



Submission to
Senate Legal and Constitutional Affairs Committee
Review of the Passenger Movement Charge

19 June 2008

1. Introduction

The Board of Airline Representatives of Australia Inc. (BARA) is the industry association representing the interests of international airlines operating to and from Australia. BARA currently has 38 international airline members.

BARA aims to establish a recognised means of communication between member airlines and statutory and other organisations whose interests and actions influence or affect member airlines and the aviation industry. Its purpose is to act on issues affecting the aviation industry in Australia and to provide a single concerted voice on policy and other matters when dealing with the Federal and State governments and other aviation industry stakeholders.

BARA's limited resources are directed towards representing international airlines in matters related to:

- (a) development of aviation infrastructure to service international airline operations,
- (b) access to and charges for aviation infrastructure for international airlines,
- (c) air traffic management operations and charges,
- (d) management and cost of border control and passenger facilitation at international airports,
- (e) aviation security requirements, and
- (f) the impact of aviation on domestic and international environmental outcomes.

The airline industry has a history of objecting to the application of the Passenger Movement Charge (PMC). The PMC is now applied partly as a general revenue raising source and is no longer solely linked to a cost recovery for services supplied by the Australian Customs Service (ACS), Department of Immigration and Citizenship (DIAC) and the Australian Quarantine and Inspection Service (AQIS). The PMC represents a tax on tourism as well as a significant net cost to airlines.

2. History of the PMC

The PMC commenced life as the Departure Tax, which was introduced in 1978. The rationale for its introduction was that it would pay for the full cost recovery of customs, immigration and quarantine (CIQ) processing at international airports and the cost of the issue of short term visitors' visas. However, the Departure Tax was a general revenue item not linked to costs associated with CIQ services.

The Departure Tax was collected by a government agency – Australia Post – acting on behalf of the Commonwealth Government. BARA understands that a primary motive for the introduction of the PMC was that it would cost the Government less to administer because of the responsibility on airlines for collection.

At the time of its introduction the Departure Tax was set at \$10 per passenger. It was increased to \$20 per passenger on 1 June 1991. The Departure Tax was replaced by

the PMC on 1 January 1995 and increased to \$27. The Government offered no explanations of the reasons underlying these rate increases.

The PMC was further increased to \$30 per passenger in 1998. This increase was purportedly implemented to raise money for greater tourism advertising to offset the effects of the Asian economic downturn. A further increase in 2001 raised the PMC to \$38. The latest increase, announced in the 2008-09 Budget, raises the PMC to \$47 per passenger.

3. PMC Administrative Problems

The PMC is a charge levied on airline passengers departing Australia. It is collected by airlines on behalf of the Commonwealth Government under individual agreements between the airlines and the ACS. The ACS is the government agency responsible for administering the PMC. The money collected by airlines is remitted to the Government.

Although the rationale for the PMC is cost recovery, it is a tax and the revenue collected is paid into consolidated revenue. The ACS, DIAC and AQIS costs for border control services are met through normal Budget appropriations.

Airlines are dissatisfied with the current administrative arrangements relating to the collection of the PMC. This dissatisfaction arises for two reasons.

First, the PMC is a hybrid revenue arrangement. Whilst it was originally implemented to cover the costs of CIQ services at airports, it is now – according to the Australian National Audit Office (ANAO) Audit Report No 12 – applied partly as a general revenue raising source and is no longer solely linked to a cost recovery of CIQ services. The PMC, as a hybrid revenue arrangement, is characterised by a disturbing lack of transparency. There is no accountability by Government for that part of the PMC which is allocated for the provision of CIQ services and that part which is a general revenue raising tool. BARA believes that, as a matter of principle, hybrid revenue arrangements such as the PMC should be discontinued and all Government collections made either a transparent cost recovery mechanism or a transparent taxation mechanism.

Second, the collection arrangements in place for the PMC result in a direct net cost on airlines, despite an allowance for airlines to claim an administrative fee. Collection of the PMC places a considerable administrative burden on airlines. That administrative burden results in significant direct costs that airlines are required to bear. 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.

The current administrative arrangements and agreements between airlines and the ACS, came into effect on 1 July 2001. The original agreements with airlines provided for a 5% tolerance between assessed collections and actual remittances to the ACS. The 5% tolerance was reduced to 3% in 1998. However, the new agreements

removed the reference to the 3% tolerance in accordance with a recommendation contained in Audit Report No 12. Hence, from 1 July 2001, there has been no recognition of the direct cost to airlines associated with the leakage from the PMC collections, principally due to travel agents failing to include the charge on some tickets. BARA maintains that, where a third party is required to collect a charge from consumers to meet Government costs, there should be adequate arrangements in place to allow the third party to deduct as near as possible to the full costs of collection and remittance of the charge.

4. PMC Policy Shift to Disguise Over-collection by PMC

Whilst the PMC is a charge under the Commonwealth Government's taxing powers, the Treasurer's 1994 Budget Speech and the second reading speech for the PMC legislation stated that the PMC was introduced to recover or "fully offset" the costs of CIQ processing of incoming and outgoing international passengers and to recover the costs of issuing short-term visitor visas.

The Auditor General's Audit Report No 1 (1996-97) stated that "despite its character as a tax, some descriptions of the PMC to the public suggested the impost was a charge intended (simply) to recover CIQ and short term visa issuing costs." (page7, para 2.6)." In that Report the ANAO recommended that ACS, the (then) Department of Immigration and Multicultural Affairs (DIMA) and AQIS collectively monitor the costs of their activities the subject of the PMC to provide assurance that these costs were fully offset, consistent with the PMC policy objective. (Recommendation No 1, pxv) The ANAO noted at the time that the public rationale and policy objective of the PMC was clearly that of cost recovery.

The ANAO conducted a follow-up audit of the administration of the PMC in 2000 (Report No 12). In that Report the ANAO stated that the PMC "is now applied partly as a general revenue raising source and is no longer solely linked to a cost recovery of Customs, Immigration and Quarantine service." (p13) On the basis of the Auditor General's Report No 12 it appears that a policy shift took place with regard to the PMC.

The apparent policy shift that now has the PMC identified as a tax was surreptitious. BARA questions whether the policy shift was an attempt to disguise the fact that the PMC over collects from airline passengers the costs of the CIQ services it was introduced to cover.

5. Evidence of Over-collection by the PMC

Due to the extreme short notice of the reference to the Committee, BARA is unable to update data available to it in relation to PMC collections and analyse the latest information available about CIQ costs. However, BARA submits the fact that the ANAO acknowledges that the PMC is a general revenue raising tool (see section 4. above) confirms that it collects more than is required to meet the cost of CIQ services.

The ANAO Audit Report No 1 concluded that the PMC over collected \$19 million from airline passengers in 1996-97 (p xii). Further work undertaken by BARA also suggests that the PMC over collects the costs of CIQ services (see Attachment 1).

In 2002-03 the PMC raised \$290.6 million for the Government and there is publicly available information to suggest that the PMC generates significant surplus funds. The data that point to an over-recovery of CIQ control costs by the PMC are a Government report titled *Passenger Movement Charge; Quantum, April 1997* and information supplied to the House of Representatives on 27 November 2000 by the Attorney General.

6. PMC Issues for the Committee's Reference

It was noted above that the ANAO Audit Report No 1 concluded that the PMC over collected \$19 million from airline passengers in 1996-97. However, for 1996-97, because international airlines collected less than the aggregate estimated by ACS as correct for that year, based on total passenger departures on international flights and to the limit of the agreed tolerance, the airlines were required to make up the "shortfall". BARA maintains that this process requires reassessment.

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.

The Government recognised the above matters when the arrangement was made originally with airlines to act as PMC collectors. As noted above, 5% tolerance on total collection estimates was granted. However, the tolerance arrangement has now been eliminated. BARA maintains that the original 5% tolerance arrangement should be reinstated.

BARA further maintains that the PMC should conform to the equity and transparency principles applicable to all government charges. Hence, as a minimum, the government should revert to original intent of the PMC to recover the costs of government CIQ services. Further, the government should provide the aviation and tourism industries with timely annual statements of PMC collections and costs of services for which funds were collected.

If the PMC is to remain in place it should conform to the following principles applicable for government charges:

- efficiency - consumers should pay charges based on efficient delivery of services;
- user pays/equity - consumers should pay for costs of those services actually consumed;

- public accountability/transparency - the efficiency of charges levied by government monopoly service providers must be transparent; and
- quality of service - charges imposed by government agencies should not reward them for providing poor service.

There is sufficient evidence to suggest that the PMC fails the second and third of the above principles. BARA submits, therefore, that the PMC represents a hidden tax on tourism.

7. Conclusion

BARA maintains that the PMC is an inefficient funding mechanism that should be abolished. The PMC suffers from the following disadvantages:

- (i) it is characterised by complete lack of transparency,
- (ii) there is no accountability by Government for that part of the PMC which is allocated for the provision of CIQ services and that part which is a general revenue raising tool,
- (iii) it imposes an unwarranted direct cost on airlines,
- (iv) there is a body of evidence to suggest that the PMC collects more than is required to meet the cost of CIQ services, and
- (v) it fails equity and transparency principles applicable to all government charges.



Our Ref.: Let.1117

30 November 1999

Mr Damon Hunt
 Adviser
 Office of the Minister for Justice and Customs
 Parliament House
 Canberra ACT 2600

Dear Mr Hunt

I refer to your letter dated 23 August 1999 and the attached report on the quantum of the PMC. The Board of Airline Representatives of Australia (BARA) has reviewed the report.

The report provides a very cursory analysis of the costs of the border control agencies in providing what is described as “the short term visa function and the airports function”. The data contained in the report is too highly aggregated to provide any comfort to airlines that PMC revenue does not exceed the agencies’ costs by a significant amount.

In fact, based on the information provided in the report and on current statistics on international passenger departures, the report apparently demonstrates that the PMC continues to generate a substantial surplus of revenue over costs.

You would be aware that the number of international airline passengers departing Australia during the year ended 31 December 1998 was about 7.1 million. Adopting the conservative assumption that the same number of international airline passengers departed Australia in the fiscal year 1998-99, the amount of PMC revenue generated in 1998-99 would be at least \$202 million. This estimate also assumes a roughly equal distribution of departing passengers between the first and second halves of the fiscal year.

The report identifies the full costs in 1995-96 of the short term visa function and the airports function performed by the border control agencies as \$165.8 million. The report then specifies an average annual rate of growth in costs of 5% as a reasonable estimate of likely future cost increases. Adopting that assumption, it would be reasonable to expect the agencies’ full costs to have increased to about \$192 million in 1998-99. This full cost is at least \$10 million less than PMC revenue.

However, the excess revenue generated annually by the PMC could be even greater than \$10 million. This is because the report is unclear about what costs it actually purports to measure. For example, in describing the “approaches applied in agencies to gathering costs” for the Australian Customs Service (ACS), the report refers to “a costing exercise such as is required for passenger processing”. It is possible that the ACS costs may include all passenger processing costs, ie the costs of the airports function and the marine ports function. Similarly, the report refers to the Department of Immigration and Multicultural Affairs (DIMA) “short term visitor visa function”. It is possible that the DIMA costs may include all short term visa function costs, including the costs of issuing visas to international passengers arriving in Australia by ship.

Further, the report states that “AQIS costs relating to departing sea passengers are not included in the cost figures provided”. BARA welcomes this aspect of the costing exercise, but costs relating to departing sea passengers are irrelevant in any event. It would be AQIS costs relating to arriving sea passengers that would particularly have to be identified and excluded from the border control costs used in the report. The report does not identify those costs as having been excluded.

Of course, the Government’s revenue sources to meet the costs of the short term visa function have been expanded since 1995-96 by the introduction of the visa application charge, initially set at \$50 per visa application and currently set at \$60 per visa application.

BARA’s view that the PMC generates revenue significantly greater than the correctly measured costs of the border control agencies remains unchanged. Consequently, airlines continue to assert that the surplus revenue generated by the Government’s short term visa function and airports function should be directed towards offsetting airline and, hence, passenger costs. For example, the surplus revenue could be applied to paying for Government mandated security requirements at international airports, such as checked baggage screening and passenger screening. Alternatively, the surplus revenue could be applied to the payment of rent and outgoings by the Government border agencies to airport operators so as to permit a commensurate reduction in airline rents and outgoings.

Yours sincerely

Warren Bennett
Executive Director

cc Mr Dario Castello, Assistant Secretary, Border Control, Department of Immigration and Multicultural Affairs
Mr Les Jones, National Director, Border Management, Australian Customs Service