

Our Ref: D08/3691
Tourism WA File: IPD/0938

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The Secretary
Select Committee on Fuel and Energy
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Senator

Thank you for your letter dated 10 July 2008, inviting Tourism Western Australia (Tourism WA) to provide a submission to the Senate Select Committee on Fuel and Energy.

Tourism WA has concerns about the future of domestic and international tourism resulting from current and forecasted increases in fuel and energy costs. Our submission is attached as a separate document and addresses this organisation's interest in three of the nine terms of reference, namely,

- The impact of higher petroleum, diesel and gas prices on families, small businesses, rural and regional Australia, grocery prices, and key industries, including but not limited to tourism and transport.
- Taxation arrangements on petroleum, diesel and gas products.
- The impact of higher petroleum, diesel and gas prices on public transport systems.

Tourism WA has no objection to its submission being posted on your website.

Should you require clarification or further information on the submission please contact Steve Crawford, Director Strategic Policy, either by telephone on (08) 9262 1826 or email steve.crawford@westernaustralia.com.

Tourism WA looks forward with interest to the Committee's findings and recommendations.

Yours sincerely



JENNIFER DUFFECY
Acting Chief Executive Officer

1 October 2008

Attachment

THE SENATE SELECT COMMITTEE ON FUEL AND ENERGY

Submission by



September 2008

1.0 Introduction

Tourism Western Australia (Tourism WA) is the Western Australian Government statutory authority whose purpose is to develop, promote and protect the State's iconic tourism experiences. Tourism WA has a direct interest in the outcomes of this Senate inquiry.

Of particular interest are three of the terms of reference;

- The impact of higher petroleum, diesel and gas prices on families, small business; rural and regional Australia, grocery prices, and key industries, including but not limited to tourism and transport.
- Taxation arrangements on petroleum, diesel and gas products.
- The impact of higher petroleum, diesel and gas prices on public transport systems.

This submission aims to provide the Senate Select Committee:

1. An overview of the Western Australian tourism industry and its reliance on transportation.
2. Recent consumer research of relevance to the terms of reference.
3. Tourism development and marketing implications.
4. Responses to the Terms of Reference of interest (identified above.)

The available evidence suggests that tourism is an industry at risk of negative consequences arising from rapidly increasing fuel prices. There is very little affected businesses can do to mitigate against these consequences. Increasingly, affected businesses and regional communities will be looking to the Federal Government for leadership and affirmative action.

2.0 Western Australia Tourism Overview

Western Australia is the largest Australian State. With a 12,500km coastline and spanning 2,400km from north to south, it occupies a third of the continent, and is 2,724km from Adelaide, 4,045km from Darwin, 3,452km from Melbourne and 4,144km from Sydney. Perth is closer to Singapore and Jakarta than it is to Canberra.

Three quarters of Western Australia's population live in and around Perth. Western Australia's relatively small population is concentrated in its south west corner and is uniquely isolated from other Australian states and cities. A low population density coupled with an expansive land area, for most Western Australians means either private motor vehicle or air transport when choosing to holiday within their own state. Moreover, Western Australia is a long haul destination for anyone travelling from interstate or overseas. In short, Western Australia's tourism industry is exposed to the vagaries of rapidly increasing cost of fuel and therefore, travel costs. Such a business environment has both demand-side and supply-side implications.

2.2 Demand Issues

Domestic consumption is the very cornerstone of Australia's and Western Australia's tourism industry. 65% of the State's tourism Gross Value Added (GVA) is derived from the domestic tourism sector. The Federal Government has identified domestic tourism as a critical issue to be addressed through the National Long Term Tourism Strategy announced by the Minister for Resources, Energy and Tourism in May 2008.

The Senate Select Committee should focus on identifying ‘vulnerable’ market segments. A vulnerable segment is that group of customers who are most sensitive to rapidly changing prices and therefore most likely to change their behaviours related to the purchase and consumption of tourism. For this reason, the following analyses will focus principally on the domestic tourism market. This is not to say that international visitors are not impacted by rapid fuel price increases, but simply acknowledges that the domestic market is some 65% of total tourism consumption.

From an economic perspective, reductions in disposable income resulting from general price rises that are unmet by a rise in household incomes, will lead to decreased consumption of luxuries such as tourism. There is no reason to expect otherwise with fuel price increases. However, tourism consumers are not all the same. Some segments are more vulnerable than others when it comes to price impacts. An assessment of the most vulnerable consumer segments is, therefore, needed.

Nationally, tourism data is collected via two principal surveys: the International Visitor Survey (IVS) and the National Visitor Survey (NVS). These data measure tourism volumes and attributes. Of particular interest to the issue of fuel price increases is domestic tourism.

One way to understand the impact of rising fuel prices on domestic tourism consumption is to look at the relationship between traveller demographics, main transportation used and main accommodation used. Such an assessment will assist in determining whether there is a market segment that is particularly vulnerable to the vagaries of fuel prices. It is assumed that price sensitive segments will react more to fuel price rises than less price sensitive segments.

Demographics

Table 1 below demonstrates the demographic profile for travellers to, and within, Western Australia. Looking specifically at the domestic tourism market, two demographic groups are of prime interest – Generation (Gen Y) and seniors. These segments comprise some 27% of the domestic tourism market. Furthermore, both segments are considered price sensitive and therefore more likely react to fuel price shifts to a far greater extent than other segments.

**Table 1
Traveller Age Demographics: 2007/08**

Generation Category (Years)	Intrastate	%	Interstate	%	Total Domestic	%
Gen Y (15-24)	820,000	17%	106,000	9%	926,000	15%
Gen X (25-44)	1,840,000	37%	417,000	35%	2,257,000	37%
Baby Boomers (45-64)	1,642,000	33%	519,000	44%	2,161,000	36%
Seniors (65+)	608,000	12%	134,000	11%	742,000	12%
TOTAL	4,910,000	100%	1,176,000	100%	6,086,001	100%

(Source: Tourism Research Australia - National Visitor Survey International Visitor Survey)

Looking into the future, however, generational shifts can be expected. Recent analysis undertaken by Tourism Research Australia¹ forecasts potential demographic changes that may occur. Table 2 below illustrates how the seniors segment is expected to decline from 18% of the Australian domestic tourism market to 2% of the Australian domestic tourism market by 2020.² Concurrently, Generation Z (a new market segment) is expected to grow from 0% to 17% of the Australian domestic tourism market and will be a price sensitive segment. The Baby Boomer segment, which was the engine for growth in the past, is expected to decline to 17% of the Australian domestic tourism market by 2020 and become a price sensitive segment.

¹ Tourism Research Australia, 2008, Through the Looking Glass: the Future of Domestic Tourism in Australia

² Note: The research is for the Australian domestic market as a whole. The assumption is made that trends at a national level are applicable at a state level.

Table 2
Forecast Share of Domestic Tourism Expenditure by
Generational Category

Generational Category	Birth Years	2006 (%)	2020 (%)
Gen Z'	1991 onwards	0%	17%
Gen Y'	1976 - 1991	17%	26%
Gen X'	1961 - 1976	34%	37%
Boomers	1946 - 1961	31%	17%
Seniors	Before 1946	18%	2%

36%

Hence, by 2020 at least 36% of Australia's domestic tourism market will be price sensitive, a sizeable share of the total domestic market. The size of this price sensitive sector is 1,668,000 visitors.

If this trend is replicated in Western Australia, it can be concluded that over the next 12 years there will be a significant shift in the proportion of the domestic tourism market that can be considered price sensitive (from 27% to 36%). For this reason, Tourism WA has identified 'affordable tourism' as a strategic customer segment³. If, in the longer term, the affordable tourism segment disappears from the tourism landscape then this may have catastrophic consequences for Australia's tourism industry generally.

Transportation

Apart from intrastate travel from Perth to nearby destinations within the South West of the state, virtually all other travel (intrastate, interstate and international) requires travel times in excess of three hours many and often involve travel distances of many thousands of kilometres.

Table 3 below illustrates (on a three year rolling average to June 2008) the main forms of transportation used by domestic travellers to and within Western Australia. It can be seen that some 74% of all domestic travel is self-drive.

Table 3
Domestic Visitors - Main Transportation Used: Rolling 3 Year Averages to June 2008

Generation Category (Years)	Air	%	Self Drive Car/Camper	%	Bus or Coach	%	Railway	%	Other	%	Total	%
Gen Y (15-24)	136,000	13%	823,000	80%	51,000	5%	23,000	2%	25,000	2%	1,031,000	16%
Gen X (25-44)	636,000	27%	1,751,000	73%	28,000	1%	20,000	1%	48,000	2%	2,400,000	38%
Baby Boomers (45-64)	583,000	27%	1,591,000	73%	34,000	2%	26,000	1%	60,000	3%	2,189,000	34%
Seniors (65+)	112,000	15%	577,000	76%	49,000	6%	33,000	4%	33,000	4%	758,000	12%
TOTAL	1,467,000		4,742,000		162,000		102,000		166,000		6,378,000	
%	23%		74%		3%		2%		3%	0%	100%	

Note: Row totals add to more than 100%

(Source: Tourism Research Australia - National Visitor Survey International Visitor Survey)

76% and 80% of seniors and Gen Y, respectively, are self-drive. Hence, around 1,400,000 visitors, who might be considered in the price sensitive sector of the market, are self-drive.

Accommodation

With regard to main accommodation used, Table 4 below indicates that of the 874,000 visitors who used a caravan or camping as their main form of accommodation 271,000 of these were either seniors or Gen Ys. It should be noted that Tourism WA's assessment of impacts is very conservative as it does not consider the 2.5 million visitors who use the homes of friends and relatives. It can be safely assumed that a significant proportion of this group would be price sensitive and therefore vulnerable to rapid fuel price rises.

³ Tourism Western Australia, 2007, Strategic Plan 2007 - 2012

Table 4
Domestic Visitors - Accommodation Used: Rolling 3 Year Averages to June 2008

Generation Category (Years)	Hotel Resort, Motel	%	Friends or Relations	%	Caravan & Camping	%	Other	%	Total	%
Gen Y (15-24)	203,000	20%	543,000	53%	163,000	16%	149,000	14%	1,031,000	16%
Gen X (25-44)	859,000	36%	882,000	37%	320,000	13%	1,237,000	30%	2,400,000	38%
Baby Boomers (45-64)	810,000	37%	783,000	36%	283,000	13%	159,000	21%	2,189,000	34%
Seniors (65+)	190,000	25%	363,000	48%	108,000	14%		21%	758,000	12%
TOTAL	2,062,000		2,571,000		874,000		1,237,000		6,378,000	
%	32%		40%		14%		19%		100%	

Note: Row totals add to more than 100%

(Source: Tourism Research Australia - National Visitor Survey International Visitor Survey)

In summary, the price sensitive sector of the market is conservatively comprised of 1,668,000 visitors of whom 1,400,000 visitors are self-drive and 271,000 visitors use a caravan or camp. In all likelihood these visitors will be most affected by fuel price increases.

2.1 Investment Issues

Access Economics has compiled a Western Australian tourism satellite account using methodology broadly similar to that used by the ABS for the national Tourism Satellite Account (TSA).

Accordingly, the tourism contribution to total industry Gross Value Added (GVA) was \$3.0 billion in 2005/06 (the latest year for which data is available). With the addition of taxes to give Gross State Product (GSP), the tourism contribution to GSP was \$3.6 billion. Approximately, 35% and 65% can be attributed to international and domestic tourism, respectively.

During this same period tourism consumption (or demand), which is measured in terms of total expenditure on Western Australia products by tourists in Western Australia (excluding taxes), amounted to \$6.715 billion.⁴

Prepared by Tourism WA, the Tourism Accommodation Development Register provides the most comprehensive account of private sector capital investment in accommodation, planned and under construction.⁵ Table 5 below demonstrates the value of projects completed from 1997 to 2007 and consequential additional room inventory. It can be seen that over the past 10 years, private capital investment in the State's tourism industry has averaged at around \$100 million annually in new accommodation stock. There are, however, signs of a slow down in investment since 2005.

Table 5
Accommodation Projects Completed: 1997 - 2007

Year	Investment (\$million)	Lettable Units	Cumulative	
			Lettable Units	Investment (\$million)
1997	\$ 78.7	691	691	\$ 79
1998	\$ 65.3	461	1,152	\$ 144
1999	\$ 117.4	935	2,087	\$ 261
2000	\$ 95.0	934	3,021	\$ 356
2001	\$ 155.2	492	3,513	\$ 512
2002	\$ 29.3	301	3,814	\$ 541
2003	\$ 104.4	967	4,781	\$ 645
2004	\$ 165.7	1,223	6,004	\$ 811
2005	\$ 136.7	935	6,939	\$ 948
2006	\$ 50.9	509	7,448	\$ 999
2007	\$ 97.8	1,238	8,686	\$ 1,096

(Source: Tourism Western Australia, 2007, Tourism Accommodation Development Register)

⁴ Access Economics, 2007, The Economic Contribution of Tourism to Western Australia in 2005/06

⁵ Note: In 2005/06 GVA contribution by the accommodation sector was \$542 million or 18% of total GVA.

More than \$1 billion in recent capital investment (in the accommodation sector alone) is now exposed to the vagaries of the economic uncertainties created through fuel price escalations.

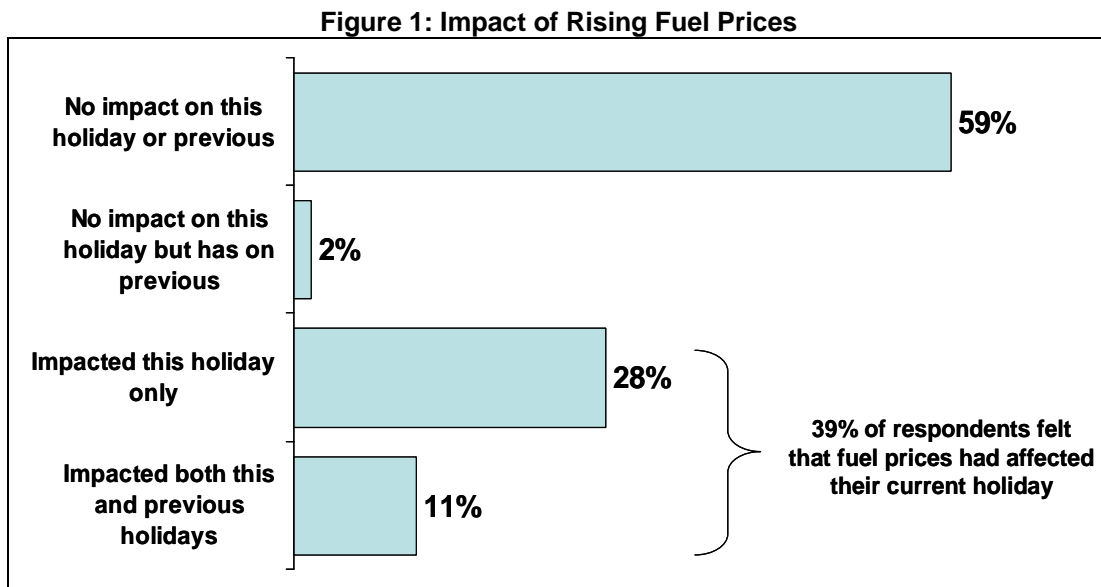
Looking to the future, investor confidence will be negatively impacted if consumer-demand for tourism services declines either partly or wholly as a result of rising fuel costs. Tourism developers are dependent on domestic demand to establish project feasibility. In the light of reduced demand (and there are some signs of slowing domestic demand), it can be expected that investment will slow down. Such an outcome will ultimately impact negatively on Australia's international competitiveness.

3.0 Specific Consumer Research and Analysis

In addition to the national data collections, Tourism WA conducts its own market research to gain insights into marketing effectiveness and customer satisfaction. This research is referred to as Key Performance Indicator (KPI) research. Based on a sample frame of 500 tourists (both domestic and international) the KPI research examines a wide range of issues to determine overall satisfaction with Western Australia's tourism product offerings and reports statistically significant findings.

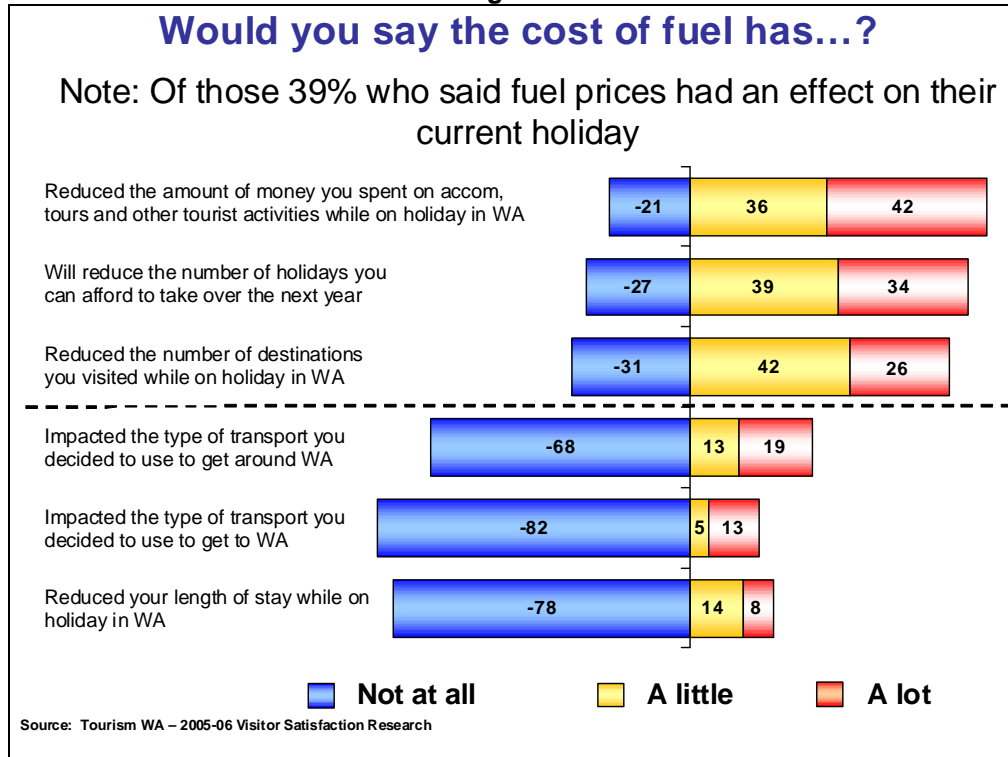
From time to time questions about the impact of fuel prices are included in the survey questionnaire. KPI research conducted in 2005/06 included a question, "What impact has the rising cost of fuel had on your holiday?"

Figure 1 below indicates that although 59% of those surveyed said rising fuel prices had no impact on their holiday, 39% of the respondents did highlight impacts.



The 39% of responded affected by fuel prices were probed for more detail. Figure 2 overleaf suggests a number of adaptation strategies used by consumers:

Figure 2



Consumer adaptation strategies include:

1. Reduce expenditure on other tourism related services, for example, accommodation, meals/outings, tours and activities.
2. Reduce the number of holidays taken.
3. Reduce the number of destinations visited (and therefore, distance travelled).
4. Change the type of transport used to get to, or within, Western Australia
5. Reduce trip length.

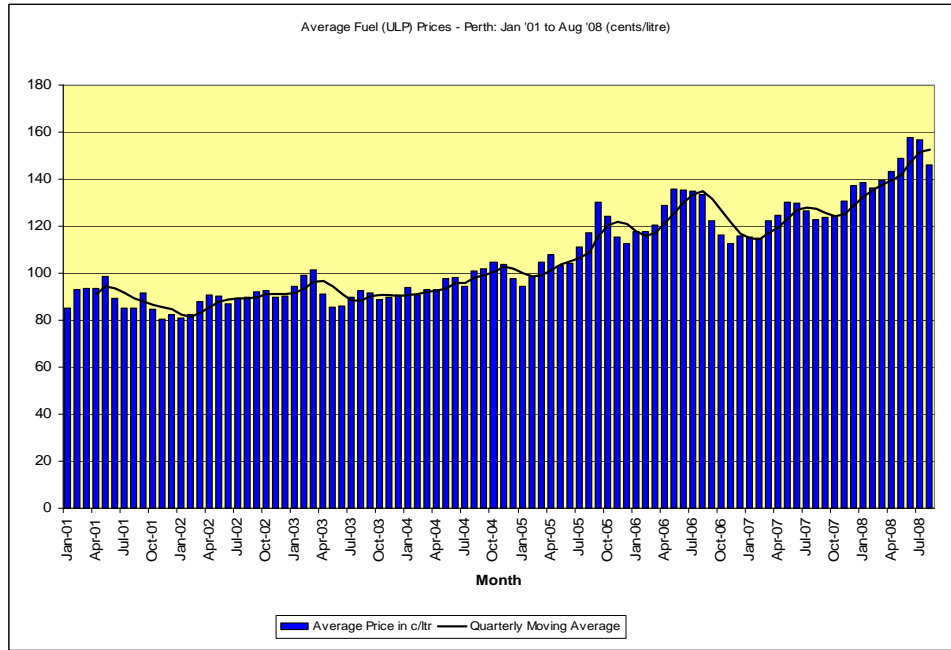
It is noted, however, the survey was conducted at a time when Perth City (ULP) fuel prices fluctuated from 110.9 cents/litre (July 2005) to 135.5 cents/litre (June 2006), an increase of 22.2%. From July 2005 to June 2008 fuel prices have risen by 42.2%. In all likelihood, the comments expressed in the 2005/06 survey will have intensified since 2006.

It is worth bearing in mind that the survey does not include those individuals who choose not to travel.

4.0 Tourism Development and Marketing Implications

That fuel prices have rapidly increased in recent times is overwhelmingly self-evident. Figure 3 overleaf demonstrates fuel price increases since January 2001 to present.

Figure 3

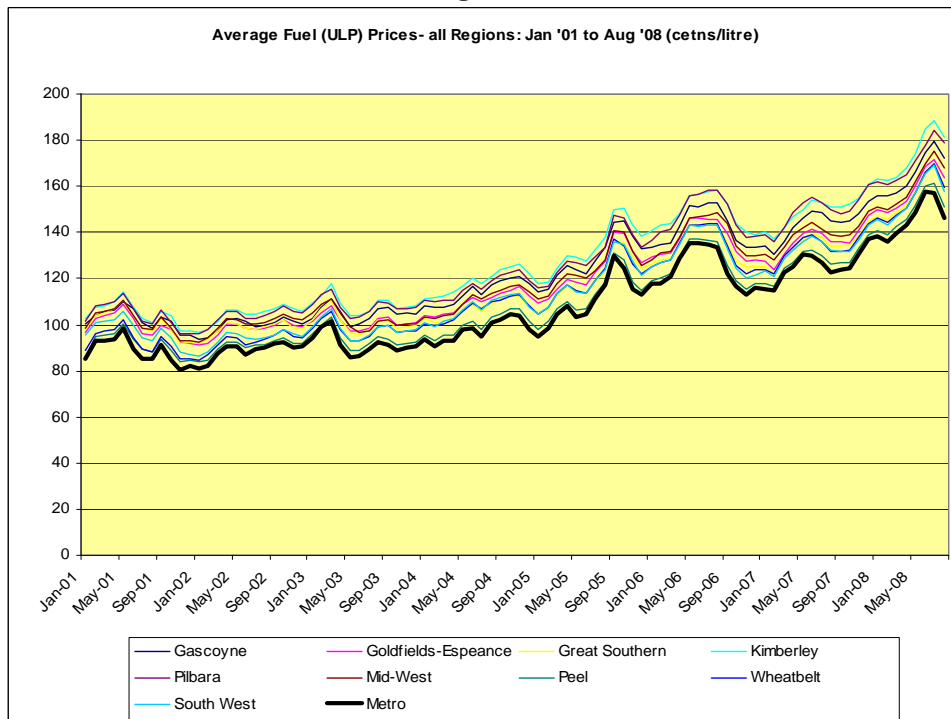


(Source: Department of Consumer and Employment Protection)

However, the extent to which fuel price increases have impacted on tourism, particularly where motor vehicles are used as the primary means of transport, is not clearly evident. Nonetheless, there are some indicators to suggest short term impacts. Whether these short term impacts become more enduring is a matter for debate.

An issue of considerable concern is the metropolitan – regional price disparity. Figure 4 below demonstrates quite clearly that the prices paid for a litre of fuel in regional Western Australia is in the order of 15% to 18% higher than Perth.

Figure 4



(Source: Department of Consumer and Employment Protection)

Given that a sizeable proportion of the tourism market is seniors, many of whom stay in caravan parks, the metro-regional price discrepancy will be most impactful on this segment. It is well known that many “grey-nomads” on fixed incomes will travel northwards during the southern winter in order to avoid the cold conditions (and related ailments, particularly rheumatism). This segment usually chooses a single destination (e.g. Shark Bay, Carnarvon, Exmouth, and Broome) and will have a length of stay of more than 4 weeks.

Market Reactions

There is a likelihood that Australian consumers will react to these changing circumstances in one of two ways. They will either;

1. Stay in the market and;
 - i. Pay higher prices for the same basket of goods and services purchased. This is essentially a ‘no change’ response.
 - ii. Pay the same relative price but change their behaviours (as previously identified) to meet these changing circumstances.

2. Opt out of the domestic market and,
 - i. Reallocate to other goods and services (or return to savings) money previously spent on domestic tourism, or
 - ii. Travel overseas.

There is evidence to suggest both options are being pursued. Domestic tourism in Australia declined between 2006/07 and 2007/08 across all purposes and in term of total visitors and their nights away, in all a decline of 2%. Yet, at the same time Australians increased their level of overseas travel by 11% and in particular international leisure travel increased by 15%. Table 6 below and Table 7 over the page demonstrate these results.

Table 6
Domestic Tourism: Australia All Purpose Travel - 2006/07 to 2007/08

	2006/07		2007/08		Change	
	Vistors (‘000)	Nights (‘000)	Vistors (‘000)	Nights (‘000)	Vistors%	Nights %
Leisure	32,181	139,865	32,041	138,581	-0.4%	-0.9%
Visiting friends/relatives	25,139	88,635	24,401	84,452	-2.9%	-4.7%
Business	14,256	43,508	13,861	41,577	-2.8%	-4.4%
Other	3,723	13,403	3,440	12,613	-7.6%	-5.9%
Total	73,571	287,578	72,219	279,958	-1.8%	-2.6%

(Source: Tourism Research Australia, National Visitor Survey)

NB: Rounding error in table sums

Table 7
Outbound Travel by Australians: 2006/07 to 2007/08

	Visitors ('000)				
	2006/07	%	2007/08	%	Change
Leisure	2,278	50%	2,622	52%	15.1%
Visting friends/relatives	1,083	24%	1,193	24%	10.2%
Business	1,019	23%	1,094	22%	7.4%
Other	148	3%	137	3%	-7.4%
Total	4,528	100%	5,046	100%	11.4%

(Source; Trourism Research Australia, National Visitor Survey)

NB: Year ended 30 June due to 3 month recall period.

The evidence for Western Australia is consistent with these findings. The most recent survey results (refer Table 8 below) indicate that leisure travel to and within WA is experiencing a decline.

Table 8
Domestic Tourism WA: Leisure Purpose Only - 2006/07 to 2007/08

	2006/07		2007/08		Change	
	Vistors ('000)	Nights ('000)	Vistors ('000)	Nights ('000)	Vistors%	Nights %
Intrastate	2,374	10,665	2,337	10,072	-1.6%	-5.6%
Interstate	410	4,725	329	4,660	-19.8%	-1.4%
Total	2,784	15,390	2,666	14,732	-4.4%	-4.3%

(Source: Tourism Research Australia, National Visitor Survey)

Of particular concern is the decline in interstate visitors which is indicative of a market reaction to fuel costs. Leisure visitation is down by 20%.

Given that tourism is a consumer luxury, financed from household disposable income it is more than likely that some customer segments will be impacted more than others. It has previously been identified that WA's domestic tourism profile is such that a very significant segment of the market is exposed to such price rises and may make behavioural adjustments to compensate. These effects will be felt by the industry itself and should be of concern to the Federal Government.

Tourism WA has undertaken an analysis of travel costs. Table 9 below provides an indication of fuel (ULP) cost for typical round-trip journeys from Perth to various regional destinations utilising a variety of vehicle types (four wheel drive, six cylinder, and four cylinder). "Current" fuel prices used in this analysis were based on those in effect during August 2008 and it is recognised that these prices are not constant. Moreover, Perth prices are taken as the benchmark despite the vast discrepancy between metro and regional prices (refer to Figure 2). Recent analysis undertaken by the CSIRO indicates that ULP prices could rise to \$8.00 per litre by 2018.⁶ This figure is used as the basis for determining likely travel costs in the future. Current and likely future travel costs for a selection of destinations are set out below in Table 9. Tourism WA has undertaken similar analysis for diesel and LPG powered vehicles. However, ULP is taken as the benchmark.

Table 9

	Retrun Trip Cost								
	4WD			6 Cylinder			4 Cylinder		
	At Current Prices	At \$8.00/litre	Difference	At Current Prices	At \$8.00/litre	Difference	At Current Prices	At \$8.00/litre	Difference
Albany	\$ 185	\$ 949	\$ 764	\$ 134	\$ 687	\$ 553	\$ 114	\$ 582	\$ 469
Broome	\$ 1,008	\$ 5,171	\$ 4,163	\$ 730	\$ 3,745	\$ 3,014	\$ 619	\$ 3,174	\$ 2,555
Exmouth	\$ 572	\$ 2,935	\$ 2,363	\$ 414	\$ 2,125	\$ 1,711	\$ 351	\$ 1,801	\$ 1,450
Geraldton	\$ 192	\$ 984	\$ 792	\$ 139	\$ 712	\$ 573	\$ 118	\$ 604	\$ 486
Kalgoorlie	\$ 270	\$ 1,383	\$ 1,113	\$ 195	\$ 1,001	\$ 806	\$ 165	\$ 849	\$ 683
Margaret River	\$ 126	\$ 647	\$ 521	\$ 91	\$ 469	\$ 377	\$ 77	\$ 397	\$ 320

(Source: Tourism Western Australia)

⁶ CSIRO, 2008, Fuel for Thought – The Future of transport fuels: Challenges & Opportunities

The table indicates that relatively low-cost trip, say Perth to Margaret River and return, will vary from \$77.00 for a Camry (4cyl) to \$126.00 for a Land Cruiser (4WD), with the family Falcon Sedan (6cyl) coming in at \$91.00. If fuel consumption ratios remain constant for these types of vehicles and fuel prices increase to \$8.00 per litre as predicted by the CSIRO, then the respective journey costs will be \$397.00, \$469.00, and \$647.00. Obviously, fuel consumption increases dramatically for vehicles towing a load (such as a caravan).

The impact on a round-trip journey to Broome using a Land Cruiser is an increase of some \$4,200 from (approx) \$1,000 at current prices to (approx) \$5,200 under an \$8.00 per litre regime (and this does not take into account regional price differences).

In the face of such costs, consumers can adapt by changing vehicle type or engine capacity. For example a Broome - return trip for a 6 cylinder LPG vehicle is \$447.00 compared with \$730 for a ULP.

An understanding of the potential impact on a typical road journey can be gained from Table 10 below which examines the impact of prices increases on a round trip to Exmouth, a distance of some 2,530 kilometres. A doubling of fuel price would result in a halving of the trip distance to achieve the same fuel cost. Of course, the reduced trip distance would be even greater given the metro-regional price disparity issue.

Table 10

		Amount of Price Increase						
Return Trip Distance to Exmouth (km)	2,530	10%	20%	30%	40%	50%	100%	200%
Distance that can be travelled (km)		2,298	2,106	1,944	1,805	1,685	1,264	842
Reduction factor		9%	17%	23%	29%	33%	50%	67%

Base price (\$/litre ULP) \$ 1.60
(Source: Tourism Western Australia)

Should the consumer reactions noted above become more entrenched then destinations like Exmouth may become uneconomical for a large sector of the total market.

The KPI research results and the 'market signals' beginning to emerge suggest that we are already starting to see changes in consumer behaviour, at least in the short term. The extent to which consumer behaviour will change in the longer term is not yet fully known.

These impacts can be summarised:

1. Interstate road traffic to Western Australia will decline, including:
 - i. Round-Australia caravan and camping travellers either do not travel to the state or truncate their travels at the border and do the "short-cut" through central Australia. This will have a severe impact on the affordable accommodation sector and regional service centres.
 - ii. Road travellers switch transport modes, most likely substituting road for air. This would impact on regional areas that may be dependent on through-traffic e.g. the Eyre Highway.
 - iii. Travellers truncate their stay in Western Australia, for example, enter via the Eyre Highway but do not travel north.

2. Intrastate travel patterns will change, leaving some regions at a relative disadvantage.
 - i. Remote destinations: Destinations such as Broome, Exmouth/Coral Bay, Shark Bay, Kalbarri, and Esperance may see reductions.
 - ii. Nearby destinations: Destinations such as Busselton, Dunsborough, Margaret River, Yallingup, and to a lesser extent Albany and Geraldton, may see an upturn, if those travellers who normally choose distant destinations change their destination choice.
3. Import substitution effects will become more evident. This is explained in more detail below but in essence, domestic tourists substitute an overseas holiday for a domestic holiday.

In the absence of increased household incomes to meet such increased fuel cost, destinations will become relatively more expensive. Hence, price-value impacts will become evident as these destinations become “more expensive” and others, possibly overseas, become “less expensive”. This scenario has become even more evident with the advent of low cost carrier (LCC) airlines in the Australian aviation landscape. Import-substitution effects are likely to increase if consumer perceptions are unduly influenced by increasing fuel prices. The knock-on effects will become evident; regional tourism economies will decline with obvious impacts on capital investment, incomes, and employment.

Analysis of the Tourism Satellite Account for Western Australia provides a basis for establishing the estimate of import-substitution effect. Total consumption of Western Australian products by tourists in WA was \$6.7 billion in 2005/06 (the latest data set for the TSA). Of this, domestic consumption was some \$3.4 billion. If a share of this is now imported to overseas destinations (i.e. domestic tourists cease to see value in a domestic holiday and substitute an overseas holiday for a domestic holiday), impacts on the economy could be quite substantial. Table 11 below quantifies the potential effect.

Table 11

Current Domestic Consumption		\$3.4 billion
Import Substitution Effect	Reduction in Domestic Consumption	New Level of Domestic Consumption
2.5%	\$85 million	\$3.315 billion
5.0%	\$170 million	\$3.230 billion
7.5%	\$255 million	\$3.145 billion
10.0%	\$340 million	\$3.060 billion
15.0%	\$510 million	\$2.890 billion
20.0%	\$680 million	\$2.720 billion

(Source: Tourism Western Australia)

It would not be unreasonable to expect an import-substitution effect of 5.0% to 7.5% should national efforts to stem the current national decline in domestic tourism fail to achieve results. Hence it may well be expected that the cost to the tourism economy in Western Australia may be in the order of \$85 million to \$255 million in reduced domestic consumption.

If import-substitution is not offset by either increasing consumption from the remaining domestic market or increasing the value of tourism exports (i.e. expenditure by overseas visitors), then a net decline in Gross Value Added will result.

The combination of changing consumer behaviours and import-substitution effects will have important consequences for future tourism investment and development:

1. Those businesses locked into serving 'vulnerable' markets will be at a serious disadvantage and may fail unless they somehow dramatically improve cashflows in the short term or take a longer term view and adapt or re-engineer their product offering. Regrettably the exit strategy used by many businesses, particularly those serving the traditional caravan segment, is to capitalise their land holding by way of land sale for 'highest and best' use, which usually means conversion to a strata-titled property development for mixed use tourist and residential.
2. New opportunities will be created for entrepreneurs seeking to develop new product offerings to meet new or changing market needs. Intelligent and innovative businesses will find new ways to serve past markets profitably, develop new products to meet the needs of new market segments, or find new markets for existing products.

In summary, the evidence presented above suggests current and expected future fuel price increases will have a number of impacts, including;

1. In the short term domestic consumption of tourism services is seeing change. Some consumers will modify their behaviours through shorter breaks, few breaks or shorter distances travelled. Others will opt out of the domestic market entirely.
2. There may be long reaching and damaging effects if consumers 'perceive' domestic holidays to be 'too expensive' compared with overseas alternatives or other consumer luxury purchases. This will impact on Australia's competitiveness as tourism development requires domestic consumption, without which investors are unlikely to outlay capital on much needed infrastructure.
3. The potential for import-substitution effects is very real (i.e. overseas travel is substituted for domestic travel) and could cost the Western Australian economy up to \$255 million in lost tourism expenditure.
4. There is a significant segment of tourists that could be affected by rising fuel prices i.e. a vulnerable segment. These tourists tend to be price sensitive (particularly if on fixed incomes), use motor vehicles as their principal means of transport, and stay in caravan parks. This segment is a subset of what Tourism Western Australia has tagged the 'affordable tourism' market.
5. It is the affordable tourism segment, which is comprised of traditional caravan parks and other services providers offering budget priced products, which could be severely impacted up as these businesses are very much dependent upon motor vehicles. It is not unreasonable to expect that many of these consumers will be in the market for overseas holidays particularly as airlines implement their LCC (low cost carrier) business model.
6. Businesses that are unable to, or lack the innovativeness to, adapt to a changing business environment are likely to fail. Equally, those business able to re-invent themselves and those able to create new and innovative product offerings will be able to compete in the new market environment.

5.0 Responses to the Terms of Reference

Tourism Western Australia has provided evidence to suggest that rapidly rising fuel prices may have short and long term impacts on the tourism industry.

The question then arises as to whether there is sufficient market failure to warrant the Federal Government's intervention and, if so, what should the nature and extent of that intervention be. On the one hand the Government has in place a number of economic measures to curb the inflationary effects of rapidly rising fuel prices. Again, the question arises as to whether these measures alone

are sufficient to protect the tourism industry from adverse or severe negative impacts. In all likelihood general economic measures alone will not be sufficient to offset negative impacts, at least in the short term.

In addition to the general need to examine more fully the long term impacts of a high price fuel regime (Term of Reference 1) Tourism WA also sees a need for the Senate Select Committee to probe more deeply into the tourism related issues related to taxation (Term of Reference 6) and impacts on public transport (Term of Reference 9).

In short, Tourism WA does not support a 'do nothing' approach from the Federal Government.

Term of Reference One: The impact of higher petroleum, diesel and gas prices on families, small business; rural and regional Australia, grocery prices, and key industries, including but not limited to tourism and transport.

Tourism Western Australia has submitted evidence that suggests sectors of the tourism industry are at high risk of being negatively impacted upon by rapidly rising fuel prices. These impacts can be summarised as follows:

1. **Short term impacts:** The evidence suggests that at a domestic level, 2006/07 was a turning point year with 2007/08 indicating signs of domestic decline in the number of Australians travelling domestically. Western Australia is particularly vulnerable given its 'long haul' status. Short term impacts included:
 - i. Loss or reallocation of tourism expenditure: Faced with declining disposable income visitors will curb spending in other areas.
 - ii. Regional dispersal: There are threshold distances, beyond which travel becomes too expensive. For many road users Western Australia is considered "too far" which translates to mean "too expensive".
 - iii. Product category impacts: Some businesses such as roadhouses, motor vehicle service industries, caravan parks, vehicle hire services, scheduled coach services, day tours, extended tours, safari tours, and charter boat tours are at risk of being negatively impacted up.
2. **Longer term impacts:** Less easy to predict, the longer term impacts could be very damaging. For Western Australia an expenditure loss of \$170 - \$255 million could result if the relative price/value benefit favours overseas destinations in preference to domestic destinations. Reduced levels of domestic demand will result in:
 - i. Regional economic impacts resulting from reduced industry profitability (if businesses reduce prices in response to declining demand), which in turn will result in fewer employment opportunities and less skilled service staff (which in turn impacts on international competitiveness).
 - ii. Reduced capital investment and re-investment. Many destinations will become less attractive to investors and developers and those already with capital commitments will be less inclined to upgrade or re-invest in capital replacement. Again, this vicious cycle will result in loss of international competitiveness.

Both outcomes will have serious national consequences. The Federal Government has already announced the need for a National Long Term Tourism Strategy. The outcomes of the current Senate Select Committee inquiry should be referred to the Minister for Resources, Energy and Tourism.

Rather than a 'do nothing' approach, Tourism Western Australia supports a measured policy response from the Federal Government. The Senate Select Committee should take the position that, whatever measures are put in place, they will at a minimum counter potential import substitution effects which as identified could cost Western Australia up to \$255 million in lost tourism expenditure.

The policy response should be twofold:

1. **'Soften the blow' in the short term.** Tourism WA believes there are a number of ways this can be achieved through a range of policy measures, including:
 - i. Restore consumer confidence through consumer-focussed incentives such as rebates to seniors through 'Seniors Cards' and other such instruments. There is a social equity basis for such a policy setting.
 - ii. Business relief measures to 'at-risk destinations' (e.g. remote and regional), at risk product sectors (e.g. caravan parks), 'at-risk' transport sectors (e.g. tour coaches). Such measures will most likely be found in the tax system which is already the subject of a review.
 - iii. More aggressive overseas marketing to accelerate the development of inbound markets which may be less price sensitive than domestic markets.
2. **Provide industry relief in the longer term.** The aim of such relief should be toward providing financial incentive to investors developing 'affordable tourism' product. The Department of Treasury and Finance and the Australian Taxation Office have shown extreme reluctance in the past with accelerated depreciation allowances and the like. However, with Australia's taxation system currently under review, it may be opportune for the Senate Select Committee to determine the potential for special assistance to at-risk industries.

Recommendation 1:

That the Federal Government initiates economic measures to identify tourism regions most affected by the negative impacts of rising fuel prices and:

1. Restore consumer confidence in domestic travel
2. Provide relief to affected destinations
3. Undertake more aggressive marketing to counteract declines in the domestic market
4. Provide a range of suitable incentives to encourage investors and developers seeking to develop 'affordable tourism' product and in particular focus on those targeting remote and regional areas.

Term of Reference Six: Taxation arrangements on petroleum, diesel and gas products.

Tourism WA is of the view that current taxation arrangements need to be reviewed, particularly with respect to the diesel fuel rebate scheme.

Diesel-dependent tour coach operators receive a rebate on the cost of diesel. Currently this is 18 cents per litre and is calculated as part of their Business Activity Statement. A policy shift from a volumetric basis for calculating the rebate to a value-metric basis of calculation is recommended. Hence, instead of 18 cents per litre, the rebate is calculated on say, 18 cents per \$100 of spend on diesel would create certainty and stability in product pricing and thereby overcome the current trend for operators to impose a fuel levy on to customers.

Such an industry support measures could be carried through to the aviation sector which has no fuel alternative other than aviation kerosene.

Recommendation 2

That the diesel fuel rebate scheme for tour operators be reformed from a volume based measure to a value based measure. The Senate Committee should refer this recommendation to the 'Henry Tax Review' currently underway.

Term of Reference Nine: The impact of higher petroleum, diesel and gas prices on public transport systems.

There is considerable public awareness of the serious impact increasing cost of aviation kerosene is having on airline profitability and therefore the scope for maintaining a network of low cost carriers (LCC's).

As road-based transport systems become uneconomic there will be increasing pressure for interstate aviation development. That is, policy should be directed at encouraging a shift to aviation. It is noted the Federal Government is preparing a National Aviation Policy Statement.

As part of the process of moving the tourism industry from road based transport systems to aviation based transport systems, the Federal Government should through its aviation policy provide additional mechanisms for aviation development.

Recommendation 3:

That policies be directed toward encouraging aviation development in remote and regional areas as a way of reducing dependency on road-based transportation systems.