

The Australian Tourism Sector

**Submission to the House of Representatives
Standing Committee on Employment, Workplace Relations and
Workforce Participation**

**Department of Foreign Affairs and Trade
September 2006**

Key Points

- Exports of tourism services reached \$18.3 billion in 2004-05 (the last year for which total tourism export data are available), accounting for 24 per cent of total tourism industry output.
- The tourism sector directly employed 550,100 people in 2004-05, or 5.6 per cent of the labour force, plus many others indirectly employed in industries servicing the tourism sector. The number of people directly employed in servicing international visitors was likely to be over 100,000.
- Incoming visitors to Australia are dominated by a few source countries, with New Zealand, the United Kingdom, Japan and the United States the four biggest.
- Exports of tourism-related services recovered in 2004 and 2005, after declines in 2002 and 2003 in the wake of a number of shocks (including a global economic slowdown in 2002, heightened concerns about terrorism, and SARS)
 - the number of incoming visitors reached a new high of almost 5.5 million in 2005, up 5.4 per cent on the preceding year.
- The Tourism Forecasting Committee projects visitor numbers to Australia to increase to almost 9.2 million by 2015
 - New Zealand is forecast to remain the biggest market in terms of visitor numbers, but China is expected to emerge as the second largest market, with India also projected to show particularly strong growth from a lower base.
- The total inbound economic value from tourism is projected to double from \$18 billion to \$36 billion in real terms by 2015
 - China is expected to emerge as the largest tourism market in these terms, followed by the United Kingdom, the United States and New Zealand.
- Improving access for services industries, including tourism, is an important component of Australia's international trade policy
 - Australia has worked actively for comprehensive liberalisation of services in multilateral negotiations, and has made extensive commitments in the tourism sector under the General Agreement on Trade in Services (GATS)
 - in the Doha Round (currently suspended), Australia has continued to press for further market-opening commitments in the tourism sector.
- In its free trade agreements (FTAs) with New Zealand, Singapore, the United States and Thailand, Australia has also pushed for further liberalisation of services industries, including tourism.
- The FTAs Australia is currently negotiating with Malaysia, ASEAN and China, as well as possible future FTAs with Japan, the Gulf Co-operation Council and Mexico, have the potential to further increase tourism exports.
- Tourism has also constituted a part of the work of Asia-Pacific Economic Cooperation (APEC), with a Tourism Working Group having been formed within APEC in 1991.
- Austrade also has an important role in tourism-related export activities.

The Australian Tourism Sector

The Department of Foreign Affairs and Trade welcomes this opportunity to provide a submission to the House of Representatives Standing Committee on Employment, Workplace Relations and Workforce Participation inquiry into workforce challenges in the Australian tourism sector.

In 2005, Australia's services exports reached a record \$37.2 billion, significantly more than our rural exports and approximately the same as our manufactured exports. Australia's services exports have grown enormously over several decades. Exports in 2005 were in nominal terms well over twenty times those in 1975. In volume terms (that is, after adjustments for changes in prices), services exports have grown at a trend rate of 7 per cent annually over this period - appreciably faster than exports of goods.

Australia's Tourism Exports

Exports of tourism services reached \$18.3 billion in 2004-05 (the last year for which total tourism export data are available), according to data from the Tourism Satellite Account.¹

The tourism sector directly employed 550,100 people in 2004-05, or 5.6 per cent of the labour force, plus many others indirectly employed in industries servicing the tourism sector². International visitors accounted for 24 per cent of total tourism industry output. On this basis, the number of people directly employed in servicing international visitors was most likely to be over 100,000,³ with many others indirectly employed.

Incoming visitors to Australia are dominated by a few source countries, with New Zealand, the United Kingdom, Japan and the United States the four biggest sources. Trends in visitor numbers have been quite different in different economies over the long term, however. Since 1995, arrivals from New Zealand have doubled to reach more than a million in both 2004 and 2005. Visitors from the United Kingdom have also approximately doubled over this period, while those from China and India have shown stronger growth from a modest base. But the number of visitors from Southeast Asia has shown only modest growth, and arrivals from Japan and Taiwan remain below the levels reached in 1995.

Chart 1 shows exports of services - personal and business travel (excluding education) and passenger transport services - which are closely linked to tourism. Personal and business travel expenditure and passenger transport services recovered in 2004 and 2005, after declines in 2002 and 2003 in the wake of the global economic slowdown

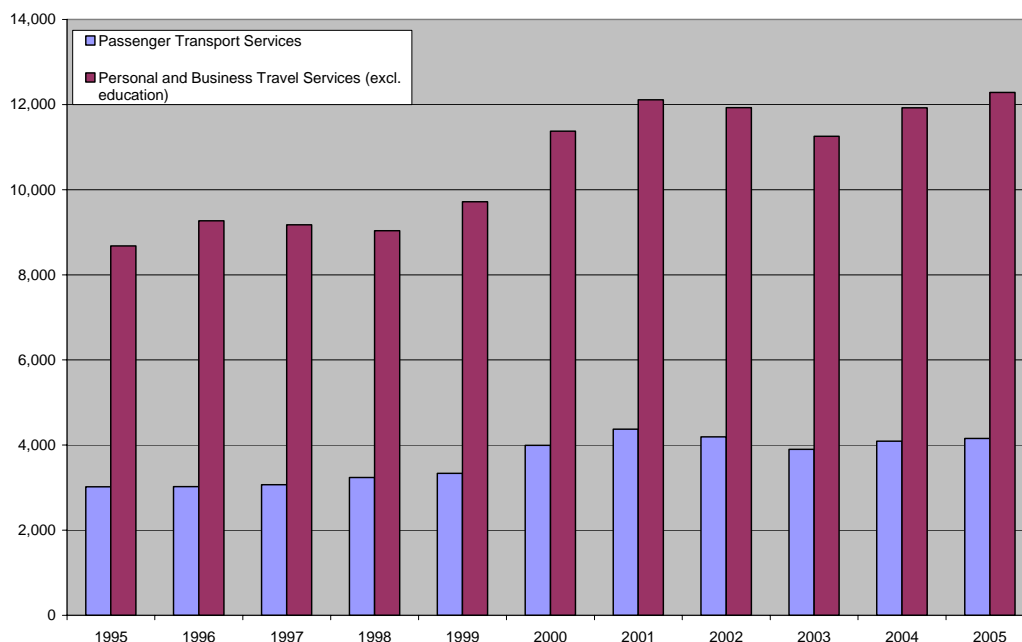
¹ The Tourism Satellite Account's definition of tourism includes all travellers who stay in Australia for less than one year, regardless of their purpose for travel (such as business, education, health and recreation). This definition of tourism is therefore much broader than the general understanding of tourism services i.e. covering only recreational travellers.

² According to *Tourism Indicators, Australia, September 2002* (ABS 8634.0), in 2000-01 551,000 people were directly employed in the tourism sector, and 397,000 indirectly employed.

³ One of the difficulties in producing such an estimate is that many of the people employed in tourism would service both the international and the domestic markets.

in 2002, the end of the direct stimulus from the 2000 Sydney Olympics, heightened concerns about terrorism following the September 11 attacks on the United States, the onset of SARS in 2003, and the appreciation of the Australian dollar.

Chart 1
Selected Travel and Transport Services⁴ Exports
 (\$A million)



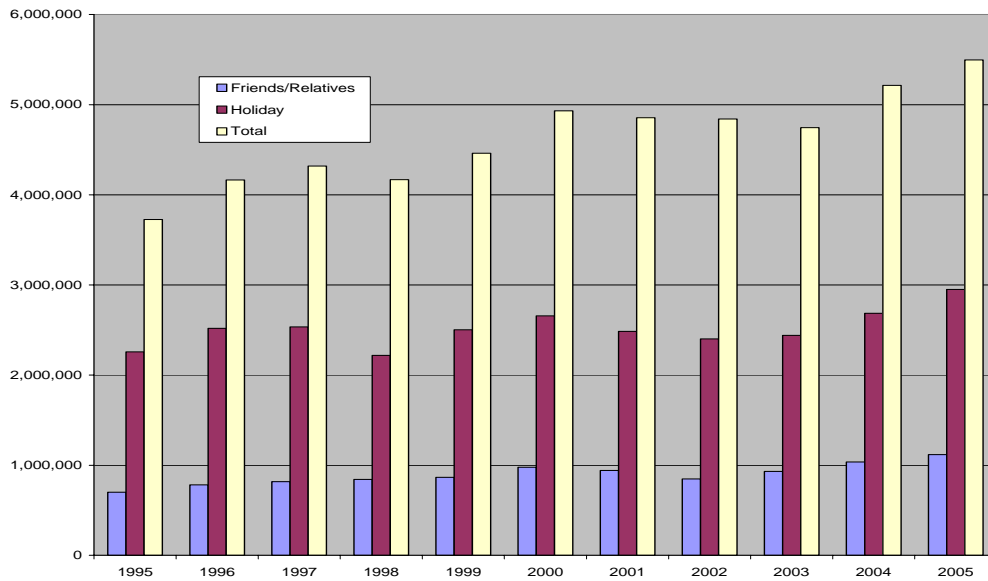
Source: DFAT Trade in Services Australia (2005)

More than half of the international visitors recorded by the Australian Bureau of Statistics (ABS) give a holiday as the purpose of their visit, but a sizable proportion visit friends and relatives (Chart 2). Other categories include business visitors, education-related visits, attending a convention or conference and employment. Since 1995, the number of visitors coming on holiday has increased by almost one third. There have been much bigger percentage increases in the numbers attending conventions or conferences, or coming for business or employment or education. Growth in the number visiting friends and relatives has also been strong.

The number of incoming visitors reached a new high in 2005, at almost 5.5 million, up 5.4 per cent on the preceding year. Key markets contributing to this growth included New Zealand, the United Kingdom, China and Singapore. There were increases in visitor numbers across all major categories of visits, with the biggest increase in numbers from holiday makers, and the biggest percentage increases occurring for business travel and travel related to conferences and conventions.

⁴ Air transport agency fees and commissions are included in passenger transport services.

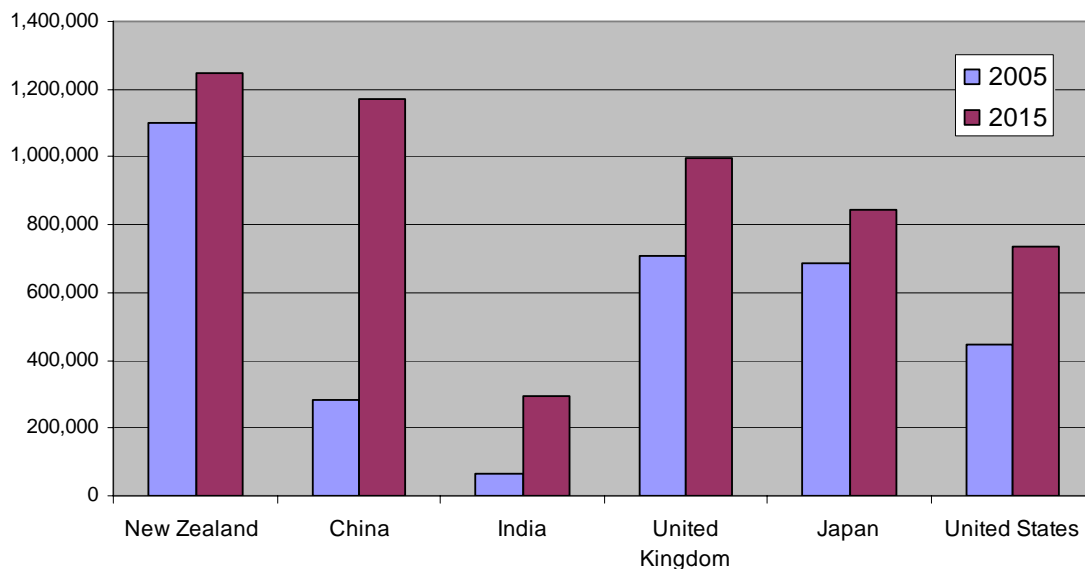
Chart 2
Short Term Visitor Arrivals, Australia



Source: ABS

The Tourism Forecasting Committee projects visitor numbers to Australia to increase to almost 9.2 million by 2015. The Committee expects New Zealand to remain the biggest market in terms of visitor numbers over this period, but arrivals from this source are expected to rise only slowly from around 1.1 million to 1.25 million. China is projected to emerge as the second largest market, with visitor arrivals rising rapidly from 285,000 in 2005 to almost 1.2 million in 2015. India is also projected to show particularly strong growth from a lower base, with visitor arrivals increasing from 68,000 to 292,000 (Chart 3).

Chart 3
International visitors to Australia by market: 2005-2015



Source: Tourism Forecasting Committee (April 2006)

The total inbound economic value from tourism is projected to double from \$18 billion to \$36 billion in real terms by 2015. The share held by different markets in terms of value, which takes into account expenditure and length of stay from different sources, differs appreciably from those derived from visitor numbers. China is expected to emerge as the largest tourism market in these terms, with an inbound economic value rising to almost 20 per cent of the total by 2015. The United Kingdom, the United States and New Zealand are expected to rank next in terms of inbound economic value by the end of the forecast period (Chart 4).

Chart 4
Inbound economic value by market: 2005-2015
 (\$A million)



Source: Tourism Forecasting Committee (April 2006)

It should be noted, however, that the tourism industry is particularly vulnerable to internal and external disruptive events. Not only do the effects of these events tend to be felt very quickly, but their negative impacts on the tourism sector can be considerable. For these reasons, long-range forecasts should be treated with some caution.

Tourism and Australia's Trade Policy

Improving access for services industries, including tourism, is an important component of Australia's international trade policy. The entry into force of the General Agreement on Trade in Services (GATS) in 1995 brought services under the umbrella of the World Trade Organisation (WTO). It also ensured that services would be a key part of any future multilateral trade negotiations. Australia has worked actively for comprehensive liberalisation of services in multilateral negotiations, and has made extensive commitments in the tourism sector under the GATS.

Under Australia's schedule of GATS commitments, the cross-border supply of travel agency and tour operator services is limited by the requirement for foreign providers to have a commercial presence (i.e. a local office or agent). This is in order to provide protection to consumers. There are no sector-specific operational requirements which differentiate between domestic and foreign services suppliers. The regulation of the

tourism industry in Australia is largely the responsibility of State and Territory Governments, which have primary carriage for the administration of matters relating to licensing and operation. Regulatory requirements that apply at the State and Territory level to both domestic and foreign suppliers of tourism services mainly cover travel agents.

Globally, tourism⁵ is one of the most open services sectors, reflected in the fact that 114 of the then 134 WTO members made liberalising commitments in this area during the Uruguay Round. The commitment to openness in the tourism sector is shared by both developed and developing country WTO members, reflecting the importance of tourism's contribution to employment and the generation of foreign exchange. In the Doha Round (currently suspended), Australia has continued to press for further market-opening commitments in this sector and has made requests for improved market access to various countries, including a number in the East Asian region.

In its free trade agreements (FTAs), Australia has also pushed for further liberalisation of services industries, including tourism. In the case of New Zealand, freedom of travel is facilitated through the Trans-Tasman Travel Arrangements of 1973, which allow New Zealanders to visit, live and work in Australia without restriction, and Australians to do the same in New Zealand. In its FTAs with both Singapore and the United States, Australia adopted a negative list approach to services (under this approach, barriers are subject to liberalisation unless they are specifically exempt). No specific exemptions were listed by Australia in relation to the tourism sector in either of these FTAs. In the FTA with Thailand, all restrictions have been lifted on Thai investment in tourism services in Australia, other than the requirement that travel agencies and tour operators must maintain a commercial presence. Thailand, for its part, has permitted majority Australian ownership (up to 60 per cent) of major hotels and restaurants. The previous limit was 49.9 per cent.

The FTAs that Australia is currently negotiating with Malaysia and the Association of Southeast Asian Nations (ASEAN) have the potential to further increase exports of tourism services, including as a consequence of increased business travel and their 'head-turning' effects. While negotiations have not yet reached the stage of consideration of specific services sectors, no particular issues have been raised thus far by Australian companies in regard to the tourism industry. In the case of the FTA that is being negotiated with China, Australian operators have raised concerns about difficulties in opening branch offices and geographic restrictions on the operation of foreign travel agents in China.

Australia is also conducting a joint study with Japan into the feasibility of a bilateral FTA. Any FTA between Australia and Japan likewise has the potential to increase the flow of tourists between the two countries. Australia is, furthermore, considering the Gulf Co-operation Council's (GCC) wish to negotiate a GCC-wide FTA, and is commencing a Joint Experts Group process with Mexico, which will look at ways to enhance bilateral economic relations, including the negotiation of a possible FTA at some point in the future. FTAs with the GCC and Mexico should help to increase

⁵ Tourism here is defined in terms of the GATS W/120 Services Sectoral Classification List. As such, it excludes services like transport.

awareness of the relationship with Australia and thereby boost our exports of tourism services.

Tourism has also constituted a part of the work of Asia-Pacific Economic Cooperation (APEC). A Tourism Working Group was formed within APEC in 1991 in recognition of the growing importance of the tourism industry in promoting economic growth and social development in the Asia-Pacific region. Among the achievements of the Working Group are the establishment of the APEC International Centre for Sustainable Tourism to facilitate collaborative tourism research projects and to strengthen tourism research capability across the Asia-Pacific region; the development of a guide for tourism risk management for the Asia-Pacific region (currently being updated); the release of a best practices report on safety and security to safeguard tourism against terrorism; the launch of a project on impediments to tourism; an initiative to develop public-private partnerships for facilitating investments in tourism in the APEC member economies; and the exploration of best practices of e-commerce for application to small and medium tourism enterprises. Moreover, an APEC Tourism Charter has been adopted, which reflects a collective commitment to improve the economic, cultural, social and environmental well being of APEC member economies through tourism.

Austrade also has an important role in tourism-related export activities. A key plank in Austrade's tourism strategy is its memorandum of understanding on joint and complementary activities with Tourism Australia (TA) - and its predecessor, the Australian Tourism Commission - which has been in place since 2002. Under this umbrella, the *Aussie Enthusiasts Program* is a joint initiative with TA to support the travel trade in markets where TA does not have an active presence. The aim is to identify and assist new agents interested in selling Australia with the support of TA marketing and other tools. Austrade is, in addition, a strong ally of the Australian Tourism Export Council (ATEC), which is the peak industry body representing the tourism export industry nationally. Austrade has been actively involved in its annual symposium over the past five years. It also partnered with ATEC to bring a delegation of Vietnamese travel agents to Australia for a program of meetings with product suppliers. It is looking to undertake a similar program with South American travel agents later this year.

Austrade's full range of services apply for tourism exporters as they do for other industry sectors. Customised services are provided on a fee-for-service basis. These include market research, identification of business contacts/partners, in-market visit programs, and accompaniment to meetings, interpreting services etc. In 2005-06, Austrade assisted over 200 travel and tourism companies achieve export success valued at over \$800 million in a range of international markets. Austrade also manages tourism-related events such as the Australia Festivals in Latin America and Australia Week in Moscow. Furthermore, Austrade supports the overseas marketing efforts of tourism operators through the Export Market Development Grants (EMDG) scheme. Of the 3,205 EDMG grants issued in 2004-05, 407 grants (or 13 per cent), valued at \$11 million, were made to tourism exporters, generating \$451 in export revenue.