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20 June 2008

Committee Secretary
Senate Standing Committee on Legal and Constitutional Affairs
Department of the Senate
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Senator,

Thank you for the opportunity to provide evidence today to the Legal and Constitutional Affairs Senate Standing Committee's review of the Passenger Movement Charge Amendment Bill 2008.

The following submission to the Committee is in follow-up to evidence presented by the Tourism and Transport Forum (TTF) today, and includes the additional detail requested by the Committee.

It should be noted, as with all submissions and evidence presented at inquiries, TTF has made every effort to provide evidence-based analysis and due diligence. However, due to the extremely tight deadlines for this inquiry, some evidence, such as the Passenger Movement Charge (PMC) revenue projections and visa processing charges/fees for other countries, have been compiled quickly and are based on our own investigations.

TTF's membership of airports, airlines, tourism operators, hotels and frequent travelling Chief Executives gives us a first-hand perspective on the impact the proposed increased in the PMC will have on the tourism and aviation industries.

By way of background, delays in processing international passengers through Customs, Immigration and Quarantine agencies at international airports and the impost of the PMC have been a major concern for TTF and our Members since 2001.

TTF representations on these important issues have been significant, as demonstrated by submissions to the Commonwealth Government's Exports and Infrastructure Inquiry, National Tourism Investment Strategy, the Regulation Taskforce, and the last three Commonwealth Budgets.

Put simply, TTF:

- strongly rejects the increase in the PMC;
- is alarmed by the magnitude of the increase of the PMC from \$38 to \$47 (almost a 25% increase); and

- urges the Rudd Government to abolish the PMC increase on account of:
 - the recent rationalisation of airtservices by Qantas and Virgin Blue;
 - historically high fuel prices;
 - the high Australian dollar; and
 - the emergence of potential trade barriers on long haul travel from the EU.

TTF is concerned:

- about the lack of industry consultation during the decision-making process by the Australian Government to increase the PMC, specifically in relation to the timing, and magnitude of the increase;
- the burden of the increase in the PMC will impact leisure holiday travellers the most – especially families who have to account for the increased impost as part of their low cost travelling budget;
- the PMC continues to over-collect in relation to the costs it purports to recover;
- there is a lack of transparency about the details of the costs the PMC purports to recover;
- the distinct shift in policy which increases the scope of the PMC beyond border facilitation related issues;
- Australia’s major gateways continue to experience significant delays particularly at peak periods and at the secondary line (associated with quarantine inspection) (see Attachment 1); and
- that the tourism industry is already heavily taxed (see Attachment 2).

In relation to the financial impact and over-collection of the PMC, the financial impact statement contained in the Passenger Movement Charge Amendment Bill 2008 notes that:

"The increase of the existing \$38 Charge to \$47 is expected to result in an increase in revenue of \$459.3 million over four years."

However, TTF estimates the change in the PMC will result in an increase in revenue of between \$504 to \$600 million over four years.¹

This revenue increase stands in stark contrast to the cost of key aviation security and quarantine services including:

¹ The methodology applied used Overseas Arrival and Departure (OADs) figures provided by the Australian Bureau of Statistics (ABS) and an annual average growth rate of 5.2% for outbound departures (Tourism Forecasting Committee 2007 Issue 2). 2007 was used as the base year. The \$600 million estimate is based on a scenario which assumes a persistent high Australian dollar and strong economic growth.

- the Australian Government's Counter Terrorism First Response (CTFR) function estimated at a total cost of \$176.3 million over five years; and
- the Australian Quarantine Inspection Service (AQIS) with a 2008/09 budget of \$318 million.

TTF is also concerned about the distinct policy shift that has occurred as a result of the proposed increase in the PMC being linked to aviation security costs.

As its name implies, the Passenger Movement Charge has traditionally related to passenger facilitation issues at Australia's borders. Historically, increases in the amount levied by the PMC have occurred because of additional costs associated with:

- the increased transit of people for the Sydney 2000 Olympic Games; and
- increased quarantine intervention initiatives announced in May 2001.

The Passenger Movement Charge Amendment Bill 2008 advises that the increase in the PMC by \$9 to \$47 relates to an announcement made by the Treasurer in the 2008/09 Budget to fund 'national aviation security initiatives'.

This represents a significant shift in the Australian Government's application of the PMC.

TTF believes the PMC should not be increased to fund national aviation security initiatives because:

1. Aviation security is an Australian Government responsibility.

The Wheeler Report confirmed that 'the safety and security of the people of Australia is the first duty of the Australian Government'.²

In fact, the Australian Government has developed aviation security regulations with this intention (i.e. safeguarding all Australians not just travellers and the aviation industry). In the second reading of the Aviation Transport Security Bill 2003 the Australian Government stated that the objective of aviation security is:

'safeguarding Australia and responding to the changed security environment in the best possible way ... [The Bill is] aimed at protecting the people of Australia – at keeping them safe and at helping them to feel confident in that safety.'³

It should also be noted that aviation security is in part provided by the Australian Federal Police (AFP). Protection afforded by the AFP, which was formed under Australia's Constitutional Settlement of 1901, is therefore a fundamental right of Australian citizenship.

² Rt Hon Sir John Wheeler DL (2005) Independent Review of Airport Security and Policing for the Government of Australia (the Wheeler Review), p.ix and p.59.

³ Alex Somlyay, Member for Fairfax, Aviation Transport Security Bill 2003, second reading, 3 Dec 2003.

2. As identified at point 1, aviation security not only protects aircraft and passengers but also infrastructure and people on the ground.

This is otherwise referred to in economic terms as a positive externality, where the associated social benefits are greater than those accruing to travellers and the aviation industry alone.

Social benefits include the generation of tourism through improved confidence in aviation security and the protection afforded to the wider economy.⁴

Sir John implicitly acknowledged the positive externality associated with aviation security stating that the results of a terrorist attack on an airport would have 'flow-on costs to the aviation industry and to Australia's tourism industry, ...would be many, many times that original setback ...major airports themselves are critical infrastructure for the ongoing health of the economy and for peoples lives and livelihoods'.⁵

In establishing the Aviation Transport Security Act 2004 and Aviation Transport Security Regulations 2005, the positive externalities of aviation security were also identified.

The Act's Regulatory Impact Statement (RIS) noted that 'the potential for externalities in aviation security is also extremely high. An aviation incident which occurs, ...has negative effects on innocent third parties'.⁶

TTF therefore urges the Rudd Government to continue to treat aviation security as a government responsibility and fundamental right of Australian citizenship.

If the PMC is increased for the reasons stated in the Passenger Movement Charge Amendment Bill 2008, the outcome will place a disproportionate burden on the tourism and aviation industries, with potentially negative impacts on air travel demand.

Finally, TTF remains concerned that the increase in the PMC will put Australia at a competitive disadvantage compared to international competitor destinations. New Zealand's international departure fee, for example, is only \$25.

⁴ Although the aviation industry benefits from increased numbers of travellers, those travellers generate increased economic activity more broadly, both directly, and through the multiplier effect. The positive externality is therefore derived from the additional tourists who visit and spend in Australia as a result of our safer aviation system. In addition, ensuring a safe aviation system also protects the wider economy. The positive externality is derived in two ways. First, a safe aviation system limits the costs resulting from the use of 'aircraft as weapons' (Motevalli, V and Stough, R, 2004). Coughlin, Cohen and Khan (2002) note 'an especially gruesome example was provided by the events of 9/11. Occupants of high-rise buildings as well as those occupying other potential targets for terrorist acts can benefit from aviation security and, in fact, the benefits can extend beyond those individuals to their families and much further.' Second, given the linkages aviation has to other industries (for example, feeding other modes of transport and retail) avoiding disruption to the aviation system also avoids the negative flow on effect to these other industries.

⁵ Op cit. Wheeler (2005) p.6 and p.ix.

⁶ Aviation Transport Security Act 2004, Regulatory Impact Statement p.6.

The impact of the increase in the PMC on Australia's international competitiveness is further exacerbated by the increases in the tourist visa fees also announced in the 2008/09 Budget (from \$75 to \$100).

Attachment 3 demonstrates the high cost of entry into Australia compared to other destinations (as presented by TTF at the inquiry today).

The increase in the PMC and tourist visa fees, combined with already high levels of taxation on airline tickets will therefore negatively impact air travel demand.⁷

At the very minimum, TTF calls upon the Australian Government to undertake modeling on the cumulative impact of government charges on demand for an Australian holiday.

Yours faithfully

A large, dark, rectangular redaction mark covering the signature area of the letter.

DR MARK DIMECH
National Manager

⁷ TTF has undertaken analysis on an economy class air ticket which demonstrates that fees and taxes account for at least 20 per cent of the full ticket price.

Delays in passenger processing

Australia's major gateways have been experiencing significant delays in the processing of passengers through customs, immigration and quarantine (CIQ). While considerable investment has been made by the aviation industry, CIQ resources appear to have not kept pace with increased passenger growth, particularly at peak periods.

All other things being equal, these delays will only worsen with the natural growth in passenger numbers and the introduction of larger aircraft such as the A380.

Economic costs of delays in passenger processing

Delays in processing passengers by border control agencies frustrate the legitimate movement of people into and out of Australia. This has economic consequences for tourism given that the delays impact on the 'first impression' that tourists gain when entering Australian ports. This reputation can adversely affect Australia as an attractive tourist destination, eventually leading to leakages from the economy.

Delays in processing passengers by border agencies also mean less time spent by travellers on airside and landside spending, leading to further economic loss for airports and retailers.

There are also negative flow-on effects from congestion at border controls. Delayed passengers lead to delayed flights. Consequently, airline outbound on-time performance, interlining arrangements and airline performance within the domestic network are also adversely affected.

Delays and the PMC

The PMC gives a tourist the impression of a 'fee for service'. Experiencing bottlenecks at border control points does not meet travellers' expectations of adequate service delivery and further engenders a negative impression on tourists.

TTF and the Passenger Facilitation Taskforce (PFT)

TTF is the only organisation representing tourism interests as part of its brief to have attended and participated in all industry consultation meetings, and is a strong supporter of the PFT, its work plan and initiatives.

In TTF's view the PFT has proven very effective in addressing the Taskforce's terms of reference.

TTF supports the PFT's work plan including:

- the introduction of express paths (to facilitate frequent travellers);
- in-line screening trials (that allows quarantine inspection screening before baggage distribution);
- SmartGate technology using e-passports for in and outbound traffic;
- whole-of-airport facilitation standards; and
- a focus on trans-Tasman facilitation.

However, more needs to be done in relation to delays at the secondary line and quarantine inspection.

Delays caused by quarantine inspection

In TTF's submission to the Australian Government's review of Quarantine and Biosecurity we advised that continued implementation of existing quarantine policies at airports is unsustainable.

Without radically changed quarantine inspection policies by 2011 TTF expects increasing chaos at Australia's airports due to:

1. Growth in annual passenger numbers of around 25 per cent per annum;
2. Growth in annual passengers to and from higher risk countries at around 39 per cent per annum;
3. Continuing physical restrictions on the areas in airports available for quarantine policing between the baggage delivery and travellers entering Australia;
4. Larger increases in average peak hour arrivals than in total annual passenger arrivals, due to increased international aircraft arrivals and use of larger aircraft including the A380; and as a result
5. A more than doubling of current peak hour queue lengths and queuing delays.

TTF's submission calls for urgent reform of Australian quarantine inspection services and strongly recommends the implementation of a risk management approach to quarantine inspection.

TTF's submission is available at <http://www.ttf.org.au/>

Taxation on Tourism in Australia facts:⁸

- The tourism industry is already heavily taxed.
- Taxes on tourism exports strongly outweigh subsidies and assistance for export promotion.
- Tourism is Australia's largest services export industry, with sales of tourism services of \$20.5bn in 2005-06.
- Of this, about \$5.5bn is accounted for by long distance passenger transportation, mainly air transport.
- Tourism stands out as one of the two export industries which is subject to GST (the other is education).
- Total net tourism taxation in Australia was \$6922M in 03/04, equivalent to 20% of total tourism GDP or 9% of total tourism expenditure.
- GST raised \$4490M and other Federal taxes raised \$1797M from tourism in 03/04.
- Over \$1bn in GST is paid by international tourism.
- Tourism taxes include taxes on products (GST, fuel taxes, alcohol taxes and gambling taxes) and taxes on production (property tax, payroll tax and FBT).

⁸ STCRC (2007) "State and Federal taxes on Tourism in Australia – estimates for 2003/04".

Visa and Taxes – Australia versus other destinations

Destination	Visa Fees	Arrival / Departure Tax	Total Cost
Europe	\$0.00	\$0.00	\$0.00
Sth Korea	\$0.00	\$9.16	\$9.16
South Africa	\$0.00	\$12.40	\$12.40
Hong Kong	\$0.00	\$14.66	\$14.66
United States	\$0.00	\$15.63	\$15.63
Canada	\$0.00	\$16.15	\$16.15
New Zealand	\$0.00	\$18.48	\$18.48
United Arab Emirates	\$28.38	\$0.00	\$28.38
United Kingdom	\$0.00	\$44.00	\$44.00
China	\$50.00	\$12.10	\$62.10
Brazil	\$49.00	\$39.76	\$88.76
Australia	\$100.00	\$47.00	\$147.00