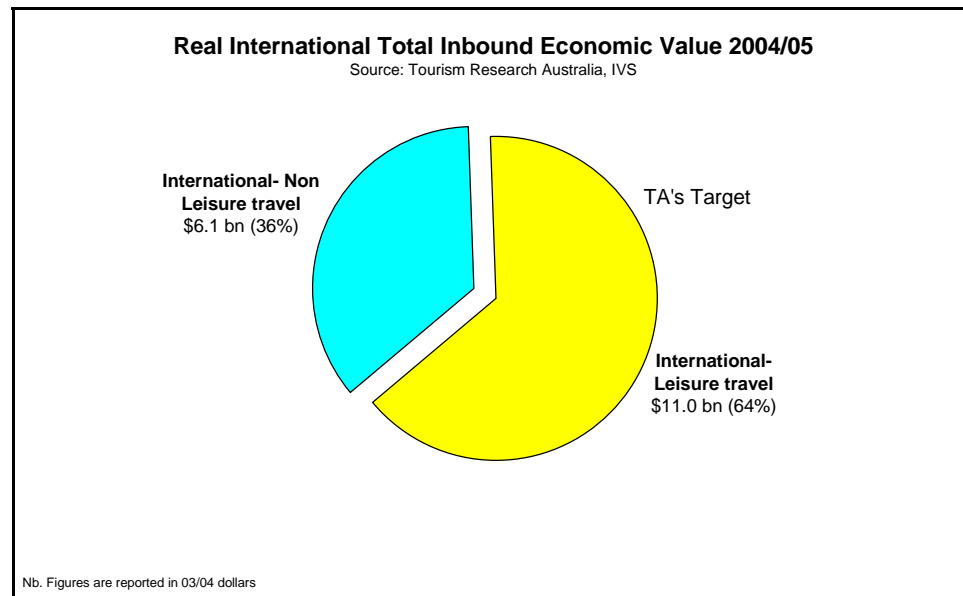
### Measuring Tourism beyond its trade impact

Reflecting that ABS Trade statistics don't provide detailed information on the components of tourism exports or domestic tourism, Tourism Australia also relies on more detailed information from other areas of the ABS and from Tourism Research Australia.

Analysis of tourism's economic impact is understood in terms of the value of inbound and domestic travel. Within these core categories are further segments used to analyse market behaviour and contribution to the economy by the industry. This discipline is well-developed, and creates the detailed quantitative analysis that underpins Tourism Australia's marketing strategies.

Tourism Australia's measure of total tourism economic value in 2004-05 was \$66.9 billion (in 2003-04 \$s).

Reflecting the primary focus of Tourism Australia, inbound leisure tourism and domestic leisure overnight tourism summed to \$40 billion in economic value for Australia (in 2003/04 dollars), or 60 per cent of total tourism economic value. During 2004/05, inbound economic value from leisure visitors represented the majority of total inbound economic value (64 per cent).

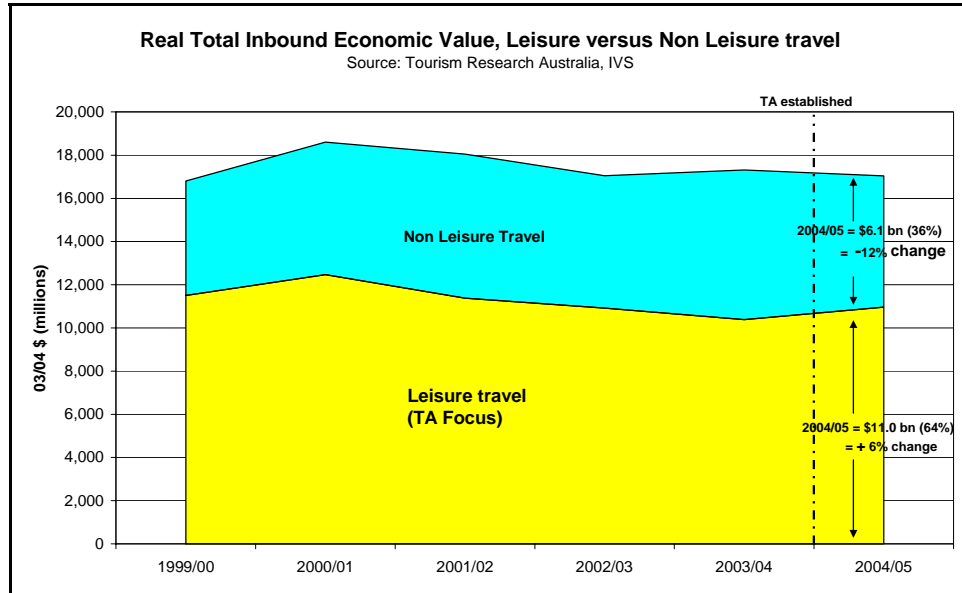


Of the non-leisure travel Total Inbound Economic Value in 2004/05, education represented 53 per cent with value of \$3.5 billion. However, of all education visitors in 2004/05, 25 per cent indicated leisure reasons as a secondary purpose of their visit to Australia.

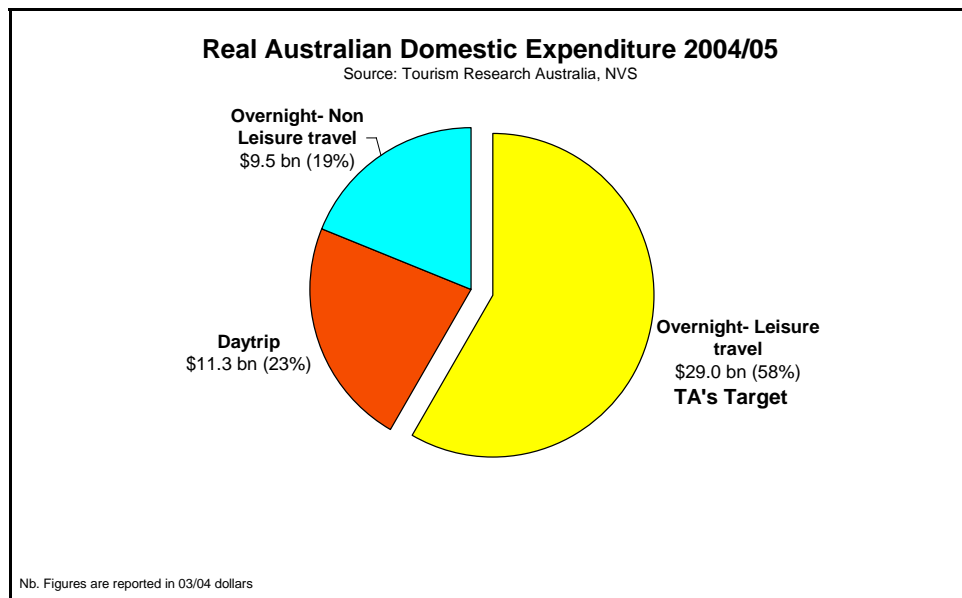
A difference between leisure travel and purposes of visit such as business or education travel or travel for employment is the importance of overseas versus local Australian drivers of this traffic. Non-leisure travel is commonly less influenced than leisure travel by economic variables like source country economic growth and exchange rates. For example, education travel was boosted in the 2001 to 2004 period by a strong expansion in marketing to foreign students by Australian universities, while in 2005 more Australian universities established offshore campuses to provide services without

requiring travel to Australia. Likewise business travel to Australia and travel for employment in Australia is more positively affected by the strength of the Australian economy, foreign investment growth and any skill shortages.

During 2004/05, the first year of Tourism Australia, there was considerable growth in real inbound economic value from leisure visitors while real economic value from non-leisure visitors (chiefly education, business and employment visitors) fell heavily.

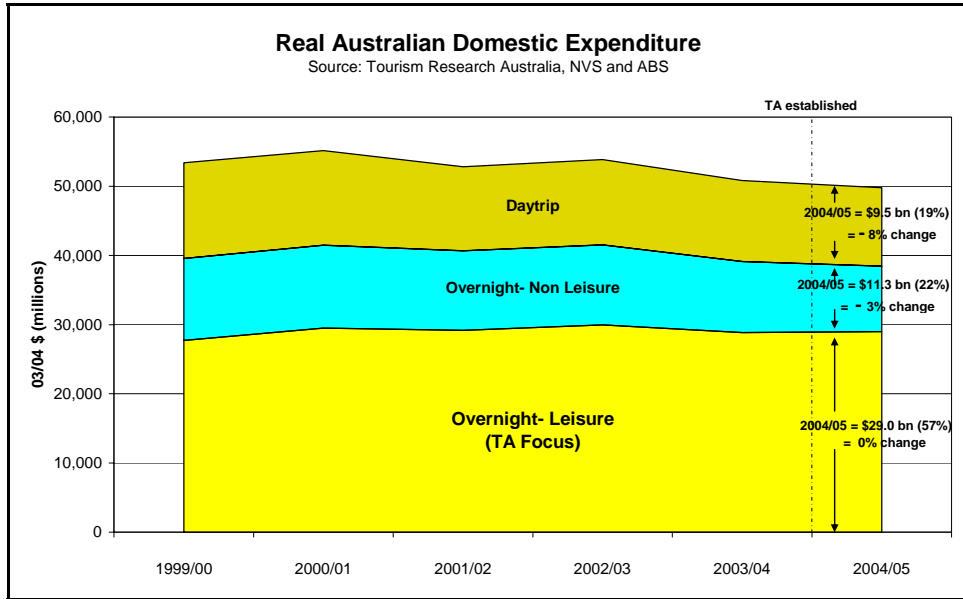


In 2004/05 domestic overnight leisure spending was the majority of total domestic tourism spending (58 per cent). In that year domestic overnight leisure spending was over two and a half times the level of inbound leisure economic value.



In recent years spending on overnight domestic leisure has been static as outbound travel grew strongly, taking a larger share of total Australian travel. Strong growth in outbound tourism since 2003 is due to a stronger A\$ and recovering confidence in the safety of international travel. In 2004/05 spending on overnight leisure tourism, as the key domestic target for Tourism Australia, while static compared to the year earlier performed better than other forms of domestic tourism.





## **Section 2. Introducing Tourism Australia**

### The origin and objectives of Tourism Australia

Tourism Australia was established on 1 July 2004. Tourism Australia brings together the Australian Government functions of international tourism marketing (formerly the Australian Tourism Commission), domestic tourism marketing (formerly See Australia) and tourism research (formerly the Bureau of Tourism Research and the Tourism Forecasting Council) into one body.

Tourism Australia is the Australian Government statutory authority responsible for increasing international and domestic demand for Australia as a tourism destination as well as the provision of tourism research and the development of the business events sector.

Tourism Australia is working to create a more sustainable and robust tourism industry that delivers economic growth for the Australian community. Tourism Australia is therefore focussed on growing yield and dispersal to ensure the economic benefits of tourism are maximised and distributed as widely as possible.

To achieve this goal, Tourism Australia focuses its efforts on the areas of best return and Tourism Australia's marketing targets holiday and 'visiting friends and relatives' travellers for both inbound and domestic overnight travel as its primary measures of tourism industry performance.

Tourism Australia has adopted two core objectives:

1. Increasing the economic value of total visitor spending from leisure travellers (holiday + visiting friends and relatives (VFR)); and
2. Increasing the dispersal of this economic value into regional Australia .

Tourism Australia's Mission Statement has an explicitly competitive focus –

*Tourism Australia is a leverage marketing organisation that has adopted the vision to become and remain the best National Tourism Organisation on the planet.*<sup>5</sup>

Tourism Inbound Economic Value for leisure travellers reflects the total trip spending by inbound leisure visitors less key leakages of this spending to non-Australian entities (such as overseas airlines, wholesalers and travel agents).

In practice, holiday and VFR visitors normally have similar leisure objectives for their visit to Australia, although VFR visitors spend less time in commercial accommodation.

Other international [non-leisure] travellers for business, education or employment purposes are generally less influenced by Tourism Australia marketing. However Tourism Australia does target business meetings, school groups, working holiday maker visitors to Australia and business incentive groups. For example, a company organising

*Tourism Australia does not target all of tourism, but instead focuses its efforts on the areas of highest return.*

<sup>5</sup> Recently the World Tourism Organization noted that: “(Tourism Australia) Its Mission Statement includes competitiveness as an element of the tasks it performs as a public body, while other NTOs place more emphasis on their coordinating role and partnerships. Nevertheless, the Australian approach suggests that a change is taking place in governments’ attitudes to this question, which is becoming increasingly important.” Source: WTO (2006), ‘Structures and Budgets of National Tourism Organizations 2004-2005’, page 9.

a trip for its top sales people with a heavy leisure emphasis, such as the 13,000 strong Amway group from China in January 2006.

This approach leaves the promotion of inbound education tourism to other agencies, including the active university sector. Nevertheless, there is little doubt that Australia's large education exporters, benefit indirectly from Tourism Australia marketing that raises general awareness of Australia and its lifestyle.

Domestic overnight leisure travel spending (holiday + VFR) is also more influenced by Tourism Australia's marketing efforts than is spending by overnight business or other forms of domestic travel or domestic day trip travel.

As a national tourism organisation, Tourism Australia has a more limited role in promoting domestic overnight leisure tourism than in inbound leisure tourism. It is the primary responsibility of the States and Territories as well as regional organisations to promote particular destinations and products to domestic, as well as international, tourists.

*Tourism Australia's Government funding represented less than four tenths of one per cent of the economic value of targeted areas of tourism.*

However, taken together the two primary Tourism Australia targets of inbound leisure tourism and domestic leisure overnight tourism summed to \$40 billion in economic value for Australia (in 2003/04 dollars), or 60 per cent of total tourism economic value.

Tourism Australia's budget in 2004/05 was \$140 million, representing around four tenths of one cent in each dollar of economic value to the Australian economy from our core target markets.

Through the Australian Government's Tourism White Paper, Tourism Australia was also given a greater supply side role, such as assisting the industry with the promotion of unique Australian experiences and through the provision of research to assist the industry in targeting international travellers.

### Key activities of Tourism Australia in promoting inbound tourism

Tourism Australia is working to increase demand for Australia as a destination by promoting Australian experiences and targeting the travellers who are the ideal prospects for the Australian tourism industry.

These travellers known as *Experience Seekers* are predisposed to visiting Australia and they spend more and disperse more widely.

As experienced international travellers they know what to expect and seek out the product and services that they are looking for and in particular they want to enjoy authentic personal experiences that they can talk about when they get home.

Based on the insights gained and the research conducted through the development and implementation of its international marketing activities Tourism Australia has learnt that these Experience Seekers are not looking for what they can already get at home or somewhere else in the world and they place high value on contrasting experiences that are different from their day-to-day lives.

Tourism Australia is working with the Australian tourism industry to develop and promote the Australian experiences that will appeal to this target audience.

What makes them especially good prospects for the Australia tourism industry is that they come from households that have higher than average household income, are tertiary educated and are open-minded.

Importantly for the growth of the Australian tourism industry, and for generating additional leads for tourism operators, they are opinion leaders within their peer and social groups.

Whilst *Experience Seekers* constitute up to 50 per cent of total potential outbound travellers from key markets, it is estimated the same group only constitutes at best 15 per cent of total inbound to Australia. Given the high satisfaction levels these visitors report after visiting Australia, the results suggest that not only is there healthy growth potential but also that this potential is very profitable.

The core activities of Tourism Australia in encouraging inbound tourism are to: <sup>6</sup>

- Deliver the most effective implementation of Tourism Australia strategies within the source markets through increasing knowledge of Australian opportunities among the target ‘experience seekers’, in close consultation with marketing partners, travel distributors, the local media and visiting Australian tourism product suppliers;
- Develop and deliver a global Brand Australia campaign;
  - Deliver a global consumer marketing communications strategy aimed at raising intention to travel to Australia among ‘Experience Seekers’;
  - Develop website and global digital programmes that support the development of the global brand campaign;
  - Co-ordination with private sector marketing partners to deliver the global brand campaign via multi-channel environments in the world’s media;
- Encourage positive media reporting of leisure tourism opportunities in Australia, through a visiting journalists program and providing targeted communication to journalists in their home markets;
- Promote inbound business tourism;
- Develop more focussed understanding of particular tourism niche product experiences with overseas consumers and travel sellers;
- Work with Australian tourism suppliers to ensure they take maximum advantage of Tourism Australia services and align their marketing with Brand Australia strategies;
- Organise key trade events to bring buyers and sellers of Australian tourism together; and
- Research overseas consumers’ views of Australia and developments in distribution, aviation and overseas economies that influence inbound tourism to Australia.

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<sup>6</sup> Tourism Australia (2006), ‘Tourism Australia Annual Operating Plan 2006-07’.

## Section 3. Where the tourism service sector sits now

*Australia receives only 0.7 of one per cent of global international tourist arrivals.*

### In comparison to world tourism

Australia is a minor destination in world terms when measured by share of international tourist arrivals, receiving only around 0.7 of one per cent of all international tourist arrivals. However that small percentage delivers large financial returns for Australia. Australia is a very successful tourism exporter, being tenth in the top tourism export earners in 2004, according to the World Tourism Organization [2005]. This has been achieved by longer average stays and larger per trip expenditure for those who come to this country.

International Tourist Arrivals (million)						International Tourism Receipt (US\$ billion)								
Rank	Series	2003	2004*	Change (%) 03/02	Share 04*03	2004*	Change (%) 03/02	Share 04*03	2004*					
World		690	763	-1.5	10.7	100								
1	France	TF	75.0	75.1	-2.6	0.1	9.8	1	United States	64.3	74.5	-3.4	15.7	12.0
2	Spain	TF	51.8	53.6	-0.9	3.4	7.0	2	Spain	39.6	45.2	4.4	3.8	7.3
3	United States	TF	41.2	46.1	-5.4	11.8	6.0	3	France	36.6	40.8	-5.4	1.5	6.6
4	China	TF	33.0	41.8	-10.4	26.7	5.5	4	Italy	31.2	35.7	-2.1	3.8	5.7
5	Italy	TF	39.6	37.1	-0.5	-6.4	4.9	5	Germany	23.1	27.7	0.4	8.9	4.4
6	United Kingdom	VF	24.7	27.8	2.2	12.3	3.6	6	United Kingdom	22.7	27.3	2.1	7.5	4.4
7	Hong Kong (China)	VF	15.5	21.8	-6.2	40.4	2.9	7	China	17.4	25.7	-14.6	47.9	4.1
8	Mexico	TF	18.7	20.6	-5.1	10.5	2.7	8	Turkey	13.2	15.9	10.5	14.3	2.6
9	Germany	TCE	18.4	20.1	2.4	9.5	2.6	9	Austria	14.0	15.4	3.8	0.4	2.5
10	Austria	TCE	19.1	19.4	2.5	1.5	2.5	10	Australia	10.3	13.0	0.8	10.7	2.1

Source: World Tourism Organization (WTO) <sup>6</sup> (Data as collected by WTO 2005)

The key reason that Australian tourism has increased its ranking among world tourism export earners has been the ability of the industry to attract high yield travellers and to compete on value for group and youth travellers, in comparison to competitor destinations. This is despite the lift in the value of the A\$, which has increased the costs faced by our overseas visitors in their home currency budget. Prima facie this achievement demonstrates that tourism marketing is effective, as it is likely that Australia would otherwise have been perceived as remote, expensive and hard to reach, by the uninformed tourism consumer.

*In 2004, Australia was the tenth largest tourism export earner globally.*

### In comparison to the rest of the economy

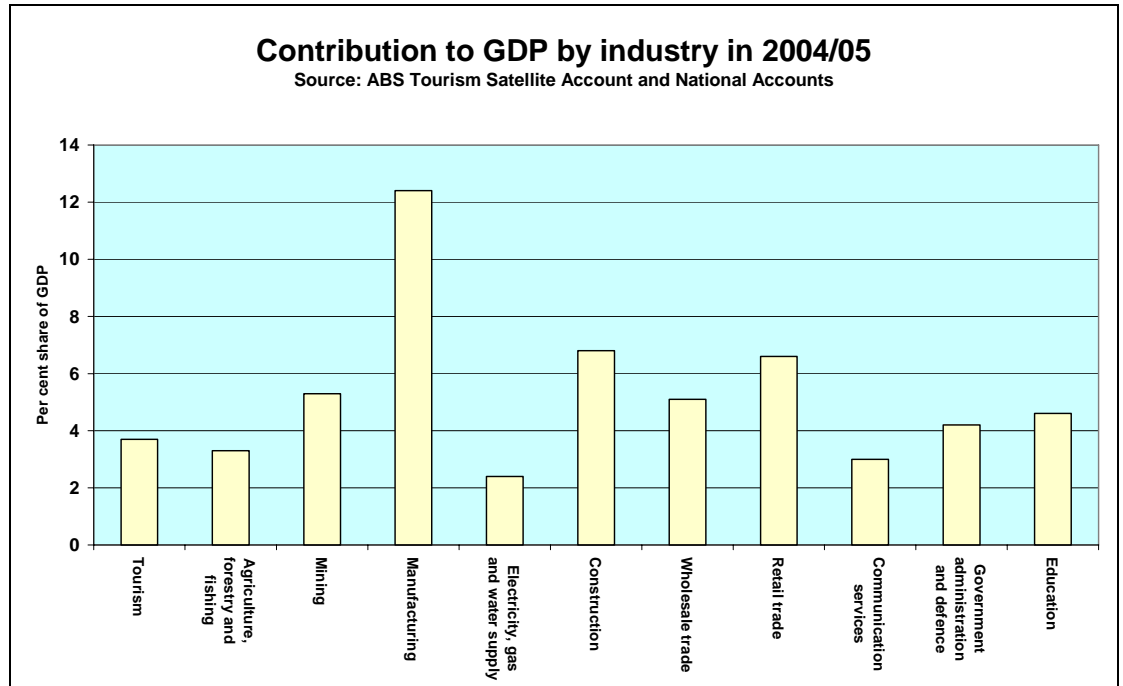
#### Employment and value added

The Australian economy is now dominated by services, which in 2004/05 accounted for 77.9% of industry gross value added. This was up from 76.0% in 1999/2000. Within the diverse services sector, tourism has a far smaller role in contribution to services industry value added (5.2%) than it has to services trade.

In 2004/05 the tourism industry's direct contribution to GDP was 3.7 per cent, according to the ABS (Source: Tourism Satellite Account), making it the ninth largest services industry in terms of GDP contribution by the services sector. <sup>7</sup>

The tourism industry is a larger contributor to GDP than the combined total of agriculture/forestry/fishing or communication services or electricity/gas/water supply and only slightly smaller than government administration and defence (4.2 per cent).

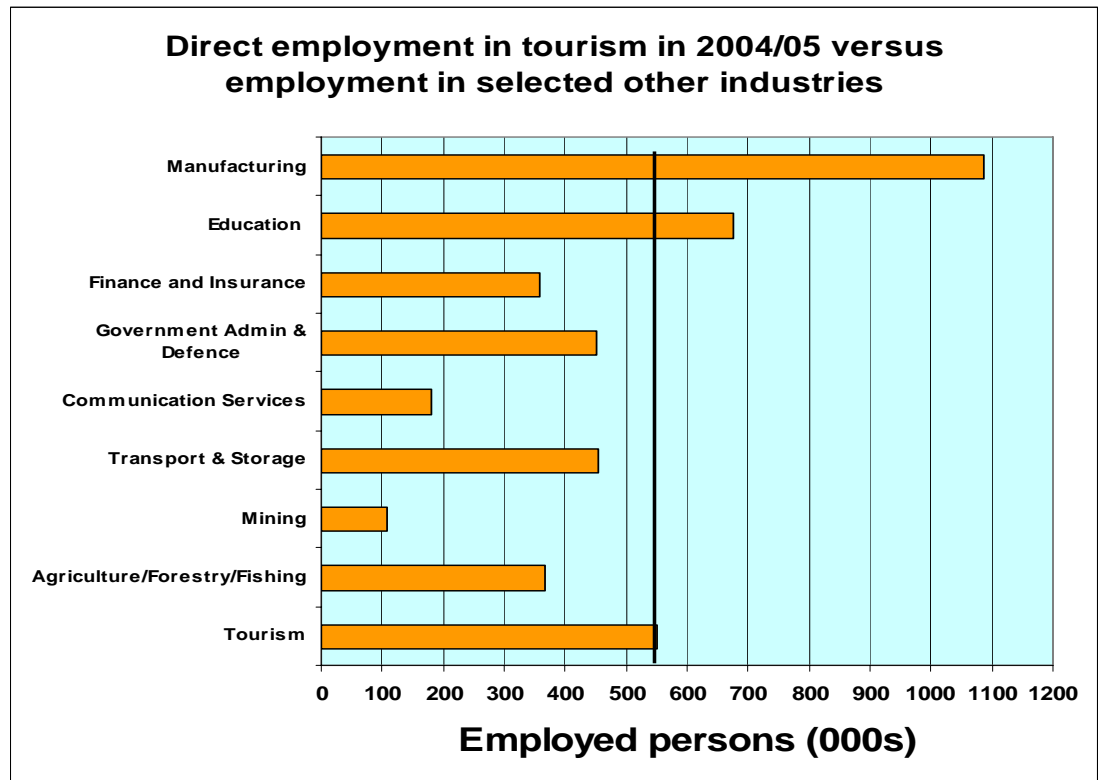
<sup>7</sup> The ABS Tourism Satellite Account compared to ABS National Account data (ABS 5206.0) indicates that tourism is ranked in contribution to GDP below the other services sectors of: Property and business services, construction, finance and insurance, retail trade, wholesale trade, Government and Administration, Education, and Health and Community services.



*Tourism is a major direct employment generator, being more labour intensive than most other industries.*

In 2004/05 direct employment in the tourism industry was 550,100 employed persons, according to the ABS. This was a greater contribution to employment by industry than the agriculture, forestry and fishing industry and around five times the direct employment generated by the mining industry.

A comparison of industry gross value added and employment data highlights that the tourism industry is heavily labour intensive compared to other sectors. Indeed, the tourism industry provides just over half of the direct employment generated by the manufacturing sector, well above its relative contribution to GDP, of around 30 per cent of that of manufacturing.



Source: Tourism Australia analysis of ABS Labour Force data from Cat. No. 6291.0.55.003.

Of all Australia's export industries, it is likely that inbound tourism - in creating around 135,000 jobs - ranks as the largest export job creator among all industries. This performance is ahead of agriculture and manufacturing and well ahead of mining, where comparatively few workers are employed relative to the capital involved.<sup>8</sup>

#### Trade exposure

One of the difficulties in considering the trade exposure of various industries is that the value of production is normally expressed in value added terms (ie. not including the value of inputs, as per the base for GST calculations) while the value of exports (or imports) is expressed in total value terms (including the value of inputs).

For example, the value of total goods and services consumed by tourists (inbound and domestic) in Australia is 2.3 times the industry's value added. For industries more reliant on inputs from other sectors such as manufacturing assembly of motor vehicles the value of total exports can be a much higher multiple of an industry's value added.

As shown in the following table:

1. Mining, agriculture and tourism are the most export oriented Australian industries;
2. Manufacturing and tourism are the most trade exposed import competing industries;
3. Services other than tourism and education have minimal average export orientation and exposure to import competition;
4. The overall economy and education have similar levels of export orientation at 18 per cent (though the university sub-sector has higher export orientation, and there is far lower exposure to import competition for education).

<sup>8</sup> Estimate derived using ABS Tourism Satellite Account data on the share of total tourism consumption in Australia represented by inbound tourists and total direct employment due to tourism spending of 550,000.

**Value of exports and imports Vs value added in Australian production by industry in 2004/05**

	Trade			Production Value added	Ratio of Trade to Production Value Added		
	Exports \$bn	Imports \$bn	Trade balance		Exports %	Imports %	Trade balance
Tourism	\$23.2	\$19.8	\$3.4	\$32.6	71%	61%	10%
Education	\$6.9	\$0.7	\$6.2	\$37.8	18%	2%	16%
Other Services	\$6.4	\$17.5	-\$11.1	\$573.0	1%	3%	-2%
<b>Manufacturing (simple and elaborately transformed manufactures, including gold)</b>	<b>\$40.8</b>	<b>\$122.3</b>	<b>-\$81.5</b>	<b>\$101.1</b>	<b>40%</b>	<b>121%</b>	<b>-81%</b>
Mining (fuels, minerals)	\$49.1	\$15.6	\$33.5	\$43.3	113%	36%	77%
Agriculture and other primary products	\$28.5	\$8.5	\$20.0	\$27.0	106%	31%	74%
<b>TOTAL</b>	<b>\$161.7</b>	<b>\$186.4</b>	<b>-\$24.7</b>	<b>\$891.5</b>	<b>18%</b>	<b>21%</b>	<b>-3%</b>

Sources: Value of exports and imports for non service industries comes from the Department of Foreign Affairs and Trade STARS database, exports and imports of services comes from ABS Cat. No. 5302.0 while value added comes from ABS Cat. No. 5206.0.

Note: The DFAT approach to valuing manufacturing exports means that simply transformed resources such as metals are classed as manufactures not mining output.

Much has been written about the boost to Australia from the increased demand for its mineral resources, especially from China. It is important, however, to understand that mining is delivering considerable export income but relatively few new jobs due to its capital intensive nature.

The commodity boom has brought with it a higher A\$, which is a negative influence on manufacturing and services exports, such as tourism and education.

A country as geographically large and diverse as Australia, with its population concentrated on the eastern seaboard, cannot rely solely on extractive industries to generate additional jobs which contribute to Australia's economic growth and support the local economies of regional communities. A resilient economy must generate jobs where they are needed, to people with diverse skills sets, to create a sustainable future, particularly in regional Australia.

The demand for labour in some regions of Australia as a result of the mining and resources boom has potentially retarded the growth of long term employment in regional areas by diverting scarce resources away from the tourism industry. This has the potential to curtail growth in tourism and the development of employment positions that are less specialised and more accessible to local residents, particularly young people looking to find an entry level position with a long term career path that negates the need for them to move to a larger population centre.

Many of the employment opportunities generated by the mining and resources sector are not suitable for locals as they are highly specialised skills that often require recruitment from outside of the area and in particular from capital cities.

Many of these positions are for fixed terms and the people employed in those positions will return to their original place of residence once the specific position is no longer required.

While the mining sector boom has created strong tax and shareholder returns, there have been comparatively few jobs created. A downside of the commodity boom for Australia has been that it has created a stronger A\$ and that has had a dramatic impact on tourism and other industries. The continued growth of the resources sector has also continued to place other competitive pressures on the tourism industry, especially for investment and labour in regional areas.



### **In comparison to tourism's performance in previous years**

Tourism data shows that, in summary terms, the tourism industry in recent years can be characterised as experiencing:

- Growth in economic value from inbound leisure visitors, but a slowing in the growth of arrival numbers;
- A drop in economic value from non-leisure inbound visitors (business and education) though education travel appears to have picked up during 2005/06; and
- Static spending on domestic overnight leisure.

This data is discussed in more detail below in relation to arrivals and economic value.

#### **Inbound tourism**

Inbound arrival growth has steadily slowed from the double digit growth recorded in early 2004 in the recovery from SARS.

Total inbound economic value amounted to \$18.9 billion in the year ending March 2006.

For the year ended March 2006, total inbound tourism recorded growth in arrivals (+2 per cent), visitor nights (+6 per cent) and inbound economic value (+7 per cent).

Over the first six months of 2006, inbound tourism growth in terms of arrivals stalled according to the Australia Bureau of Statistics. This partly reflects exchange rate movements in some markets (eg. Japan and New Zealand), slight reductions in international airline seats into Australia and increased airfares in nearly all markets due to increased fuel surcharges.

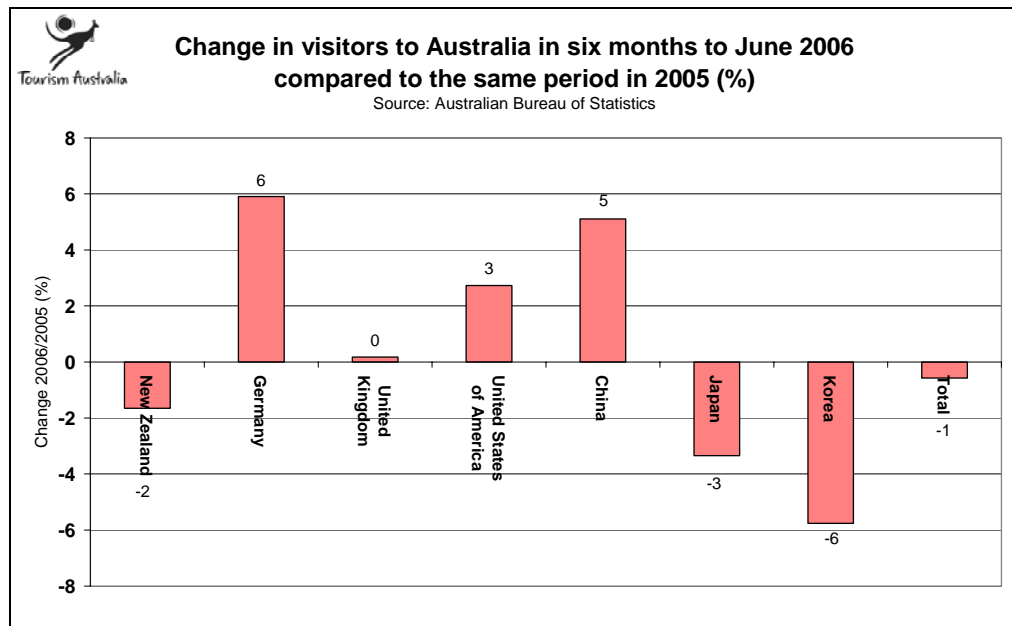
In the year ended March 2006 leisure tourism underperformed - with holiday arrivals flat, visitor nights down (-1 per cent) and inbound economic value up only in line with inflation (3 per cent). Visiting friend and relative leisure travel arrivals declined (-2 per cent), visitor nights were down (-4 per cent) and inbound economic value up (5 per cent).<sup>9</sup>

Aggregate analysis such as this obscures some important market-specific trends. For the year ending March 2006, among the top 7 inbound markets, leisure inbound economic value was up strongly from Korea (+16 per cent), China (+9 per cent) and New Zealand (+8 per cent), though subsequent data shows falling arrivals from Korea and New Zealand. Leisure inbound economic value was comparatively flat from the other markets Japan and USA (+1 per cent), Germany flat and the UK (-3 per cent).

The slowing performance of leisure tourism in the year ending March 2006, supports the timely launch of Australia's new global campaign "So where the bloody hell are you?" in late February 2006. This campaign has been progressively rolled out globally from its initial launch and is expected to influence arrivals and spending over the coming two years.

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<sup>9</sup> Owing to a later timing of Easter in 2006 (in April), the year ending March 2006 contains no Easter travel and therefore slightly underestimates the underlying strength of inbound tourism (particularly leisure tourism) in this period.



### Domestic tourism

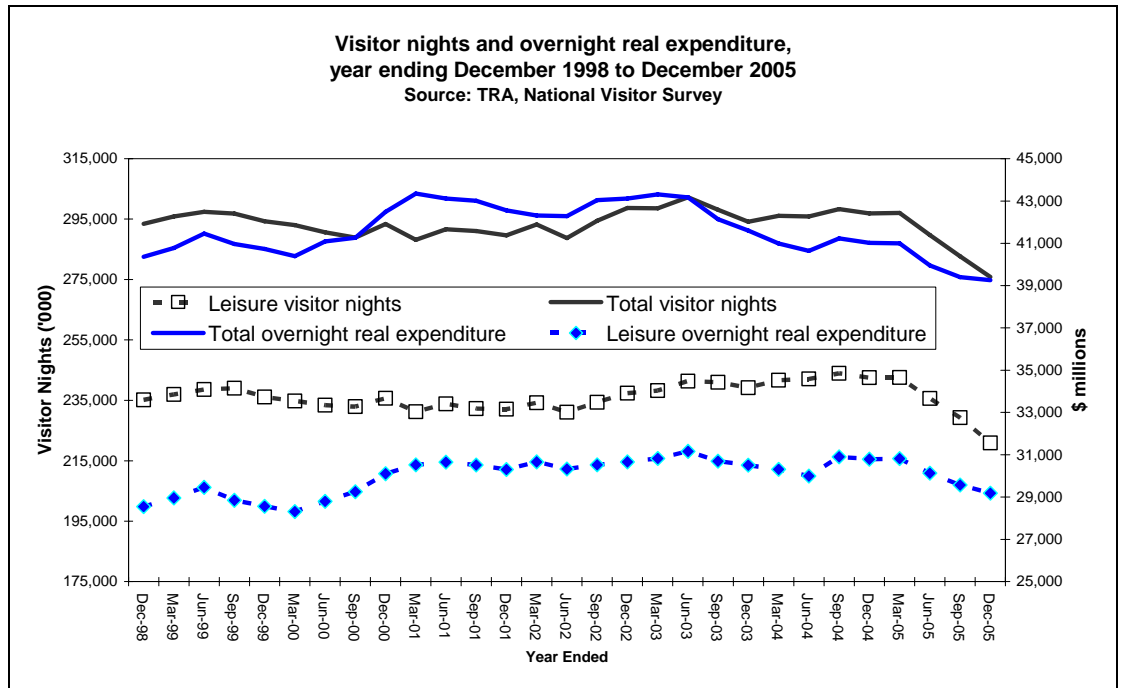
Since 1998, domestic tourism visitor nights and leisure visitor nights have fallen as real domestic tourism overnight spending, though real leisure overnight spending has recorded a small rise.

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.

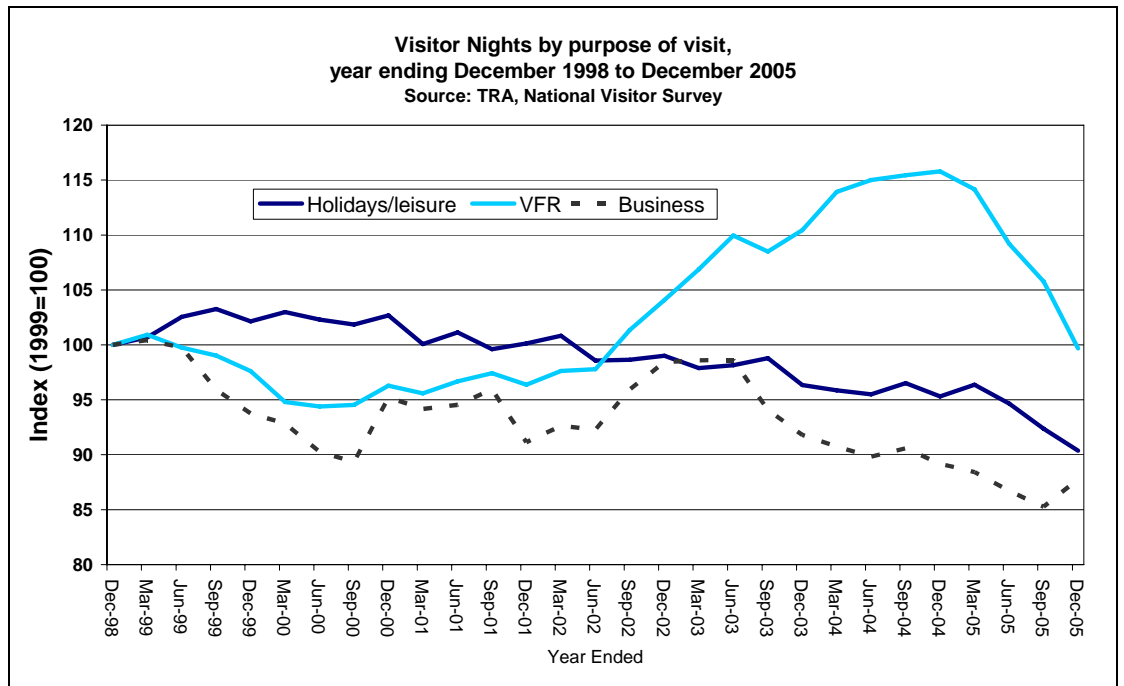
In 2005, there was a decline in total domestic nights (-7 per cent), trips (-6 per cent) and spend (-2 per cent, before inflation). There were also significant falls in visitor nights for the purposes of visiting friends and relatives (-14 per cent) and holiday (-5 per cent).

A number of factors contributed to the declining levels of domestic tourism activity in 2005, including:

- More Australians are choosing to travel abroad rather than domestically with a 10 per cent increase in overseas departures in 2005 following a 29 per cent increase in 2004.
- There is also the suggestion that petrol prices -in line with global oil price changes- are having a negative impact on some overnight travel segments. During the second half of 2005 petrol prices in the capital cities averaged 18 cents per litre higher compared with the same period in 2004. Around 74 per cent of all overnight trips involve use of a private motor vehicle and there was a notable decline in these trips (-8 per cent) during the second half of 2005.



Domestic visitor nights for each of holiday, visiting friends and relatives and business purposes were all lower in 2005 than in 1998. Visiting friends and relatives increased in 2002-03 and 2003-04 but in 2005 returned to just below its 1998 level.



## Tourism's impact on regional Australia

The Tourism White Paper noted that

*“Tourism plays a key part in the development of regional and rural areas and can play an important role in nurturing and promoting Australia’s culture and heritage. Regional tourism (beyond the capital cities) accounts for around 185,000 jobs or 7 per cent of rural and regional employment, compared to 6 per cent for tourism nationally. Over 70 per cent of domestic and 23 per cent of international tourist visitor nights are spent in regional and rural Australia.” (page xvi).*

Tourism is the major employer among all industries in many areas of regional Australia including Tropical North Queensland, the Gold Coast, Central Australia, the Kimberley and a range of centres in coastal northern NSW and Queensland. These regions are commonly the fastest growing in Australia, providing relief to the community at large from the costs of growing urban congestion and diseconomies of scale associated with urban sprawl.

### Regional dispersal

A key objective of Tourism Australia as per the Australian Government’s Tourism White Paper reform agenda is to encourage regional dispersal of inbound leisure tourism.

As Australia is commonly a long haul destination from overseas and has large distances between our primary cities, international aviation access is a major influence on regional dispersal of our inbound visitors. Nearly half of our inbound leisure visitors in 2005 (48 per cent) only visited one (mono-destination travel) of the over 80 tourism regions in Australia during their trip here<sup>10</sup>.

Australia’s International Aviation Policy regards Sydney, Melbourne, Brisbane and Perth as the primary international gateways and capacity access (flights or seats per week) to these airports is a major focus of negotiations with other countries over international aviation.

Under Australian Government policy international aviation access to all other international airports in Australia is subject to the “Regional Package” providing unlimited capacity access for overseas airlines. The “Regional Package” was introduced in 1999 and has been offered as a key element of all subsequent bilateral negotiations and is now included in many of Australia’s bilateral aviation agreements. However, notwithstanding the increased opportunities for overseas and Australian airlines to service regional airports under the “Regional Package” the four major international gateways airports provided over 90 per cent of the international air capacity into Australia in early 2006<sup>11</sup>.

In practice, encouraging regional dispersal of inbound leisure tourism has become more difficult over time as the faster growing inbound leisure markets of Asia have a greater existing focus on city visitation and less interest in visiting regional Australia. High growth markets of China (10 per cent of nights spent outside Sydney, Melbourne, Perth

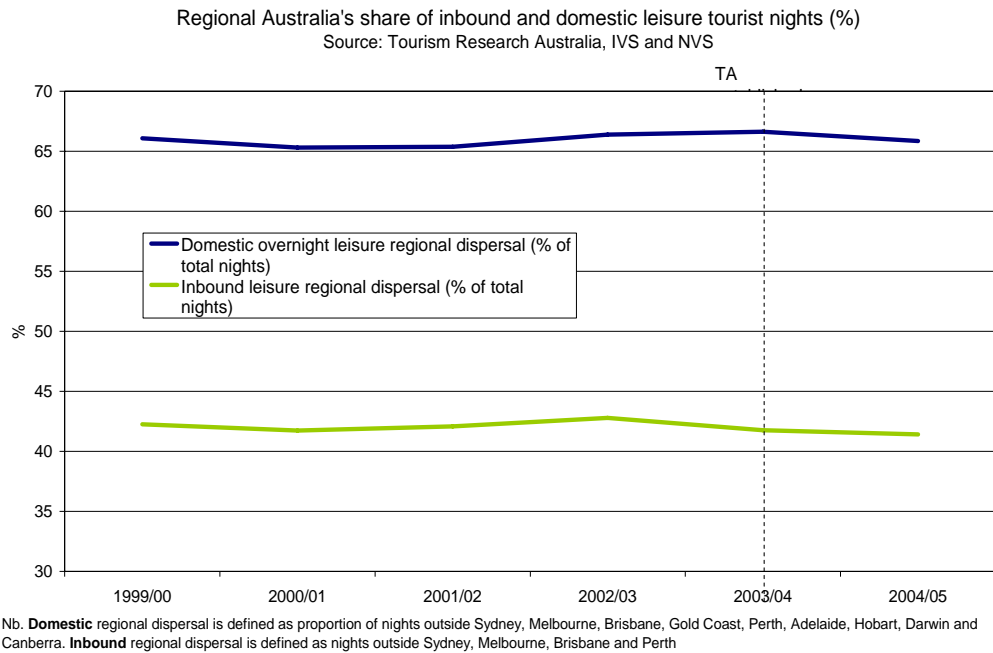
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<sup>10</sup> [Tourism Research Australia \(2006\). "International Visitors in Australia".](#)

<sup>11</sup> Bureau of Transport and Regional Economics (2006), "Aviation Statistics: International Scheduled Air Transport" ..

or Brisbane), Korea (17 per cent) and India (21 per cent) each had much lower than average shares of total nights in 2005 spent in regional destinations.

In 2004/05 there was a slight fall in the regional dispersal of inbound leisure visitors to 41 per cent. In 2004/05 there were 32.4 million inbound leisure visitor nights spent in regional Australia, an increase of 1.9 million nights over 2003/04. Not surprisingly, domestic overnight leisure travel has a much higher level of regional dispersal than inbound leisure travel.



### Where Australian tourism sits in terms of the investment cycle

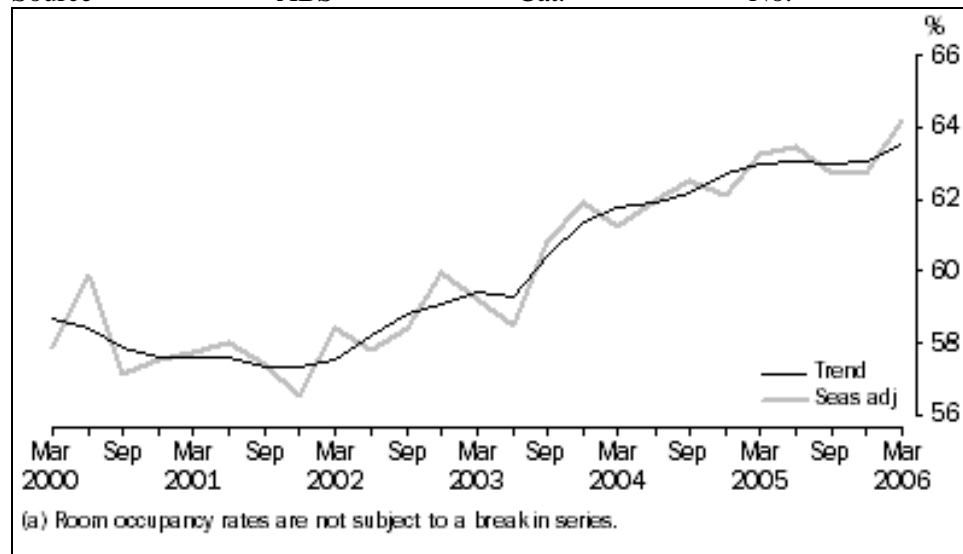
Australian tourism has not received major private sector investment since the Sydney Olympics and the reputation of the sector with investors continues to suffer from earlier periods of over-investment characterised by poor returns. In particular, poor returns followed investment by Japanese property investors in the mid to late 1980s.

National average occupancy rates in hotels/motels/serviced apartments have increased from 58.7 per cent in 1999 to 63.1 per cent in 2005, while room rates have grown by 24 per cent (before accounting for inflation or tax changes) but only 1.2 per cent after allowing for inflation. However, expressed in terms of real revenue per available room night a more positive view of the health of the tourist accommodation sector emerges. Real revenue per available room night increased by 8.8 per cent from 1999 to 2005, as driven largely by the improvement in average occupancy rates.<sup>12</sup>

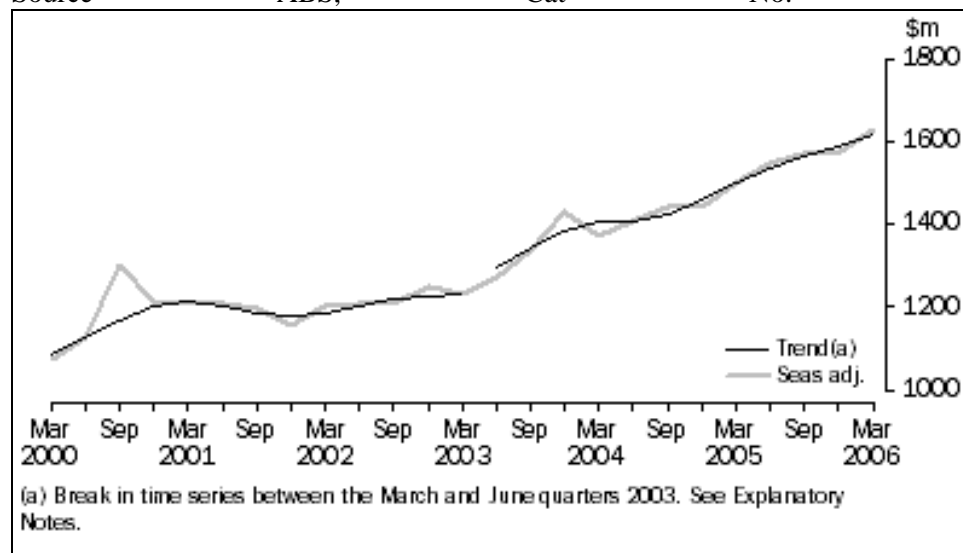
In recognition of the concerns regarding the ability of the industry to allocate resources efficiently through investment and to tackle the problems limiting the growth of the industry in this area, the Australian Government commissioned former Federal Minister the Hon Warwick Smith to prepare an investment strategy for the Australian tourism industry.

<sup>12</sup> Source: Tourism Australia analysis of ABS 'Survey of Tourist Accommodation data ABS Cat. No. 8635.0 and CPI data ABS Cat. No. 6401.0. The introduction of the GST replaced bed taxes in NSW and the Northern Territory and also provided input credits that reduced the effective rate to well below 10 per cent.

**ROOM OCCUPANCY RATE, Seasonally adjusted and trend – Australia –**  
 Source ABS Cat. No. 8635.0



**ACCOMMODATION Tourism AustraliaKINGS, Seasonally adjusted and trend –**  
 Australia –  
 Source ABS, Cat. No. 8635.0



Both room rates and occupancy rates need to continue to increase if tourism accommodation projects are to receive financial sector support, given the higher after tax returns commonly available from residential or office building development.

#### Forecast outlook for tourism exports, imports and domestic tourism

A core responsibility of Tourism Australia is to co-ordinate the preparation of joint industry/Government forecasts from the Tourism Forecasting Committee (TFC). This Committee is chaired by the prominent demographer Bernard Salt.

The purpose of these research products and services is to assist the industry in its business development and to promote greater efficiency and accuracy in planning, especially by the many smaller operators who make up the bulk of the Australian tourism industry.

In April 2006 the TFC released its latest forecasts.<sup>13</sup>

The TFC has predicted a doubling in the real value of tourism exports between 2006 and 2015. Very strong growth is forecast for real inbound economic value from 2006 to 2015 of 7.1 per cent compound growth per annum. This forecast implies real inbound economic value of A\$36 billion (2006\$) in 2015.<sup>14</sup>

In contrast, real domestic tourism spending is only predicted to increase from 2006 to 2015 by 1.3 per cent compound growth per annum. This forecast implies that real domestic spending will move from A\$57 billion in 2006 to A\$64 billion in 2015 (2006 \$).

The Australian economy is expected to grow at around 3 per cent in real terms, in other words a rate compounding per annum at more than twice that of domestic tourism spending. This means that on current trends domestic tourism will continue to shrink as a share of the economy. In contrast, inbound tourism is expected to lift its share of the economy. Overall, tourism is expected to maintain its share of the Australian economy.

Accepting this scenario raises challenges for regional tourism in Australia. The far slower forecast growth in domestic tourism than inbound tourism and the concentration of inbound tourism growth from inbound source markets with the lowest level of regional dispersal (China, Korea and India) will reduce tourism's contribution to the sustainability of many regional towns. A focus on appropriate support for regional tourism in the next decade may be required to arrest this trend.

Outbound tourist departures are forecast by the TFC to increase by a compound 2.8 per cent per annum from 2006 to 2015.<sup>15</sup> Therefore outbound spending can be expected to grow at much the same rate as the Australian economy after its explosive growth in 2004 and 2005.

With considerably faster growth in inbound tourism than outbound tourism for 2006 to 2015, the TFC implicitly predicts that the balance of trade from tourism will continue to grow strongly from the A\$3.4 billion recorded in 2004/05 during 2006 to 2015.

On the basis of TFC forecasts and the ABS data on tourism related services credits and debits the balance of trade on tourism may increase to around \$20 billion (2006 \$) per annum by 2015. These forecasts therefore underline the opportunity for Australia in trade in tourism.

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<sup>13</sup> Tourism Forecasting Committee (2006), 'April 2006 Forecasts'.

<sup>14</sup> Inbound economic value is equivalent to the ABS Tourism Satellite Account definition of tourism exports rather than the ABS Balance of Payments definition of 'tourism related services credits'.

<sup>15</sup> No outbound spending or tourism import forecasts are provided by the TFC.

## **Section 4. Why Governments support tourism**

### The market failure case for Australian Government funding of inbound tourism marketing

International tourism marketing is one of the classic cases of market failure requiring Government action frequently cited by economists. For Australia this case study of market failure has been most clearly explained by Geoff Carmody of Access Economics.<sup>16</sup>

*“In the case of marketing Australia as a destination for overseas visitors, the ‘market failure’ case is very strong. Indeed, in no other tourism area is the case for government intervention anywhere near as strong as that for export promotion marketing. Australia-wide, this puts the Commonwealth Government at centre-stage” (page ii)*

Free rider problems, (a form of negative externality) occur with inbound tourism marketing because private sector marketing inevitably spills over to benefit other firms in Australia not contributing to the marketing expenditure.

The outcome is that rational businesses invest less in inbound tourism marketing to free ride on the activities of others – so that too little tourism inbound marketing is produced from a national viewpoint. In this way Access Economics argues that inbound tourism marketing has the features of a ‘public good’ – especially in the case of destination wide marketing (such as Brand Australia) as against product specific marketing.<sup>17</sup>

This spill over problem is of course heightened by the highly decentralised nature of Australian tourism and the large number of small firms. As noted by Access Economics, the chances of market failure – under provision of private sector funds for marketing activities – are increased, as compared to industries where one or a few major suppliers dominate the market.<sup>18</sup>

Access Economics argues that only the public sector, with its power to impose taxes and charges and decide how revenues are spent, is capable of ensuring that the community invests in appropriate supply of inbound tourism marketing.

Access Economics also notes that while it might be theoretically possible to levy all the beneficiaries of inbound tourism marketing, the Tourism Satellite Account indicates that these beneficiary businesses are spread throughout the economy creating substantial costs of collecting any such levy.

Access Economics also cited the (then) Industries Assistance Commission conclusion in 1989 as follows:

*“In the light of the strong arguments put forward by participants at the draft report hearings, the Commission is now uncertain whether tourism operators could take over and effectively run and fund the ATC. The demise of the ATC could, on the basis of the unanimity of the views expressed at the draft report hearings, result in inadequate marketing of Australia as a tourist destination with consequent adverse effects on tourism exports. In the absence of evidence to the contrary, the*

<sup>16</sup> Access Economics (2002), ‘The Economic Value of Tourism for Australia: A Post-September 2001 Stock-take & Update’.

<sup>17</sup> *ibid*, pages 60-64.

<sup>18</sup> *ibid*, page 66. This suggests that market failure is far less of a problem for marketing inbound tourism education, given the scale and financial power of the large Australian universities, as well as their ability with their fees to receive a large share of total returns to Australia from student visitors.



*Commission considers it would be imprudent to disregard these views. To the extent that tourism is a relatively efficient activity in Australia, the withdrawal of Government funding from overseas marketing would have adverse effects on the efficiency of resource use.”<sup>19</sup>*

In summary, Australian Government funding of inbound marketing is a necessary investment to overcome market failure.

#### The macro-economic case for Government funding of inbound tourism marketing

General equilibrium modelling, done by the Sustainable Tourism CRC’s Centre for Tourism Economics and Policy Research, estimates that for every \$1 million expansion in Australian tourism export earnings there will be a \$420,000 (42 per cent) expansion in Australian GDP and nearly 7 new jobs.<sup>20</sup> This positive outcome for the economy for expansion of inbound tourism reflects:

- Higher taxation of tourism exports than other export industries (including GST and the Departure Tax). Unlike tourism, other industries including mining, agriculture and manufacturing do not pay GST on their exports;
- Less protection of tourism than manufacturing, agricultural and some mining industries;
- That the terms of trade for tourism are expected to increase in response to increased tourism activity. Inelasticity of tourism supply in the short run means that factor owners in Australian tourism are likely to see increased prices in response to increased inbound demand. This pricing power is a valuable aspect of Australia’s tourism industry.

Australian tourism has demonstrated in the last three years a capacity to continue to receive growing inbound tourist arrivals despite a large increase in the effective cost to foreign visitors due to the rising A\$. In part, this durability of Australian inbound tourism is a product of many years of strong Government investment in ‘Brand Australia’ tourism marketing which has sought to emphasise Australian tourism’s non price based appeal in world markets.

There is also a macro-economic case for supporting inbound tourism growth to reduce risks to the economy from any end of the resources boom. Tourism exports are likely to perform better when the commodity cycle (and consequently the value of the A\$) is in decline and vice versa. By diversifying export dependence Australia can reduce the vulnerability of our economy to swings in international export cycles.

Looking beyond GDP as a measure of inbound tourism’s contribution to the economy it is also worth considering the impact on the value of Australia’s national capital stock of growth in various export industries. This reflects that contribution to GDP is an incomplete measure of contribution to Australia’s long term economic well being.

Whilst many of Australia’s major industries are based on one time use of limited resources (e.g. Mining), tourism being a service-based product is more sustainable (when appropriately managed) as visitor experiences/activities are based upon multiple use of the same resource.

<sup>19</sup> *ibid*, page 63, citing Industries Assistance Commission (1989), “Travel and Tourism”, Report No. 423, 29 September, pages 189-193.

<sup>20</sup> Dwyer, L., Forsyth, P., Spurr, R. and VanHo, Thiep (2003), ‘Contribution of Tourism by Origin Market to a State Economy: A multi-regional general equilibrium analysis’, *Tourism Economics*, 9, (4), pp 431-448.

In summary, Australian Government action to increase inbound tourism provides significant, sustainable macro economic advantages.

### Modelling the impact of Government funding of Tourism Australia/ATC inbound tourism marketing

Based on Access Economics' econometric analysis using data over the period 1967-68 to 2000-01:

- An increase of \$1 million in Australian Tourist Commission promotion generated an additional \$11 million to \$16 million (in 2000-01 prices) in tourism export income per annum.
- Access Economics concludes that "this is a good return on investment".<sup>21</sup>

More broadly, Access Economics also recognise that inbound tourism marketing has a further beneficial spill over of raising awareness of other Australian goods and services, like wine and education, and therefore makes it easier for these sectors to penetrate overseas markets.<sup>22</sup>

### The role of the private sector in funding inbound tourism marketing

A restricted survey of 789 private sector firms with inbound tourism marketing expenditure by the ABS for the 2003-04 year found that these firms spent just over \$200 million on international tourism marketing. This survey used a broad definition of marketing including internet sites and own staff costs, but was restricted in its coverage and underestimates the total private sector contribution to Australia's international tourism marketing.

Table Private Sector inbound tourism marketing spending in 2003-04 by industry

Industry	Inbound tourism marketing spending	Share of total private sector inbound tourism marketing spending
Accommodation	\$93 m	46%
Inbound Tour Operators	\$21 m	10%
Tour Operators	\$10 m	5%
Theme parks, attractions	\$12 m	10%
Casinos, convention and exhibition centres	\$23 m	11%
Cruise Operation	\$4 m	2%
Other	\$42 m	21%
TOTAL	\$203 m	

Source: Australian Bureau of Statistics, 'Survey of private sector tourism marketing spending'.

Notes: It proved impractical because of compliance burden to collect data from smaller operators. It proved impractical for general retailers and travel agents to estimate the share of their marketing spending devoted to domestic and inbound tourists. Global tourism firms with marketing areas offshore were typically not included in the survey results.

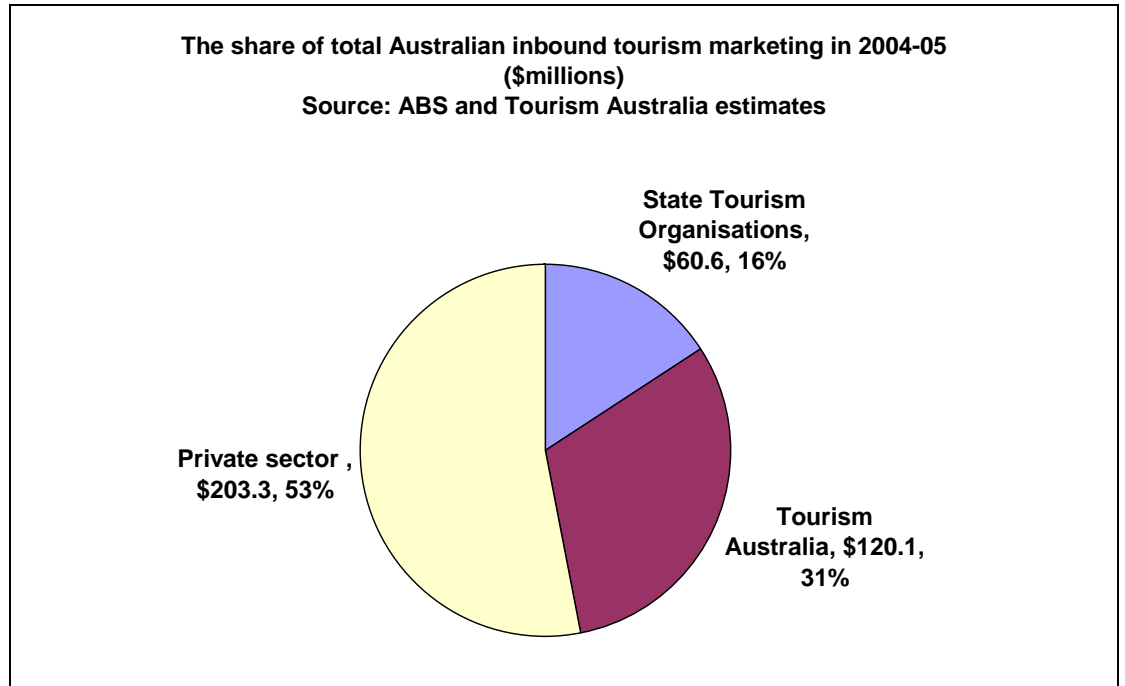
Other includes: domestic passenger airlines, car hire, coach and passenger rail operators, and duty free retail outlets.

It is also estimated that around 20 per cent or \$61 million of State/Territory Tourism Organisation spending is devoted to inbound tourism marketing.<sup>23</sup>

<sup>21</sup> Access Economics, op cit, pages iii-iv.

<sup>22</sup> ibid, pages 60-62.

<sup>23</sup> Total State and Territory government funding for their State Tourism Organisation of \$304 million in 2003-04, the 20 per cent assumption implies international market spending of \$61 million.

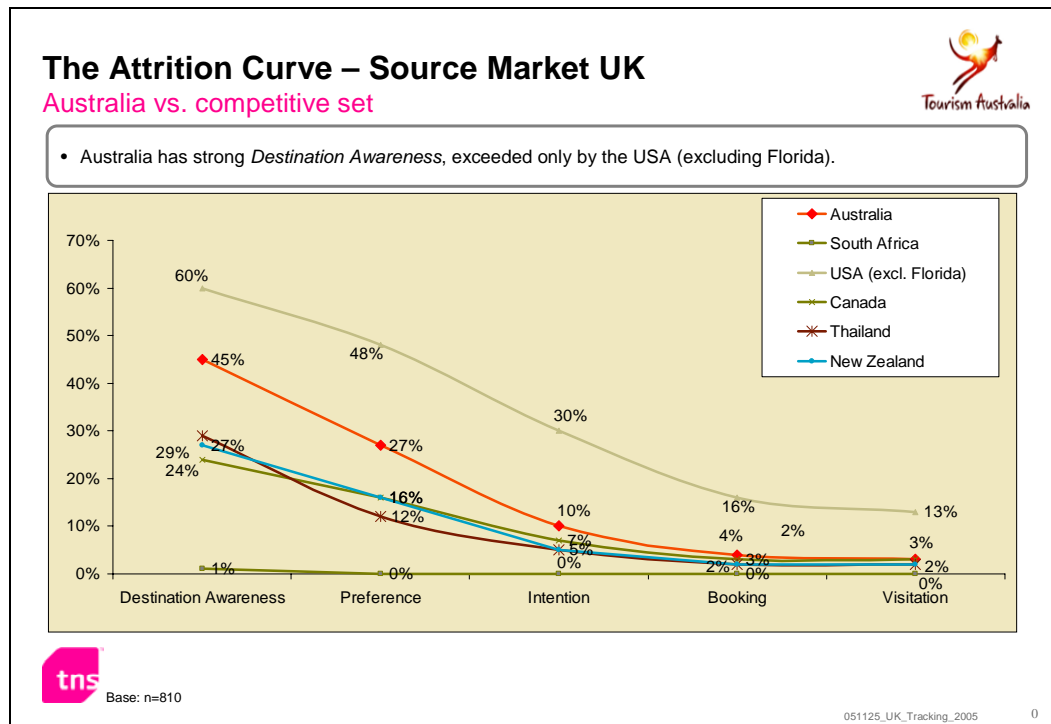


The private sector does provide significant support for inbound tourism marketing even allowing for market failure arguments. It is not the case that the Australian Government is being asked to fully fund inbound tourism marketing.

In addition, the industry has achieved a high success rate in converting the high levels of awareness generated by government funded brand marketing into actual visitation.

Traditionally the national tourism organisation, funded by the Australian Government has focused on building awareness of Australia as a destination and increasing the potential demand pool, which the industry had then by international standards been very successful at converting into actual business.

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As shown in above chart, Australia has fallen away and lost ground to our competitors between the preference to intention stage and the current Destination Brand campaign is focussed on converting that existing high level of awareness into a larger target demand pool.

Through this process the industry and the national tourism organisation work together to move consumers along to the intention curve to increase the conversion rate.

The next decade presents major new opportunities for Australia in gaining tourism exports from emerging markets (China, India, Vietnam, Eastern Europe and South America). This reflects the importance of extolling Australia as a destination of choice among the fast growing middle class of these developing countries.

### Domestic tourism marketing

The Australian Government is not a major provider of funding for domestic tourism marketing. The role of Tourism Australia in domestic tourism has been to act as a catalyst for encouraging greater leisure travel by seeking to change:

- attitudes to taking leave from work; and
- the perceived status of Australian domestic holidays with limited generic promotions.

The much larger role of promoting particular destinations or businesses is the primary responsibility of the private sector and the State and Territory Governments.

Nevertheless, the domestic tourism industry is clearly the largest component of Australian tourism, in terms of employment and business earnings. It provides around 75 per cent of total tourism and around 72 per cent of total leisure tourism.<sup>24</sup>

<sup>24</sup> Tourism Australia's combination of inbound and domestic overnight leisure spending.

Australian domestic tourism product is diverse and dispersed, often poorly understood by consumers and not the key focus of travel agents and distributors - who earn more commission selling outbound travel.

Tourism Australia market research has established that a key challenge is to lift the 'braggability' and 'knowledge' of what an Australian holiday delivers to the core target market of Australian 'experience seekers'. Tourism Australia research has shown that there is incredible competition for the holiday dollar and the appeal of overseas alternatives is very strong.<sup>25</sup>

Contributing to these findings is that overseas holidays have become cheaper as wages have grown and the Australian economy, driven in part by a mining and resources boom has become wealthier. Australians are more interested in the rest of the world, and different experiences have gained in value against possessions for the 'experience seeker' Australian market segment.

The related challenge is to encourage Australians to reduce the stockpile of their recreational leave in the face of increasing work pressures and difficulties in planning a holiday (huge choice, limited planning time).<sup>26</sup>

A restricted survey by the ABS of 1,119 private sector firms with domestic tourism marketing expenditure for the 2003-04 year found that these firms spent just over \$583 million on domestic tourism marketing. This survey used a broad definition of marketing including internet sites and own staff costs, but was restricted in its coverage and therefore underestimates the total private sector contribution to Australia's domestic tourism marketing. Owing to the much lower barriers to entry (including less market failure and lower cost) of domestic compared to inbound tourism marketing it could be expected that a broader survey of the large number of SMEs in tourism related industries would demonstrate far higher total private sector marketing expenditure on domestic tourism.

Table Private Sector domestic tourism marketing spending in 2003-04 by industry

Industry	Domestic tourism marketing spending	Share of total private sector domestic tourism marketing spending
Accommodation	\$295 m	51%
Inbound Tour Operators	\$3 m	1%
Tour Operators	\$17 m	3%
Theme parks, attractions	\$36 m	6%
Casinos,	\$66 m	11%
Convention and exhibition centres	\$6 m	1%
Cruise Operation	\$10 m	2%
Other	\$150 m	26%
TOTAL	\$583 m	

Source: Australian Bureau of Statistics, 'Survey of ABS of private sector tourism marketing spending'.

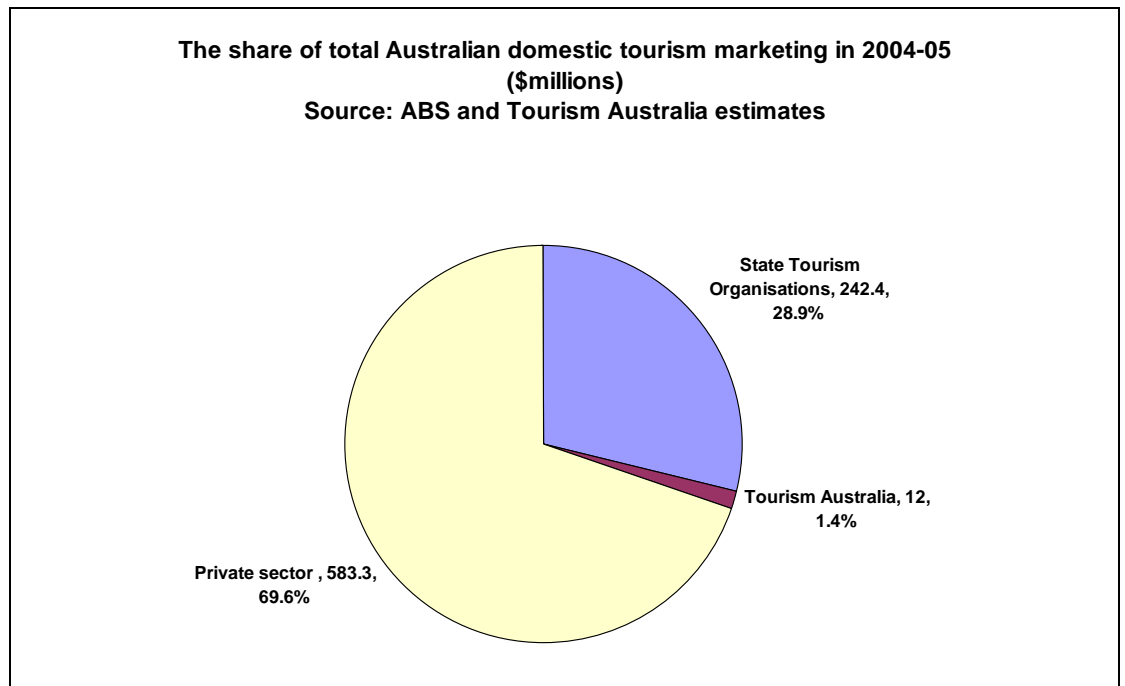
Notes: It proved impractical because of compliance burden to collect data from small operators. It proved impractical for general retailers and travel agents to estimate the share of their marketing spending devoted to domestic and inbound tourists. Global tourism firms with marketing areas offshore were typically not included in the survey results.

Other includes: domestic passenger airlines, car hire, coach and passenger rail operators, and duty free retail outlets.

<sup>25</sup> Tourism Australia (2006), 'Domestic target debrief', Market Insights Team.

<sup>26</sup> Tourism Australia (2006), 'Tourism Australia Annual Operating Plan' section C1.

It is also estimated that around 80 per cent of State/Territory Tourism Organisation spending is devoted to domestic tourism marketing. With total State and Territory government funding for their State Tourism Organisation of \$304 million in 2003-04, the 80 per cent assumption implies domestic marketing spending of \$242 million.



### Niche product development

A key objective of the White Paper structural reform agenda for tourism was to encourage growth in high yield tourism.

As noted in the Tourism White Paper:

*“Like other market sectors, tourism customers are attracted to the diverse range of new and innovative products and experiences provided by the market. Such innovation and improvement is the basis of growth and success. Australia needs to be at the forefront of such innovation, with a focus on developing high-yield market segments.”* (Source: Tourism White Paper, page 29.)

Funding for niche product development is an aspect of Tourism Australia’s objective of encouraging the global ‘experience seeker’ and the travel distribution system to move from their current image of Australia to a greater level of knowledge, by focussing on products and destinations which deliver compelling Australian experiences. This has involved support for innovation by product owners in particular activities important to the long term health of Australian tourism – ecotourism, Indigenous tourism, backpacking and food and wine tourism.

Supporting this function is necessary to build critical mass in the minds of consumers and overseas distributors of travel. Without community support individual product owners face a free rider problem in advertising overseas, especially given the prevalence of SMEs and regional businesses in the industry.

### Business event tourism

The ATC had provided limited support for business event tourism, prior to the Government's White Paper. However, this function received an enhanced profile in the Tourism White Paper, and subsequently in the operations of Tourism Australia, which established Tourism Events Australia.

In 2006/07 Tourism Australia will conduct campaigns promoting Australia as an events destination. This comprises:

- conducting a specific business events programme which targets corporate end users and incentive houses/intermediaries; and
- 'leveraging' major events so they support the Tourism Australia consumer and business target markets.

The key supporters of business event tourism are the State and Territory Governments, through their funding of Major Event attraction and the Convention Centres and Business Bureaux. For 2002-03 the Productivity Commission calculated that State and Territory Governments provided assistance to event attraction of \$33 million, as well as \$32 million in support for Convention Centres and Business Bureaux.<sup>27</sup>

### Tourism industry data and analysis

As noted in the Tourism White Paper:

*"Timely and accurate data and research is vital to the Australian tourism industry. It provides a foundation for informed decision making and underpins strategic business planning, including new product development, and also helps in public policy planning.....Over coming years, the tourism industry will need better information for investment decisions, developing niche markets and understanding consumer needs."* (Source: Tourism White Paper, page 11.)

Between 2004-05 and 2006-07 Tourism Australia will spend between \$5 and \$6 million per annum on the operations of Tourism Research Australia, including the Tourism Forecasting Committee.

Prior to the Tourism White Paper structural reform these functions had been the responsibility of the Department of Industry, Tourism and Resources.

As noted in the Tourism White Paper:

*"To streamline and improve research performance, the Australian Government will incorporate the Tourism Forecasting Council and the Bureau of Tourism Research in Tourism Research Australia. The new body will become a business unit of Tourism Australia with an increased resource base and an enhanced capacity to meet the research needs of industry and government."* (Source: Tourism White Paper, page 13)

Providing accessible and accurate data and analysis to the tourism industry is essential to facilitate planning and decision making which contribute to a more sustainable tourism industry. Australian Government funding plays a critical role in this respect.

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<sup>27</sup> Productivity Commission (2005), 'Assistance to Tourism: Exploratory Estimates', Productivity Commission Research Paper, pages 4.11 to 4.19.

## Indigenous development

The Tourism White Paper suggested that the tourism industry was not meeting market demand for indigenous tourism experiences.

*“International visitors are clearly interested in experiencing these cultures, but at this stage, our tourism industry has not been able to develop sufficient Indigenous tourism product to meet that demand.”*  
(Source: Tourism White Paper, 31)

Indigenous tourism represents not only an important economic opportunity but also a crucial social benefit that governments across Australia recognise as being in the national interest.

In mid 2006 it remains the case that Indigenous tourism businesses are not developing rapidly enough given the market demand demonstrated in market research. This reflects business development challenges that confront Indigenous tourism businesses as well as marketing challenges in communicating the offerings of these businesses.

Since the release of the Tourism White Paper in 2003 the policy debate has shifted toward much greater encouragement of self sufficiency and entrepreneurship among Indigenous communities. It is timely for Tourism Australia to lift the marketing profile of those indigenous tourism businesses that deliver a quality product to inbound visitors. Through the growth of these businesses, employment of Indigenous Australians can be increased and new demonstrated cases developed to inspire further entrepreneurial behaviour.

## Competitor country tourism budgets and support for airlines

Tourism receives a range of direct and indirect support from Governments around the world which varies between countries in relation to both tourism marketing and support for national airlines (which enables faster growth in travel to a destination).

## Other Government support for tourism marketing

In 2003 there were around 175 National Tourism Offices competing to attract tourists. In general, Asian countries became far more supportive of tourism funding during the Asian economic crisis. This approach was reinforced by the impact of lost tourism during the SARS crisis.<sup>28</sup>

The large SARS recovery programs put in place for Hong Kong (A\$2 billion) and Singapore (A\$200 million) had large tourism components. This action induced increased funding by a range of other countries concerned to level the playing field in attracting tourists and co-funding of new marketing by the private sector. For example, Cathay Pacific provided 10,000 complimentary air tickets to the Hong Kong Tourism Board to support Hong Kong’s tourism recovery.

Post SARS and the Iraq War there is a much higher global policy/funding attention to tourism. The USA Government, formerly without a national tourism administration, committed US\$50 million for overseas promotion in 2003. This

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<sup>28</sup> Tourism Futures International (2003), “Australasian Tourism Review – Public Version” a submission on behalf of Qantas and Air New Zealand to the ACCC review of the proposed Alliance, pp 21-22.



US Federal commitment was in addition to the commitment by US State Governments of US\$630 million to State Tourism Office budgets in 2001/02. In 2001/02, the highest spending five US States provided their State Tourism Offices with a total budget of US\$226 million. Hawaii and Illinois had larger tourism budgets than Australia in this year.<sup>29</sup>

Recently, the World Tourism Organization published a review of the 'Structures and Budgets of National Tourism Organizations'. This report provides information on the size and focus of many of Australia's competitor destinations. However, as this report often does not collect data on Government tourism support beyond the National Tourism Organization it tends to understate total tourism support by Governments.<sup>30</sup>

**Table – Comparison of NTO budgets for marketing in 2005 and 2004**

Country	NTO Budget from Government for marketing inbound tourism US\$ million (2005 data)	Private Sector co-operative marketing US \$ million (2005 data)	International tourism receipts as share of services exports (2004 data)	International tourism receipts per US\$1 of NTO Government budgets US\$ (2004 data)
Greece	142	10	39%	137
Malaysia	118	0	46%	86
Mexico	115	34	77%	158
Australia	93	20	53%	174
Ireland	80	2	9%	75
Cyprus	61	3	44%	49
South Africa	55	15	71%	156
Canada	47	11	27%	332
New Zealand	46	1	64%	147

Source: WTO, Annex VI.<sup>31</sup>

This table highlights that Australia has a comparatively high share of private sector co-operative marketing dollars, as well as international tourism receipts per US\$1 of NTO Government budget support. In addition, Australia has a noticeably higher share of international tourism receipts in services exports than Ireland or Canada if less than New Zealand (the UK estimate is 16 per cent and the US 23 per cent).

The WTO has estimated that the tourism bureaus of the 13 Canadian Provinces spent directly and indirectly a total of around US\$1 billion on tourism in 2002-03. In addition, further spending in Canada occurred at the city, town and economic region level by destination marketing organisations.<sup>32</sup>

<sup>29</sup> Tourism Futures International (2003), "Australasian Tourism Review – Public Version" a submission on behalf of Qantas and Air New Zealand to the ACCC review of the proposed Alliance, page 23.

<sup>30</sup> WTO (2006), 'Structures and Budgets of National Tourism Organizations 2004-2005', World Tourism Organization.

<sup>31</sup> *ibid.*

<sup>32</sup> *ibid.*, page 35.

Closer to home, and the Productivity Commission estimated that State and Territory Government assistance to the tourism industry in 2002-03 summed to A\$948 million or nearly eight times the Australian Government's assistance to tourism.

### Government support for state owned international aviation

Many international airlines are supported by their governments which can translate into significant competitive advantages. Government support can allow an airline to offer lower airfares given an ability to operate at lower costs due to direct or indirect government support, for example as follows:

- Low cost capital provided by government
- Subsidies for key inputs such as reduced costs for oil
- Provision of airport infrastructure at lower costs than Australia
- Lower effective company tax
- Generous tax depreciation of aircraft allowed overseas.

Lower airfares will boost the relative price advantage of some destinations.

### Government to Government negotiation over tourism issues, visas and aviation access

A final important aspect of Government intervention in tourism exports is the role of government to government negotiations.

Such bilateral contact has been most important in the development of the Chinese inbound tourism market. Market access won for Australia has required a combination of high level Ministerial contact and detailed negotiation of marketing arrangements in China by Tourism Australia, in partnership with the Department of Industry, Tourism and Resources and Department of Immigration and Multicultural Affairs (DIMA).

DIMA has also introduced valuable innovations in visa issuance in markets such as India and the United Arab Emirates, which has served to improve visa access while maintaining controls to prevent illegal immigration.

Similarly, Government to Government negotiations over bilateral aviation agreements are a critical influence on Australian inbound tourism growth. These negotiations are overseen by the Minister for Transport and Regional Services and the Department of Transport and Regional Services.

In February 2006, a revised international aviation policy was announced. The new policy continues to pursue the objective of negotiating capacity for air services ahead of demand, to allow airlines to make decisions and provide for competition and growth. In addition, the new policy will:

- recognise 'open skies' as an aspirational goal to be sought on a case-by-case basis;
- maintain and expand access to a range of aviation hubs;
- 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; and
- address Australia's trade and economic interests;

The policy interests of the tourism and aviation sectors are very closely linked: aviation provides the critical air bridge for visitors to Australia, while tourism provides the demand for aviation.

It is important that the tourism and aviation portfolios continue to work closely and are proactive in ensuring that international air services agreements are updated to support the long term growth of the tourism and aviation sectors.

## **Section 5. Challenges for the Australian tourism industry**

The attributes of Australia's tourism industry are also the source of many challenges to its future. As a fragmented and dispersed industry, tourism faces a number of structural impediments, including inherent market failure by the private sector to fund promotion. These impediments to growth have been recognised by governments at all levels, including by the Australian Government, in adopting the Tourism White Paper reform agenda.

However, beyond its internal structure Australia's tourism industry faces a range of external challenges to converting the opportunities it faces.

### **The impact of the rising Australian dollar on tourism**

The level of awareness of inbound tourists of the value of the Australian dollar varies considerably between inbound markets, at least until the stage of deciding the destination for an outbound trip. Australia's major challenge in the inbound tourist's purchasing cycle is moving more of our potential visitors from consideration to intention to visit Australia – and this is the stage of trip planning where the exchange rate has a large influence.

As many inbound tourists only periodically monitor the value of the A\$ in line with considering irregular visits here, the last time many potential inbound tourists were aware of the value of the A\$ is from the time of the Sydney Olympics. Between early October 2000 and 13 July 2006, the A\$ has increased dramatically against a range of important tourism source market countries:

- By 47 per cent against the Yen, the key reason why arrivals from Japan have fallen;
- By 39 per cent against the US\$, which also affects a range of Asian inbound markets with currencies linked to the US\$;
- By 34 per cent against the Chinese RMB;
- By 18 per cent against the Korean Won;
- By 11 per cent against the UK pound; but
- A 4 per cent depreciation against the Euro;
- An 8 per cent depreciation against the NZ\$.

#### **Exchange rates matter for tourism exports – the case of Japan**

An example of the dramatic impact of the rising A\$ on Australian inbound tourism returns comes from the Japanese market. Between 2000 and 2005 arrivals from Japan fell by 5 per cent, while real tourism inbound economic value from Japanese visitors fell from \$2.6 billion in 2000 to \$2.1 billion in 2005, a 20 per cent fall. Many in Australia's tourism industry have concluded that the Japanese market has shifted toward much lower spenders from Japan.

Yet when allowance is made for the far more expensive A\$ in 2005 the Yen value of real tourism inbound economic value from Japan went from Y173 billion to Y176 billion. The Yen averaged 66.7 to the A\$ in 2000 and 83.9 to the A\$ in 2005 or an appreciation of 26 per cent.

Making Australia's performance more noteworthy was that the overall Japanese outbound tourism market in 2000 to 2005 fell in terms of total departures (by -2.3 per cent) and more particularly in terms of total outbound spending in Yen, as Japanese visitors shifted to short haul (*An kin tan* – shorter, quicker, cheaper) destinations.

Contrary to the perception of many in Australia's tourism industry, Australia has enjoyed strong gains in the share of total outbound Japanese tourism spending in the period 2000 to 2005.

Total Australian inbound economic value from Japan represented 1.9 per cent of total outbound Japanese tourism spend in 2000 and had increased to a 2.8 per cent share by 2005. (Sources: Euromonitor and Tourism Research Australia).

Australian inbound tourism has done very well in the Japan outbound market from 2000 to 2005, once exchange rate changes are considered.

The large average appreciation of the A\$ since 2000 has arguably had a much larger impact on Australian tourism exports and domestic tourism than any of the shorter term disruptions due to September 11 terrorism, SARS or Bali bombings.

### Challenges for tourism in regional Australia

A major policy challenge implicit in the official tourism forecasts are growing questions over the outlook for tourism in Australia's regions. Regional dispersal is more prevalent in domestic than inbound tourism. Further, the inbound source markets showing the highest expected growth are those with the lowest share of nights in regional Australia. With domestic tourism shrinking, these trends combine to create significant challenges for the prospects of regional tourism operators.

A strong focus on encouraging regional tourism development will be required over the coming years.

To attract greater numbers of inbound tourists to regional Australia it is also important that the airlines improve links between international and domestic aviation. With many key leisure destinations having the majority of their domestic airline services from low cost carriers, it has become critical to regional tourism that these services are easily booked by overseas consumers and link smoothly with international airline services.

### Competition for labour and capital from resource industries

A more subtle negative impact of the mining boom on tourism than the rising A\$, is the pressure on labour and capital attraction to tourism in regional Australia. In areas like the north of Western Australia, regional Queensland and the Northern Territory tourism is directly competing with mining to attract workers - and given the relative pay scales, the resources industry is winning.

In addition, SMEs which dominate the tourism industry often face challenges in attracting and retaining workers. Employees are influenced by issues such as pay scales, security of employment and access to training. SMEs, particularly in regional Australia face difficulties when competing with larger organisations as potential employers.

*Australian tourism is not well positioned for fast growth in the medium term, should the resources boom end.*

Similarly, the high financial returns from mining companies have made attracting investment funds to new tourism projects even harder. The result has been a quite rational capital strike toward tourism that has reduced the potential for industry growth. Tourism investments such as large accommodation properties and major new attractions commonly take three to four years to open after the investment is decided.

While there currently exists some excess tourism capacity, due to declining domestic tourism, new tourism investment is needed if stronger inbound tourism growth is to be sustained beyond a year or two.

#### Global social change and airline reform favour shorter breaks over 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.

This has been coupled to changes in aviation competition favouring short haul travel within Asia.

For travel between Japan, China and Korea strong business travel has encouraged airlines to schedule much increased capacity even if leisure travel has been discounted heavily as a result. For example, in the month of June 2006 there were over 600,000 international airline seats from Japan to China and just under 600,000 international airline seats to Korea, as compared to 120,000 seats to Australia.<sup>33</sup>

Compared to June 2004, seats to China in June 2006 were up by 16 per cent and seats to Korea in June 2006 were up by 36 per cent. In contrast seats to Australia were down by 2 per cent.<sup>34</sup>

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.

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<sup>33</sup> Sabre (2006), Data inquiry from Tourism Australia using the 'Sabre ADI system'.

<sup>34</sup> *ibid.*

## Section 6. Future global opportunities for Australian tourism

### Opportunities for long term global growth in Australian tourism exports

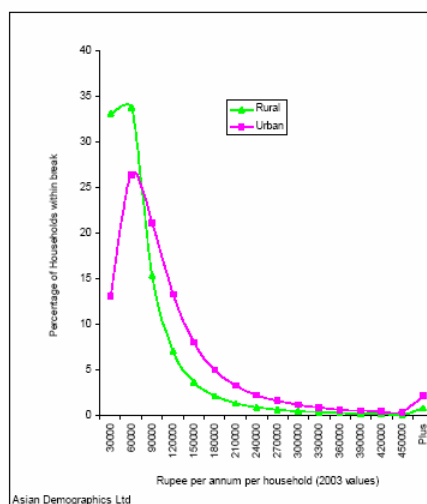
Australian inbound leisure tourism has excellent opportunities for long term global growth. These opportunities arise from:

1. Outbound growth in the Asia Pacific region - Australia is located adjacent to, and in a similar time zone to Asia, the fastest growing region of the world whose population has a growing interest and capacity to participate in international tourism experiences.
2. The emerging market opportunity - Due to the common pattern of income distribution in many emerging economies (many more visitors in lower middle incomes than upper middle incomes), even small growth in national income can lead to far faster growth in the number of households with an income necessary for international travel.
  - The charts below show the distribution of income in India as a case study of the opportunities for inbound tourism for Australia in emerging markets. India has been chosen for this case study, as this opportunity is less well known than China where market development by Australia is at a more advanced, if still early, stage.

#### India is a case study of an emerging inbound tourism market

- A recent briefing from Asian Demographics provided background on the profile of Indian income distribution in 2003. If for example, an average household income of 215,000 Rupees per annum (around A\$6,500 but with a much lower cost of living) is the usual threshold for a holiday to Australia then as the income distribution curves shift rightward with 6-8 per cent real GDP growth per annum the number of households with the qualifying income increases far faster than 6-8 per cent per annum.

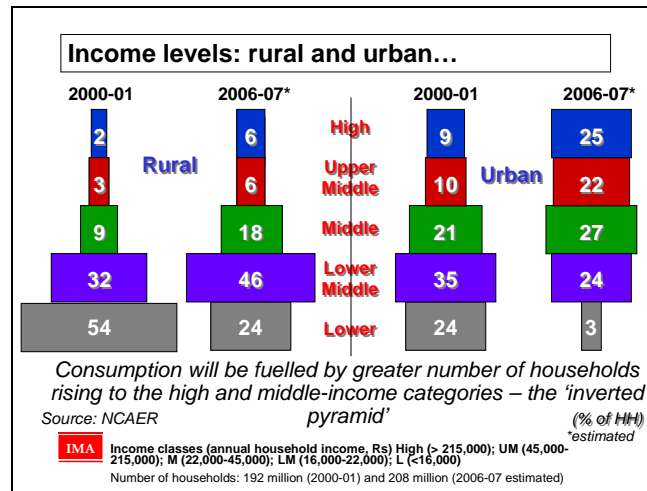
#### Indian income distribution in 2003



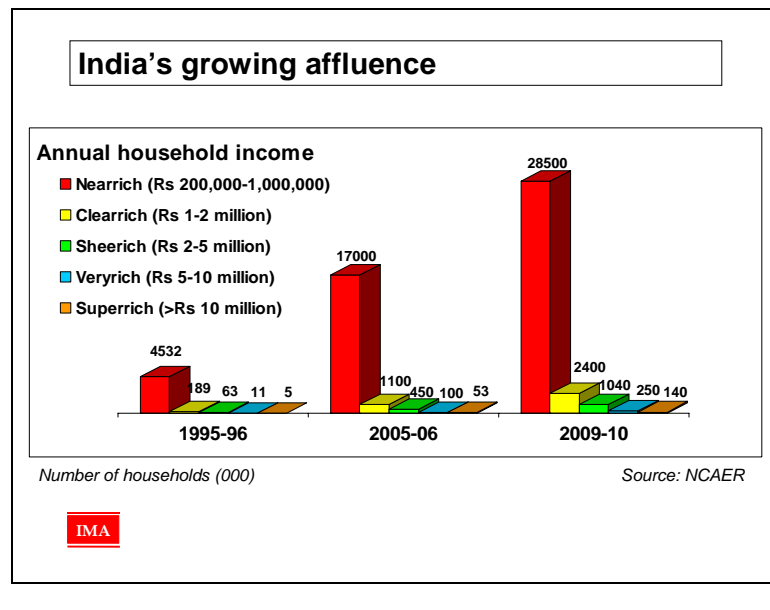
Asian Demographics Ltd



IMA Asia also considered the question of how national income growth in India is changing the profile of income distribution among Indian households, as follows:

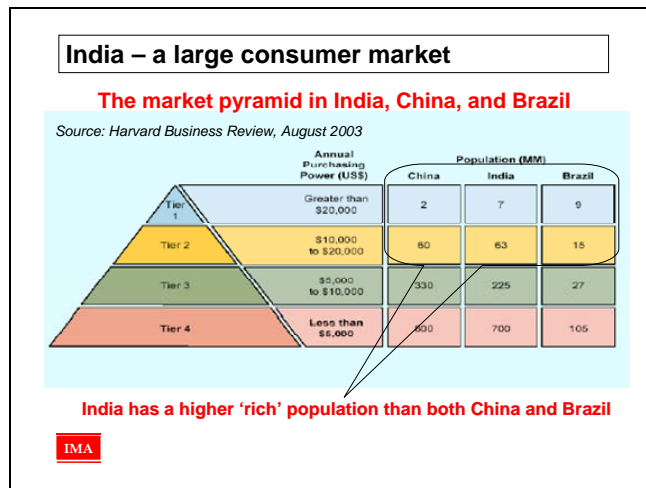


Looking at only those Indian households that are classified by IMA Asia as the 'Sheerich', 'Veryrich' and the 'Superrich' with incomes above 2 million Rupees per annum (or over A\$60,000 with much lower costs of living), there has been a near seven-fold increase in their numbers from 1995-96 to 2005-06 with a further 140 per cent increase expected in only the next four financial years. By 2009-10 the forecast is for nearly 1.5 million Indian households having an income comfortably sufficient to afford regular international travel.



This form of dramatic socio-economic change in India is understood to be occurring in a range of our emerging markets, not just India and China. For example, Vietnam and Eastern Europe are also going through this type of change.

Understandably, comparisons across emerging markets are less commonly available, but using 2003 data the Harvard Business Review provided the following comparison of income distributions in India, China and Brazil. Taking into account the strong income growth for China and India since 2003 the following chart understates the number of wealthy in these countries in particular.



Around \$1 million per annum is available for the Indian market in 2006/07 from Tourism Australia, and less for the other emerging markets of Vietnam, Eastern Europe and South America.

3. Australia, combining a holiday with learning English - There is also high status and career advancement opportunities in learning English, and Australia provides a highly competitive option for combining English language training with a holiday.
4. Australia, clean/green and welcoming - As many other areas of the world are becoming more polluted the clean/green image of Australia is becoming a more valuable national asset. Similarly, Australia has a comparatively liberal and multi-cultural approach to life which many inbound tourists find liberating. The earlier Australian Tourism Commission global campaign to encourage our visitors to live life in "A different light" spoke directly to these motivators.
5. Tourism, as a potential economic strength post the end of the resources boom  
A decline in commodity prices and/or persistent or renewed drought in agricultural areas could return attention to tourism, particularly in regional Australia.

The likely scenario as and when the resources boom ends is that the A\$ will weaken assisting industries other than mining to win export income. In addition, the end of the resources boom would reduce competition for Australia's labour and capital, assisting growth for the tourism industry. However, a weaker A\$ also reduces the ability of Tourism Australia to buy marketing offshore just at the time when such marketing would be most opportune.

6. Aviation developments looking positive in the medium term - Australian inbound tourism is heavily influenced by aviation developments, which are looking positive in the medium term. However, the variable impact on inbound tourism of aviation in recent years suggests only cautious optimism.
  - the introduction of the A380 and B787 will lower the cost of airline operations making more services viable and reducing airfares.
  - the major investment by Qantas in these new aircraft, which has ordered 65 B787s with options for a further 50 (a total of 115) and an order for 12 A380s (with options for ten more). The current Qantas fleet (not including Jetstar

domestic) has a total of 127 jet aircraft, with only 73 of these being larger twin aisle jets (i.e. above the size of a B737).

- the introduction of Jetstar International, with much lower operating costs, will make many more leisure routes viable for the Qantas group and should allow reduced airfares for leisure visitors to Australia.

7. Falling oil prices in the medium term should foster tourism growth - There is an expectation in the medium term of a falling price of oil from today's US\$75 per barrel to around US\$50 per barrel. In the Boeing Current Market Outlook published in July 2006, a return to around US\$50 per barrel is expected, a view based in part on this being a price at which oil from oil shale becomes commercially viable.

*“We use \$50 a barrel because at that price there can be substitution [of conventional sources] in terms of shale-oil and sand-oil.”* (Randy Baseler, Boeing)

8. Australia could benefit from the changing consumer. The consumer is becoming more interested in experiences than destinations. There is a greater focus on interacting with local people and Australia has a strong reputation for welcoming visitors. There is growing interest by visitors in experiencing cultures different to their own – experiencing freedoms they don't have at home, and Australia has a reputation for a liberal outlook. The Internet is changing the balance of power between the consumer and traditional distribution channels. In many cases, Australia had struggled to gain traction with traditional distributors, and the Internet is opening doors for consumers to research Australia more thoroughly than is typically available from travel agents. In addition, the Internet is opening up opportunities for consumers to book direct, bypassing local travel distributors, and thereby providing a higher yield to Australian product suppliers.

## **Section 7. Policies for realising these opportunities**

Three critical areas that are being delivered by the Australian Government through Tourism Australia programs include:

### **Support for Tourism Australia marketing leadership**

The national leadership role of Tourism Australia is particularly important to the future of Australian tourism, due to a highly decentralised tourism industry dominated by SMEs and subject to strong regional parochialism. National co-ordination of advertising, public relations, Internet presence and market research are all important to Australia achieving a best return on investment.

This role for Tourism Australia is especially important in emerging markets, where establishing distribution and links to the Australian local tourism industry is vital. It is also important to niche market development and most obviously in the fostering of Indigenous Tourism success.

Whereas individual tourism businesses cannot afford representation in the emerging markets, Tourism Australia can provide coverage and links that allow establishment of business relationships. Tourism Australia acts as a catalyst to the entrepreneurial behaviour that the private sector does best.

### **Fostering regional tourism**

There are major challenges ahead for regional tourism that will require an integrated policy response.

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.

A focus on promoting regional based experiences in overseas markets is also important to encourage a greater return to regional Australia. However, this does not involve a focus on promoting particular regional destinations and their existing attractions. Rather the challenge is to encourage the ‘experience seekers’ to seek their experiences in Australia – because this will drive more business to regional Australia.

Improving the way in which domestic and international sectors connect and can be booked overseas is largely in the hands of the Australian airlines (and some airports), with improvements being made in this regard. This could also be supported with encouragement for new dedicated international airports (initially largely for New Zealand services) and easing international airline charter approvals to airports in regional Australia. Australia has a liberal charter policy which allows airlines to test services to regional destinations.

### **Backing ‘Brand Australia’**

Market research by Tourism Australia has established that Australia has strong marketing advantages, particularly to increase international visits by ‘experience seekers’ as the most prospective component of the potential inbound market. There are good reasons for expecting that this component of the potential inbound market will grow as a share of the overall market.

One of the key attributes of 'experience seekers' is that they are more likely to ignore rational barriers to travel of distance, cost and time, all of which punish Australia in our medium to longer haul markets.

By targeting 'experience seekers' Tourism Australia has developed "Brand Australia" and the various dimensions of this campaign beyond consumer advertising. The overall campaign includes public relations, internet and distribution channel support, and more focused marketing of particular experiences. Indeed, the 'experience seeker' is highly sceptical about traditional advertising.

In cases of some of our biggest inbound markets there is even greater potential for inbound tourism growth. The US market is one example.

According to IPK International, the US outbound travel market remains at an earlier stage of development than many commentators appreciate. IPK International recently noted

*"One of the main weaknesses of destinations trying to tap US outbound tourism potential is that they tend to treat the market as a mature one – little different, say, from the UK or Germany. Yet about 220 million or so Americans – more than 80% of the population – do not hold passports and have never travelled abroad."*<sup>35</sup>

Similarly, some large outbound markets, like Germany, have little awareness of Australia. In Germany in 2005, Tourism Australia provided less than \$1 in \$50 of total media spending by National Tourism Organisations.

Even in mature inbound tourism markets for Australia there are valuable niches that Australia can profitably exploit. While in New Zealand and Singapore Australian inbound tourism is widely understood there remain large gaps in awareness that could be filled with intelligent and focussed marketing. For New Zealand this approach targets areas other than the East Coast's major cities, and for Singapore regional areas.

Emerging markets pose challenges for resource allocation within Tourism Australia to balance spending between the long term opportunity versus the existing opportunity. As emerging markets become more important to Australian inbound tourism, one challenge becomes meeting costs of media inflation in these fast growing economies.

Supporting inbound tourism marketing provides considerable dividends in terms of the value of tourism related export income, and contributes to ensuring this business opportunity for Australia continues to yield, employment, wealth creation and regional development benefits.

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<sup>35</sup> World Travel Market Global Travel Report, 2004/05