

Standing Committee on Employment, Workplace Relations and Workforce Participation: Inquiry into Workforce Challenges Facing the Australian Tourism Sector

In September 2006, the Department of Foreign Affairs and Trade (DFAT) made a written submission to the above inquiry. On 15 February 2007, three officials from DFAT appeared before the Committee to give evidence on the submission. During the course of the hearing, the DFAT representatives undertook to provide follow-up responses in writing to the following issues raised by the Committee:

Iraq War

“Have you noticed any correlation between the downturn in tourism and Australia’s involvement in the Iraq war?” (page 5 of the transcript).

We have reviewed the data and have been unable to discern any correlation between the downturn in tourism and Australia’s involvement in the Iraq war.

Austrade

1. *“How successfully is Austrade used to promote Australia as a destination for tourists as well as a destination for conferences and major events?”* (page 5 of the transcript).

Tourism Australia (TA) has a specific brief to promote Australia as a tourism destination in overseas markets for both consumer and business travel. Austrade has a Memorandum of Understanding with TA which delineates their respective roles and responsibilities in relation to inbound tourism to ensure that Austrade does not duplicate or compete with TA in markets where the latter has an active presence.

Austrade plays a more proactive role in TA’s Tier 4 markets (markets other than the top 23 inbound tourism markets) through events such as the Australia Festivals in Latin America, Australia Week in Moscow and FITUR in Spain.

Austrade also provides support for major international tourism events such as Celebrate Australia in Singapore and G’day USA. In addition, Austrade provides customised services for individual tourism clients in all markets where there is demand for its services over and above what TA and its partner agencies can provide. Furthermore, Austrade indirectly promotes Australia as a destination via a range of industry-based trade events, where Brand Australia is used.

2. *“Do you have any empirical information that shows how Austrade’s involvement in a particular area has led to an increase in tourism?”* (page 5 of the transcript).

In 2005-06, Austrade facilitated 104 deals worth more than \$25 million in the tourism and hospitality services sector, exceeding by more than 30 per cent the export impact achieved in 2004-05 (\$18.9 million). Japan, which accounted for 10.6 per cent of the

export sales facilitated by Austrade in 2005-06, was the leading tourism market, followed by India (7.7 per cent), Singapore (5.8 per cent) and Vietnam (5.8 per cent). Other large markets include China (4.8 per cent), Korea (4.8 per cent) and Spain (4.8 per cent).

3. *“What [are] Austrade's objective efforts ... to promote Australia as a destination and their role in tourism promotion in general?”* (page 6 of the transcript).

Please refer to the response to question 1 above.

4. *“What advice [does Austrade] give to DITR?”* (page 6 of the transcript).

Austrade has provided input to various stages of the development of the Tourism White Paper and Implementation Plan, as well as to the tourism risk management strategy.

5. *“What critique and advice [does Austrade] give on behalf of the government to other agencies within government about the effect of their promotional activities or otherwise on the overall trade story?”* (page 6 of the transcript).

Austrade consults with other Australian Government agencies regarding trade and promotional activities as necessary.

Japan

“[Why is it] that, of all the major countries that are coming to us, [Japan] is the only one that is forecast to fall, not relative to others but to itself?” (page 7 of the transcript).

According to Tourism Research Australia (which is part of Tourism Australia and which provides the secretariat for and inputs into the work of the Tourism Forecasting Committee), Japan is the only market for which total inbound economic value (TIEV) is forecast to decline over the 2005 to 2015 period. The negative forecast growth rate over this period stems largely from reassessments associated with a poor year in 2006. The relatively weak profile for arrivals beyond 2006 is largely a result of the subdued outlook for Japanese economic growth in combination with an assumed ageing of the population.

For more detailed advice provided by Tourism Research Australia, please see Attachment 1.

Australia's WTO Obligations

“When that tour finishes, is that company shopfront locked and the lights switched off until they have the next tour? In other words, is that permissible under the GATS or it is a breach of it?” (page 9 of the transcript).

Australia's Uruguay Round WTO General Agreement on Trade in Services (GATS) obligations for travel agencies and tour operator services¹ permit full entry of foreign service providers, except for provision of these services through such means as electronic or post. In these cases, foreign service providers are required to have a commercial presence in Australia. Foreign service providers of tourist guide services² are permitted full entry, i.e. they are able to provide fly in, fly out services.

These obligations were entered into at the time following full consultation with the relevant industry, the States and Territories and Australian Government agencies and reflect the open nature of the sector. DFAT would investigate compliance with those obligations if they were brought to our attention by Australian industry or trading partners.

As advised during the hearing, each of the States and Territories is responsible for licensing and operation. The Australian Government agency concerned with these matters is the Department of Industry, Tourism and Resources.

¹ For GATS purposes, travel agencies and tour operator services refer to: services rendered for passenger travel by travel agencies, tour operators, and similar services; travel information, advice and planning services, services related to arrangement of tours, accommodation, passenger and baggage transportation; and ticket issues services. These services are provided on a fee or contract basis.

² Tourist guide services are: tourist guide services by tourist guide agencies or own account tourist guides.

Attachment 1: Advice Provided by Tourism Research Australia

The October 2006 release of the Tourism Forecasting Committee (TFC) forecast Japanese total inbound economic value (TIEV) to decline by 5.6 per cent to \$2.1 billion in 2006. This was largely based on a projected decline in arrivals from Japan of around 4 per cent (to 653 000). We now know that arrivals from Japan contracted by 5 per cent (to 651 000) in 2006. Arrivals from Japan fell in 2006 mainly because of a decrease in the competitiveness of travel to Australia associated with a depreciation of the Japanese yen against the Australian dollar. This effect was magnified by the way Australian travel products are sold in Japan.

Travel distributors in Japan predominantly sell Australian packages rather than air-only and have long-lasting contract prices with Australian tourism suppliers in Australian dollars. They also have prices set in yen in brochures with consumers which cannot be readily changed. When the Australian dollar rises strongly, the profitability of selling Australia compared to other destinations falls. This discourages the selling of Australian packages.

Costs for Australian ground content for Japanese fiscal year 2006-07 (1 April to 31 March) were in the majority of cases negotiated in mid-2005, when the Australian dollar was worth 83 yen. This compares with an average value of 87 yen for calendar year 2006. This shift represents a difference of 5 per cent and is a significant erosion of profit margins on package sales.

The near term outlook for arrivals from Japan (and therefore Japanese TIEV) is not overly positive for the following reasons:

The Japanese yen remains substantially lower against the Australian dollar compared with mid-2005, when many current contracts were negotiated (the currency was valued at around 90 to the Australian dollar in early March).

Aviation capacity serving Japan-Australia routes is set to decline in the coming six months. Other destinations from Japan that are supported by greater business traffic have, in contrast, experienced increased airline capacity and associated stronger tourism trends from Japan.

Longer haul travel from Japan has been affected by the doubling of fuel surcharges for travel from Japan during 2006, reflecting the higher surcharges on longer flights. As Australia is a medium to long haul destination for Japanese travellers, this has further eroded Australia's competitive position

However, looking further out, market research by Tourism Australia indicates that Australia's position with the Japanese consumer has improved over the past year in response to the Brand Australia campaign. This should provide support for Japanese arrivals in coming months, as will initiatives taken in response to the "Japan Action

Plan”. However, longer term growth prospects for arrivals from Japan remain relatively subdued because of the economic and demographic outlook for Japan.

The TFC uses assumptions for future levels of various macroeconomic variables from “Consensus Forecasts”. The most important economic variable that affects the outlook for tourism arrivals is economic growth (GDP is used as a proxy for wealth). The October 2006 Forecasts assumed that economic growth in Japan would average around 2 per cent a year from 2007 to 2015. This compares with an average growth rate of around 4.4 per cent for Australia’s top 15 tourism source markets (excluding Japan, ranked by TIEV). Japan’s relatively low economic growth rate supports a forecast growth rate in arrivals that is lower than most other markets.

Further, the ageing of Japan’s population is expected to have a negative impact on the available pool of outbound travellers. In contrast, higher growth in population and economic prosperity in other important source markets, such as China and India, is expected to lead to substantial increases in those markets in the number of people who have the ability to travel overseas.