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18th April, 2005

The Secretary  
Senate Economics Legislation Committee  
Suite SG.64  
Parliament House  
CANBERRA ACT 2600

Dear Sir/Madam,

**Inquiry into the Tax Laws Amendment (2005 Measures No.1) Bill 1005  
Submission by Yon Sha Kai**

We, Yon Sha Kai, would like The Committee to accept this written submission for consideration in their inquiry into Tax Laws Amendment (2005 Measures No. 1 ) Bill 2005, specifically Schedule 3 and the liability for GST by non-residents.

Yon Sha Kai is an association of the four largest Japanese inbound operators in Australia: JALPAK, Kintetsu International Express, Nippon Travel Agency and JTB Australia. These four inbound operators are key members of the Japan Policy Panel of the Australian Tourism Export Council ("ATEC"). Together, they handle up to 80% of the Japanese travellers to Australia.

Accordingly, Yon Sha Kai is able to provide The Committee with expert and reliable information about the impact the proposed amendments would have on the Japanese inbound market.

With a total of 646,300 visitors from Japan in the year ending June 30, 2004 at an average spend of \$3,727, the market is a large and valuable one to the Australian economy<sup>1</sup> both in terms of revenue and employment at \$2.4 billion.

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<sup>1</sup> Source – Tourism Australia fact sheet – Australian Tourism Inbound Tourism Trends – June 2004

Although Australia offers a unique destination that is well regarded by the Japanese, in the current climate there are already many factors which are influencing our ability to translate that into actual tour bookings.

Firstly, we must compete against other destinations. Obviously one of the main criteria in deciding where to holiday, is price. Australia has been for some time more expensive than other popular destinations. For example, Cairns and Guam are similar destinations, with Guam being half the price of Cairns.

Added to this, is the strength of the Australian dollar against the Yen. This impacts not only the tour price, but value to the tourist on spending once they arrive at their destination, be it on attractions, optional tours, shopping or gifts, all of which are important to our Japanese market.

Coupled with the difficulty in competing against other destinations in sale price, is a rising cost base. The two major factors in this currently are increasing hotel room rates due to strong domestic travel trends and guide wage costs. It is expected that transportation costs will also be impacted in the coming year with increasing fuel prices, be it in local bus transfers or airfares.

Accordingly, in order to stay price competitive against other destinations, but having rising costs, the land content of some tour packages are being sold at a loss by operators.

Together, these factors make it difficult to sell Australian tours at enough volume to make a profitable margin. As an indication, in the current year bookings for April-June quarter are down approximately 30-40%. In some cases, operators have made a decision to no longer promote Australia, but to sell destinations which are easier to market price wise and offer more profitable returns.

These factors demonstrate how the market is already contracting due to price competitiveness issues, and the changes will only compound this. Should the proposed changes be approved, tour operators will have to decide between passing on the price increases, or absorbing the impact.

If the decision is to increase tour prices, Australia as a destination becomes even less competitive or attractive to the tourist. If it is absorbed and the margin reduced, then operators will be less likely to promote Australia as a destination compared to more profitable ones.

Additionally if the changes are implemented with no transitional period, the decision will largely be out of their hands and they must absorb it in margins. As tour operators generally publish forward prices, and the market reality is that it is uncompetitive to change a published price upwards, the impact will have to be absorbed in profit. At the time of writing prices for package tours of the Yon Sha Kai members have been practically published up to March 2006.

Once you begin to lose market share, particularly over a period such as two years, it is hard to recover in a short period of time. By then Australia's reputation as a profitable and price competitive market would be affected and most likely require a substantial investment in promotional activities that can be ill afforded in a low profit margin market.

Consequently, the changes will have a major and detrimental impact on our tourism market. The proposed changes will negatively impact tourist numbers and consequently contract revenue and employment in the tourism market, with all the flow on affects that this would have.

On a practical note we see complications with the proposed changes in areas such as how to handle foreign exchange, cash flow issues such as timing of the GST liability versus receipt of payments from the customer and claiming input tax credits from suppliers, substantial costs in changing systems to record the GST liability, particularly where the system would then have to handle the consumption tax in Japan and GST n Australia, and education of staff in Japan to name a few.

However the overriding concern for us is the unquestionably negative impact on the already competitive Japanese market. We have no doubt that the tourists numbers will drop and employment affected as the market contracts.

As outlined in your letter inviting submissions, we would like our submission to remain confidential.

We thank you for your time and welcome any questions you may have, and are confident that The Committee's decision will take into account the best interests of the Australian economy through tourism revenue and employment.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Koji Iwatsuki', written over a horizontal line.

Koji Iwatsuki  
Managing Director  
JTB Australia Pty Ltd

On behalf of the members of Yon Sha Kai.