ATEC
Australian Tourism Export Council

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Thursday, June 19, 2008

Mr. Peter Hallahan
Committee Secretary
Senate Legal and Constitutional Committee
Department of the Senate
PO Box 6100
Parliament House
Canberra ACT 2600
AUSTRALIA

Dear Sir,

Re: Passenger Movement Charge Amendment Bill 2008

On behalf of the Australian Tourism Export Council I would like to thank the Senate for the opportunity to make this submission to the Senate Legal and Constitutional Committee on the Passenger Movement Charge Amendment Bill, 2008.

In ideal circumstances we would have preferred to make a more fulsome submission, and we apologise if the text below is somewhat perfunctory. Nevertheless we welcome this opportunity to make some comments about a topic that concerns us and about which there has been limited public scrutiny.

The State of the Export Tourism Industry

Australia's $24 billion export (inbound) tourism industry is under extreme pressure at the moment. In 2007 it grew by 2%, significantly underperforming global growth of 6.2%. In 2008 it is expected Australia's growth rate will further slow. .

A range of external economic factors are putting severe pressure on the profitability of the sector. It is important that Senators bear in mind that over 90% of the industry are small to medium enterprises (SME's). These factors include:

Oil – The rapidly-escalating cost of oil and subsequent reductions in aviation capacity are both reducing the profitability of tourism businesses and fracturing the supply chain on which those businesses rely. This situation is particularly acute in North Queensland and The Whitsundays.

The Dollar – The consistent strength of the Australian Dollar against the US Dollar and the Yen is reducing Australia's price-competitiveness in global travel markets. While in the past ATEC's members have been able to absorb costs when the dollar has spiked, the continued current strength of our currency combined with other inflationary factors described here means that our members have had no choice but to pass price increases on to the customer.

Other inflationary impacts – Other critical inputs of the tourism and hospitality sectors are labour and food and beverage. It is well-documented that both of these inputs are significantly increasing in cost.

A range of other external events are likely to negatively impact the export tourism sector over the next six months. They include the Olympic Games and the Sichuan earthquake, both of which will significantly reduce outbound travel from China; the liberalisation of visas for travel by Chinese nationals to Taiwan and the United States; the introduction of visa-free travel for Koreans to the United States; and the US Presidential election, which historically dampens demand from our fourth-largest market. The impact of oil-driven inflationary pressures in key markets such as the United Kingdom is also likely to dampen demand.

The impact of this measure

Put in this context, the timing of such a significant increase in the Passenger Movement Charge could not have been worse. This measure will further reduce Australia's market competitiveness in an already ultra-competitive global travel market. Exacerbating these pressures is the escalating competitive pressure from planned economies supported by sovereign wealth funds. For example, at a recent meeting of the Pacific-Asia Travel Association (PATA) it was revealed that the Gulf States are planning tourism infrastructure projects worth $US3.6 *trillion* on top of projects that have been completed.

Unfortunately the recent Federal Budget contained a range of other measures which will further reduce Australia's tourism competitiveness and impact on the profitability of Australian small businesses. These include punitive increases in visa charges for non-electronic travel authority markets such as India (one of our most important emerging markets) and the Luxury Car Tax, which does not exempt commercial passenger vehicles under nine seats. We estimate that 8000 vehicles are sold to our industry that would be captured by the tax.

These measures will therefore amplify the distressing economic circumstances in which the tourism industry is operating and will contribute to the escalation of business failure (which is already occurring), particularly among small businesses in regional and remote Australia. For example, in the last week one of our members - one of the most reputable tour operators in Cairns - has had to respond to fuel-dominated market developments by dropping a touring route from Cairns to Alice Springs which annually delivers 10,000 pax to small towns in Central Queensland which have little or no other form of income.

If, when framing the Federal Budget the central economic agencies deliberately chose to reduce inflationary pressures in the economy by dampening demand from foreign tourists, then they have executed their brief perfectly through these measures.

What is the PMC for?

One of the constant irritations for the tourism industry is the lack of transparency in accounting for the expenditures of monies raised by the Passenger Movement Charge. The previous Government promised to provide the industry with an account of expenditures, but this was never forthcoming. This is not helped by the often contradictory communications from Government in relation to the nature of the PMC. When the PMC is

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raised it is justified as a measure of cost-recovery for expenditures by border agencies. Yet when the tourism industry later seeks an account of those expenditures we are either refused point blank or told that the PMC is not hypothecated.

It is very difficult, therefore, for the tourism industry not to be suspicious that this is a tax-grab justified as security measures. While we do not have a broad philosophical issue with the user paying for their own security, with think they have a right to call government to account for these expenditures.

Ameliorating the impact

In 2006 ATEC argued in a discussion paper *The Missing Link* that one dollar per passenger from within the *existing* Passenger Movement Charge should be forwarded to an industry-controlled Research and Development Corporation to fund innovation in export market development. We argued that tourism (and similar service industries) are at a disadvantage to other sectors such as agriculture, which export real items and are able to apply a "grower's levy" to fund research, development and innovation. We have repeated this call in our submissions to the current inquiries into export assistance and innovation.

ATEC believes there is ample opportunity for tourism to trade our way out of our existing predicament by research and by innovating into new markets (such as the growing "health and wellbeing" segment). However our industry, being made up overwhelmingly of service-based SME's, is hamstrung in finding a mechanism to reinvest some of the value we collectively generate for the economy into our own development. We believe that given the further deterioration in our market conditions and the likely role this PMC increase will have in contributing to this deteriorating position, that the proposal we advanced in *The Missing Link* should be adopted.

Final Recommendation

Given the matters raised above, ATEC submits that:

- The implementation of this legislation should be deferred for at least one year given the deterioration of market conditions and, in particular, rising fuel costs.
- One dollar per passenger should be invested in an industry-controlled research and development corporation to fund innovation in tourism export market development.

Once again, thank you for the opportunity and I look forward to giving evidence to the Inquiry.

Yours sincerely,

[redacted]

MATTHEW HINGERTY
Managing Director