

CHAPTER 3

KEY ISSUES

Overview

3.1 The proposed increase of the PMC drew comment from the aviation and tourism industries and from representatives of airport operators. While representatives raised a broad range of issues related to the PMC, in the short time available for this inquiry the committee has chosen to focus on the following key areas:

- purpose and nature of the PMC;
- the PMC as an offset for aviation security costs;
- impact on tourism;
- costs for airlines; and
- consultation relating to the proposed increase.

Purpose and nature of Passenger Movement Charge

3.2 A range of submissions and witnesses pointed to what they argued was a lack of transparency in relation to the PMC. In particular, witnesses considered that there was a lack of information about whether the PMC is a tax or a cost recovery charge; and questioned whether the PMC 'over-collects' for its stated purpose.

3.3 The Australian Tourism Export Council (ATEC) told the committee that:

...there has been a very poor flow of information between the governments of both persuasions and the tourism industry in particular as to what the passenger movement charge has been used for. It has been a very opaque process.¹

3.4 Similarly, the Board of Airlines Representatives of Australia (BARA) told the committee that:

...although it is collected nominally to fund specific government services, the proceeds of the PMC are not hypothecated. They go directly to consolidated revenue, but the costs of the services that the PMC is supposed to fund are met out of general budget allocations. We view the PMC with suspicion because it is shrouded in secrecy.²

3.5 Virgin Blue submitted that it was concerned about the lack of transparency and the confusion about policy objectives which it considered was perpetuated by the proposed increase:

1 *Committee Hansard*, 20 June 2008, p. 16.

2 *Committee Hansard*, 20 June 2008, p. 2.

The original policy basis for the introduction of the PMC was recovery of the costs of customs, immigration and quarantine. However, there has been a historic lack of transparency between these costs and the revenue generated by the PMC.³

3.6 The representative from Adelaide Airport said that if it is a cost recovery charge, then:

... another set of questions needs to be asked. Is it full or part recovery? Is it just recovery of the airport side of things? If it is, who pays for costs for Customs elsewhere and why is that not the same system for airports? Where do you stop what is included and what is not? That is obviously something parochial about airport charges. The last thing of all is the transparency that is required. If it is a cost recovery, we think there should be some details shown of exactly how and why the costs are what they are, particularly when you have a projected rise of 25 per cent.⁴

3.7 The representative of the Australian Airports Association (AAA) put forward a similar argument, stating that there is a 'lack of transparency' about the purpose of the charge.⁵

3.8 The ATEC representative advised that the lack of transparency in relation to the PMC has been an ongoing problem and was not addressed by previous administrations:

For example, the tourism white paper of the former government, supported by the current government and in which I had some involvement, promised as one of its items a review of the passenger movement charge. The previous minister for tourism promised us that the tourism industry would be made aware of the outcomes of that review and be told how the dollars would be spent. That was reneged on. The Department of Finance and Administration conducted a review and that review remained internal.⁶

3.9 Several witnesses alleged that, historically, the PMC had collected more than was necessary for its stated purpose. For example, in evidence, the BARA representative told the committee that '(w)e have done work in the past that would suggest to us that there is a significant over-collection of funds via the PMC relative to the services that they are meant to fund.'⁷ A similar argument was made by the Tourism and Transport Forum (TTF)⁸ and by ATEC who told the committee that:

3 *Submission 8*, p. 1.

4 *Committee Hansard*, 20 June 2008, p. 9.

5 *Committee Hansard*, 20 June 2008, p. 10.

6 *Committee Hansard*, 20 June 2008, p. 16.

7 *Committee Hansard*, 20 June 2008, p. 3.

8 *Submission 7*, p. 2.

It has always been the suspicion of the industry that there has been an over-collect of the passenger movement charge against the justifications that were used to levy it and that that over-collect has gone into consolidated revenue.⁹

3.10 The committee sought information from the ACS about whether there was any link between the PMC and the provision of customs, immigration and quarantine services. Officers from the ACS informed the committee that:

The short answer is that it was originally set up to fully offset the cost of passenger processing by customs, immigration service and the quarantine service, and...also to look after some short-term visa costs. In that context the cost-recovery levy that is a tax is collected accordingly, but it is not hypothecated back to the agencies...(T)here is no one-for-one dollar arrangement.

...Because it is a tax, we collect it as administrative revenue and we deposit that revenue into the Consolidated Revenue Fund. Customs is appropriated by government on a departmental basis for its activities at airports, and we do not reconcile one against the other.¹⁰

3.11 The committee notes that it has been clear for an extended period that the PMC is a tax and is no longer directly linked to offsetting the costs associated with operating customs, immigration and quarantine. As previously discussed in Chapter 2 of this report, the Australian National Audit Office noted in 2000 that:

The PMC is levied under Commonwealth taxing powers and is now applied partly as a general revenue raising source. As a consequence, the PMC is no longer solely linked to cost recovery of Customs, Immigration and Quarantine services.¹¹

3.12 Similarly, it is clear from evidence given to this committee in 2001 that the PMC is a tax and is not a pure cost recovery arrangement. As was stated by an official of the ACS in evidence to the committee in 2001:

...the passenger movement charge is a tax. It is not a pure cost recovery arrangement, and that indication of moving away from direct relativity came out when the \$3 increase was made at just about Olympics time. So that is clearly on the public record.¹²

3.13 The committee also sought information from the ACS about its operating costs and how these compare to the amount raised by the PMC. In a written response provided to the committee in the very short time available, the ACS was able to give

9 *Committee Hansard*, 20 June 2008, p. 16.

10 *Committee Hansard*, 20 June 2008, p. 26.

11 "Passenger Movement Charge—Follow-up Audit", *Audit Report No.12 2000–2001*, p. 13.

12 Senate Legal and Constitutional Legislation Committee, official *Committee Hansard*, 28 May 2001, p. 121.

an estimate on what it spends on passenger processing: \$203.7m in the 2006/07 financial year. The ACS said that these costs included the following items:

- monitoring aircraft movements and providing appropriate clearances;
- inwards and outwards primary line processing of passengers;
- inwards and outwards passenger enforcement including hall supervision, marshalling, alert response, passenger statistical card management, physical examination of baggage, use of technology, personal search, liaison with/referrals;
- passenger intelligence/targeting at inwards and outwards control points and in baggage collection areas; and
- the tourist refund scheme.

These costs did not include the cost of air cargo processing and examination.¹³

3.14 In the short time available for preparing this report, the committee was unable to obtain accurate information about immigration and quarantine costs associated with passenger processing.

3.15 However, the committee notes that the EM to the Bill explains that the proposed increase will partially fund national aviation security measures that are funded by the Australian Government. The EM also notes that, since 2001, the Australian Government has spent approximately \$1.2 billion on such measures, and that this is expected to exceed \$2.2 billion up until the 2011-12 financial year.¹⁴ If these costs, together with the costs associated with customs, quarantine and immigration, are compared against the amount collected by the PMC per annum (projected at \$402m for 2007-08 – see Chapter 2 of this report), then claims that the charge over-collects for its stated purpose, while not to be dismissed, must be treated with caution.

Passenger Movement Charge and aviation security costs

3.16 Witnesses also questioned whether it was appropriate for the PMC to be levied against airport users for the purposes of offsetting the cost of increased airline security when this was a common good for all Australians.

3.17 Representatives of the Tourism and Transport Forum (TTF) argued that aviation security costs should not be borne by the traveller or the industry, because there is a broader public good resulting from encouraging international visitors to come to Australia. In particular, inbound tourism generates substantial tax revenue:

...unlike every other export industry, tourism pays the GST and, for every \$9 spent by a tourist in Australia, \$1 goes into government revenue. There

13 Answers to questions on notice, received 20 June 2008.

14 p. 2.

is already a sizeable impost and take on tourists that would more than cover the costs of aviation security before we even start looking at the passenger movement charge, because tourism is subject to GST, unlike any other export.¹⁵

3.18 Others contended that aviation security was a national responsibility. The International Air Transport Association submitted that:

Border protection and security are government responsibilities. Aviation security is no different from national security and just as national security is funded from general revenues so should aviation security be funded. It is simply unfair to push the burden on airlines and their passengers when it is states and their policies that are the targets of terrorists.¹⁶

3.19 Similarly, Virgin Blue also disagreed with increasing the PMC to fund aviation security, maintaining that members of the broader community are clearly the beneficiaries of national security:

National interest considerations are clearly the paramount driver of government regulatory initiatives in relation to customs, immigration, quarantine and security. The members of the public are clearly the beneficiary of these services.¹⁷

3.20 As noted in the EM, the justification for the increase in the PMC is to partially offset the cost of aviation security. In the second reading debate on the Bill, the Hon. Bob Debus MP, Minister for Home Affairs stated that:

...it is reasonable and indeed it is economically efficient to suggest that some of those costs should be offset by those who are actually using our aviation facilities...(B)order protection and security measures at airports are absolutely crucial for the safety and security of tourists and therefore for our reputation as a safe destination.¹⁸

3.21 The ACS told the committee that the increase in the PMC would result in extra revenue of \$459.4 million over four years, which will partially recover the costs of aviation security measures. The ACS said that there were about 100 of these measures, including:

- a number of measures relating to enhanced aviation security – that is, the upgrading of security at airports and implementation of the Air Security Officer program, application of security regime regulation regimes at all airports, promoting industry awareness and compliance, and placing trained officers on domestic and international flights;
- improved data access for border control agencies;

15 *Committee Hansard*, 20 June 2008, p. 23.

16 *Submission 5*, p. 2.

17 *Submission 8*, p. 1.

18 *House of Representatives Hansard*, 4 June 2008, p. 30.

- expanding the detector dog program;
- improving security and crime information exchange arrangements for aviation;
- funding counter-terrorism first response teams to terrorist incidents or threats in the airport environment;
- community policing at airports;
- enhanced CCTV monitoring and analysis capability at international airports;
- funding trial x-ray inspection technology and deployment of explosive trace detection equipment;
- funding increased air cargo security; and
- purchases of mobile x-ray screening vans.¹⁹

Impact on tourism

3.22 Two tourism industry representative bodies made submissions and gave evidence about the potential effects of an increased PMC on the tourism industry.

3.23 ATEC submitted that the export (inbound) tourism industry is currently under extreme pressure due to a range of external and internal factors, including:

- the increasing oil price and subsequent reductions in aviation capacity;
- increasing strength of the Australian dollar;
- inflationary impacts resulting from labour, food and beverage cost increases; and
- other external events including, for example, the Olympic Games and liberalisation of visa requirements in competing markets.²⁰

3.24 ATEC submitted that the timing of the increase in the PMC 'could not have been worse' and will 'further reduce Australia's market competitiveness in an already ultra-competitive global market'.²¹ The ATEC representative told the committee in evidence that businesses were currently failing around Australia because of these pressures and that the Bill 'will contribute further to business failure around the country'.²² The representative elaborated:

If I can use a metaphor, the tourism industry is like an onion, it rots from the outside in. It is the small businesses in regional parts of Australia in particular that go first. And that is happening as we speak. We have got to the point now where even that strategy for absorbing the costs has come to

19 *Submission 6*, p. 2.

20 *Submission 3*, pp 1-2.

21 *Submission 3*, p. 1.

22 *Committee Hansard*, 20 June 2008, p. 16.

the end of its cycle and my members now have to pass on to the customer the price increase from the impact of the dollar and also now the impact of fuel.²³

3.25 The AAA also agreed that the timing of the measure was adverse:

With the tyranny of distance and costs to factor in, and the end-of-the-route dynamics that go with it, it is bad to put a tax up that targets tourism directly. But when you add that to the oil price now, carbon emissions issues and the exchange rate with the dollar, if there ever was a good time this is probably the worst time ever.²⁴

3.26 ATEC maintained that the impact of the increased charge was compounded by other budget measures which it considered also had a negative impact on the industry, identifying in particular an increase in visa fees to \$100, and changes to the luxury car tax.²⁵

3.27 Representatives of the TTF concurred with ATEC that the timing of the increase was poor from the industry's perspective.

We have a rationalisation of air services routes by our domestic carriers, we have historically high fuel prices, we have a high Australian dollar and there are potential trade barriers on long-haul travel emerging from the European Union. There are significant issues facing the tourism and aviation industry and so the timing of the PMC increase could not have been worse.²⁶

3.28 The TTF pointed out that tourism is Australia's second highest export earner, is worth \$22.3 billion and accounts for over 10 per cent of Australia's export earnings. The TTF said that there is currently a global boom in tourism, but tourism to Australia has lagged behind international growth trends:

Of that our leisure and holidaymaker markets are growing only by 0.35 per cent. What is essentially happening is that, in the midst of a global boom, our most lucrative market is stagnating.²⁷

3.29 The TTF, like ATEC, also identified increased visa processing fees and other government charges and taxes as adding to the overall costs of coming to Australia and decreasing Australia's international competitiveness. Representatives questioned whether the combined effect of budget measures on the industry (that is, increases to the PMC and visa fees) had been adequately considered by the Australian Government:

23 *Committee Hansard*, 20 June 2008, p. 17.

24 *Committee Hansard*, 20 June 2008, p. 9.

25 *Committee Hansard*, 20 June 2008, pp 17-18.

26 *Committee Hansard*, 20 June 2008, p. 20.

27 *Committee Hansard*, 20 June 2008, p. 20.

One of the main questions we have is: was the increase of the passenger movement charge, and, for that matter, the increase of the visa application fee, factored in? Was the impact on consumer travel to Australia modelled before this decision was made? And if not, can we see some modelling to estimate what is the impact on consumer demand to travel to Australia? Ultimately, what is the impact on our \$22 billion export industry of a relatively small up-front charge? What is the downstream effect of that cost? We do not know. We want to know if the government or any future governments knows before they make these decisions.²⁸

3.30 Representatives also argued that the PMC is higher than that levied by competing countries. The TTF submitted, for example, that New Zealand's international departure fee is only \$25. The TTF provided the committee with a table showing visa and departure taxes in a range of other destinations.²⁹

3.31 However, according to information submitted by the ACS, Australia compares favourably to other countries in the application of passenger movement related charges. The ACS advised that in the United Kingdom, the Air Passenger Duty is approximately AUD\$84.00 for economy class long-haul flights and approximately AUD\$169 for business and first class long-haul flights; and in the United States of America, departure and arrival taxes sum to approximately AUD\$55.00.³⁰

3.32 ATEC sought a postponement of the increased charge for 12 months:

We would like the passenger movement charge not to be there at all but we accept the reality of this legislation. What we do ask is that it be deferred for a year. It is a much abused cliché, but there is a perfect storm emerging for the tourism industry over the next six months in particular, but indeed the next 12 months as I outlined. We would ask the Senate to amend the legislation for its start date to be 2009 rather than 2008.³¹

3.33 The committee sought an assessment from the BARA representative of the extent to which the increased PMC might affect tourist numbers. The representative said that this is difficult to estimate:

It all depends upon the price elasticity of demand for international air travel. This is one of a number of components of the overall cost of international air travel that are increasing at a fairly rapid rate at the present time. There are increases in charges imposed by the airports. There are increases in fuel charges. There are increases in the other security arrangements that are being put in place at airports. They all combine to result in a fairly rapid and significant increase in the prices of international air travel at the moment and Australia is a very small market at the very end of the world. It

28 *Committee Hansard*, 20 June 2008, p. 21.

29 *Submission 6*, attachment 3.

30 Answers to questions on notice, received 20 June 2008.

31 *Committee Hansard*, 20 June 2008, p. 17.

is the long haul routes with the very thin margins that airlines earn on those routes for leisure travel that generally are the ones to suffer.³²

3.34 The BARA representative conceded, however, that the effect of the increase in the PMC is just one small component of the increasing cost of travel:

This increase in the PMC could all be overwhelmed very much by the impact of fuel prices on air tickets...³³

3.35 The committee notes that if the PMC had been indexed in line with the Consumer Price Index (CPI) since 2001, its inflated value would now be \$46.45, which is on par with the projected increase to \$47.³⁴ The committee sought information about why the charge had not been increased annually in line with the CPI, instead of in one large amount. The ACS was unable to provide the committee with any rationale about why such an approach had not been adopted.

3.36 The committee considers that it is difficult to sustain an argument that the increase in the PMC is excessive when all it is effectively doing is bringing it into line with its 2001 indexed value.

3.37 While sympathetic to the difficult circumstances facing the tourism and airlines sectors, the committee considers that it is also difficult to sustain any argument that the PMC increase will be in any way significant when compared to external factors that will affect the industry's competitiveness. These external factors will include ticket price increases consequent on the rising cost of oil, the appreciation of the dollar, and other large external influences such as the forthcoming Olympic Games in Beijing.

Administrative costs for airlines

3.38 BARA informed the committee that the PMC imposes significant net costs on the airlines, which they are unable to offset. This problem arises from administrative costs associated with collecting the PMC; and from 'leakage' in situations where tickets have been sold overseas without the charge having been added:

Airlines bear further direct costs because not all tickets issued overseas include the taxes as part of the overall fare received by airlines. Despite this leakage, airlines are still required to forward the tax to the Government.³⁵

3.39 BARA explained that the original administrative arrangements and agreements between airlines and the ACS provided for a 5 per cent tolerance between

32 *Committee Hansard*, 20 June 2008, p. 5.

33 *Committee Hansard*, 20 June 2008, p. 5.

34 *Submission 6*, p. 2.

35 *Submission 1*, p. 2.

assessed collections and actual remittances to the ACS. However, this was reduced to 3 per cent in 1998, and zero in 2001.³⁶

3.40 BARA submitted further that:

It is unreasonable to expect that the PMC will at all times be correctly reflected on passenger tickets. Airlines providing actual carriage are often not the ticket issuing agent. A significant proportion of airline tickets are issued by travel agents not under the control of the carrying airline. Many tickets covering travel sectors from Australia will have been issued in foreign countries by airlines other than the carrying airline. Increases in codeshare practices, the further development of alliances and technological advances (e-tickets, etc) mean that the incidence of one airline issuing tickets for travel on other airlines will increase. Further, the requirement for speedy passenger throughput at check-in is not conducive to close scrutiny of each ticket to determine that all taxes are correctly noted.³⁷

3.41 BARA sought the reinstatement of the original 5% allowance for leakage.³⁸

3.42 While the committee understands the industry's concerns, the committee notes that this 'leakage' allowance was abolished seven years ago. It is not within the scope of the Bill for such an allowance to be reintroduced. However the committee draws the Australian Government's attention to this matter for future consideration.

Consultation relating to the proposed increase

3.43 All witnesses were questioned by committee members about whether there had been any consultation with stakeholders before the PMC increase was proposed in the Budget. The committee notes that all witnesses indicated that there had not been any consultation on this occasion, or in respect of past increases in the PMC.

Committee conclusions and recommendation

3.44 The committee notes that there are many costs to government arising directly from the flow of passengers and goods to and from Australia. These costs are not just confined to customs and quarantine, and new costs are incurred as new threats or events arise and as technology changes. Aviation security is just the latest of these factors. The committee is of the view that it is reasonable that a proportion of the costs of providing aviation security should be paid for by those who actually use aviation services. The PMC, as such, appears to be an appropriately targeted tax.

3.45 The committee also notes that, if the level of the PMC is adjusted for inflation over the three decades since its introduction, it has barely increased in real terms. This

36 *Submission 1*, pp 2-3.

37 *Submission 1*, p. 4.

38 *Submission 1*, p. 4.

increase does little more than bring the PMC back into line with what it should be in any case, if adjusted for inflation.

3.46 The committee notes that the tourism industry and the airlines are undergoing a period of particular difficulty as a result of the rapid increase in fuel prices and consequent reduction in air services, and the significant increase in the value of the Australian dollar.

3.47 The committee draws the attention of the Australian Government to the concerns expressed by the tourism industry about the combined effects of the increase in the PMC and other Budget measures. The committee suggests that modelling be undertaken to determine the extent, if any, to which government charges are decreasing the competitiveness of the tourism industry, and also of possible revenue offsets that might be achieved if such charges were reduced, theoretically increasing tourist numbers.

3.48 The committee also considers that industry discontent would be somewhat alleviated by improved transparency in relation to expenditure on services specifically incurred in relation to international passenger movements. The committee suggests that the ACS prepare and publish on an annual basis a consolidated document showing all areas across portfolios where such expenditures are incurred.

Recommendation 1

3.49 The committee recommends that the Senate pass the Bill.

Senator Trish Crossin

Chair

