

AUSTRALIA IN THE ASIAN CENTURY

VISITOR ECONOMY OPPORTUNITIES

MARCH 2012



Membership of Tourism & Transport Forum

The Tourism & Transport Forum (TTF) is the peak national advocacy body for the tourism, transport and aviation sectors. It is a CEO forum representing the interests of 200 leading Australian institutions and corporations in the private and public sectors.

TTF uses its experience and networks to influence public policy outcomes and business practices, and to assist the delivery of major tourism, aviation and transport-related infrastructure projects. Our members' interests include tourism, accommodation, major events, aviation, land and maritime transport, investment, property development, finance, retail, hospitality and education.

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Executive Summary

Australia's location in the Asia-Pacific presents us with an unparalleled opportunity to benefit from the structural shift occurring in the global economy. The burgeoning middle class in Asia will continue to provide potential visitors, and their increasing buying power makes them a key market for Australian goods and services including food and wine, education, health and technology. Tourism can provide an entrée to future relationships that benefit the Australian economy, creating jobs, supporting regional and national development and driving sustainable industry.

Australia is not alone in recognising the potential of the Asian Century and it is critical that we don't lose the competitive advantage of our proximity to Asia through complacency. A business-as-usual approach will see us lose market share to competitors including the UK, US and Europe. Conversely, putting the right framework in place will prepare Australia for growth and ensure that we will have a sustainable tourism industry, providing economic and employment opportunities after the resources boom.

AUSTRALIA IS NOT ALONE IN RECOGNISING THE POTENTIAL OF THE ASIAN CENTURY AND IT IS CRITICAL THAT WE DON'T LOSE THE COMPETITIVE ADVANTAGE OF OUR PROXIMITY TO ASIA THROUGH COMPLACENCY.

Maximising the potential tourism benefits offered by the Asian Century will depend on Australia having a competitive offering. It is not simply about price, although the relative cost of travelling to Australia will be a barrier to some visitors; it is about presenting a compelling value proposition – offering quality products and experiences at a price people are prepared to pay. Feeding into that equation are factors like accommodation capacity, aviation access and service standards. Competitiveness is the responsibility of the entire tourism supply chain.

Our definition of tourism requires reframing to encompass all aspects of the visitor economy.

The common perception is that tourism is leisure travel – people on holidays or visiting friends and family. Yet, the reality is that people travel to Australia for a variety of different reasons, including: education; employment; health; business; conferences, conventions and exhibitions; working holidays; and more. All of these travellers make contributions to the visitor economy, creating employment opportunities across Australia.

PUTTING THE RIGHT FRAMEWORK IN PLACE WILL SET AUSTRALIA UP FOR GROWTH AND ENSURE THAT WE WILL HAVE A SUSTAINABLE TOURISM INDUSTRY, PROVIDING ECONOMIC AND EMPLOYMENT OPPORTUNITIES AFTER THE RESOURCES BOOM.

Growing the economic contribution of visitors from Asia is essential if we are to have a chance of reaching the goal outlined in the Tourism 2020 strategy of doubling overnight tourism expenditure to \$140 billion by 2020.

Critical to achieving this aspirational growth target, however, is to invest sufficiently to improve the focus and effectiveness of our marketing in Asian markets, to increase the ease of access to Australia and to deliver a

welcoming and high-quality experience to Asian visitors – be they in Australia for a holiday, for business or to study.

This submission recommends that the Commonwealth Government allocate additional funding of \$1 billion over the next ten years directly for growing inbound visitation from Asia, ensuring that key policies and programs are in place in the current year, and that sustained efforts continue in the years to the end of the decade and beyond.

Introduction

The response of the Australian Government to the opportunities and challenges of the Asian Century demands a longer-term perspective. Like the response to demographic change, policy reform and targeted action is necessary now to ensure Australia can build a prosperous future in the Asian Century.

The Asian Century demands that Australia look beyond our current economic reliance on the strength of the resources sector. The current resources boom has impacted other industries that will need to grow quickly to help the Australian economy transition once that boom ends. Fortunately for Australia, the rapid rise in numbers in the Asian middle class promises significant new opportunities for the country beyond the resources sector, diversifying the risks to Australia from the resources boom and enhancing other sources of ongoing income and sustainable employment.

THE ASIAN CENTURY DEMANDS THAT AUSTRALIA LOOK BEYOND OUR CURRENT ECONOMIC RELIANCE ON THE STRENGTH OF THE RESOURCES SECTOR.

As Treasury economist David Gruen noted when discussing the re-emergence of China and India to the global economy:

The implications for Australia will depend on how rapidly the global supply of commodities rises to meet rising global demand... but has broader implications for Australia than simply heightened demand for our mineral and energy commodities.

[...] will generate rising demand for a range of Australian goods and services – whether they will be foodstuffs, Australian tourist destinations, educational, financial and other professional services where Australia has a proven track record.¹

The Tourism & Transport Forum (TTF) represents a majority of the leading organisations that support the visitor economy in Australia. This submission emphasises the visitor economy rather than the tourism industry as this more accurately reflects its focus, as well as the increasing reliance of Australian organisations on business events and education visitors. As the value of Australian dollar has increased, so has the importance of the less price-sensitive business event and education visitors. Conversely, as the Australian dollar is expected to fall later in the Asian Century, the leisure sector should be a major beneficiary and we need to put policies in place to ensure we are ready to convert this opportunity.

PERCEPTIONS OF AUSTRALIA IN ASIA WILL VITALLY INFLUENCE THE INTER-RELATED OPPORTUNITIES FOR AUSTRALIA IN THE ASIAN CENTURY FROM EXPORTS, INVESTMENTS AND AUSTRALIA'S SCIENTIFIC AND EDUCATIONAL STRENGTH.

Visitors from Asia that arrive for leisure, business and education provide both a large direct economic benefit to Australia and a critical intangible benefit, as their trips are the key way in which perceptions of Australia are formed in Asia. Perceptions of Australia in Asia will vitally influence the inter-related opportunities for Australia in the Asian Century from exports, investments, and Australia's scientific and educational strength.

This submission includes a number of case studies of Australian-based organisations that are actively engaging with Asian markets to highlight some examples of how the private sector is responding to the opportunities emerging from the anticipated growth in demand from Asian markets. However, the core argument of this submission is that a range of Australian Government policies and programs will

¹ Gruen, D. (2011), The Resources Boom and Structural Change in the Australian Economy, pages 1 & 4

be required if we are to maximise the benefits arising from the Asian Century, and that a business-as-usual approach will see Australia fall behind as the rest of the world looks to capitalise on the opportunities of the century ahead.

This submission responds to questions raised in the Australia in the Asian Century Issues Paper. It specifically addresses:

- Within the White Paper's terms of reference, what should be the focus of analysis and policy discussion and why?
- What are the opportunities of the transformation occurring in Asia for Australia's economic performance, trade, investment and financial markets?
- How well placed is Australia to take advantage of these opportunities? Are Australia's policy settings appropriate?

A BUSINESS-AS-USUAL APPROACH
WILL SEE AUSTRALIA FALL BEHIND AS
THE REST OF THE WORLD LOOKS TO
CAPITALISE ON THE OPPORTUNITIES
OF THE CENTURY AHEAD.

This submission will recommend a range of reforms and initiatives that the Australian Government should take to increase the direct economic benefits for Australia from the Asian Century along with additional reform to enhance perceptions of Australia to reduce risks to Australia from increasing reliance on Asia.

Many of the answers to questions identified in the Issues Paper tracing the expected development of the Asian Century will be little influenced by Australia. This submission is instead focused on the actions Australia can take to increase the benefits for Australia from the Asian Century.

TTF recognises that responses to this Issues Paper are an early stage in the development of an *Australia in the Asian Century* White Paper, and we look forward to the opportunity to provide more detailed input to the later stages of this important strategic policy process for Australia.

The importance of the visitor economy

The visitor economy is a critical component of the Australian economy

The visitor economy plays a critically important economic and social role in Australia, with benefits spread across industries and all areas of the country. Expenditure by international and domestic visitors makes a significant contribution to the Australian economy. The value of the visitor economy is measured by the ABS's Tourism Satellite Account in parallel to the national accounts. In 2010-11, international and domestic visitor consumption in Australia was \$95.7 billion². This consumption:

- Generated \$23.7 billion in export earnings – 8.0 per cent of total Australian exports;
- Directly employed 513,700 people – 4.5 per cent of total Australian employment; and
- Contributed \$34.6 billion to Gross Domestic Product – 2.5 per cent of GDP.

The visitor economy also generated approximately \$7.2 billion in net taxes on products in 2010-11.

Asian visitors to Australia

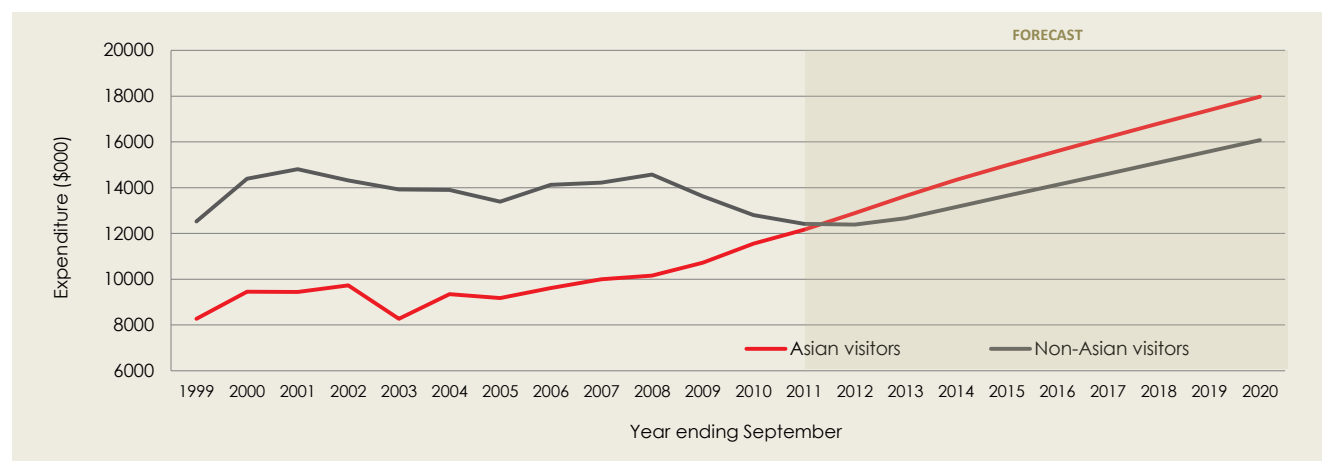
The *Australia in the Asian Century* Issues Paper notes the opportunities for Australia from increasing numbers of Asian visitors coming to Australia for leisure, business and education. This opportunity comes on top of what has already been strong contribution to the Australian economy over the last decade.

The visitor economy has seen strong growth from Asian markets in the past decade

Australia welcomed more than 2.4 million visitors from Asia in 2010 with total export earnings of almost \$12 billion³. This is an increase of 40 per cent compared to 1999, while growth in export earnings from non-Asian source markets was up only two per cent over the same period.

Export earnings from Asian visitors surpassed export earnings from non-Asian visitors in 2011 for the first time and are officially forecast to continue growing far more quickly to 2020 (see Chart 1).

Chart 1 – Real export earnings from Asian and non-Asian visitors, 1999-2020



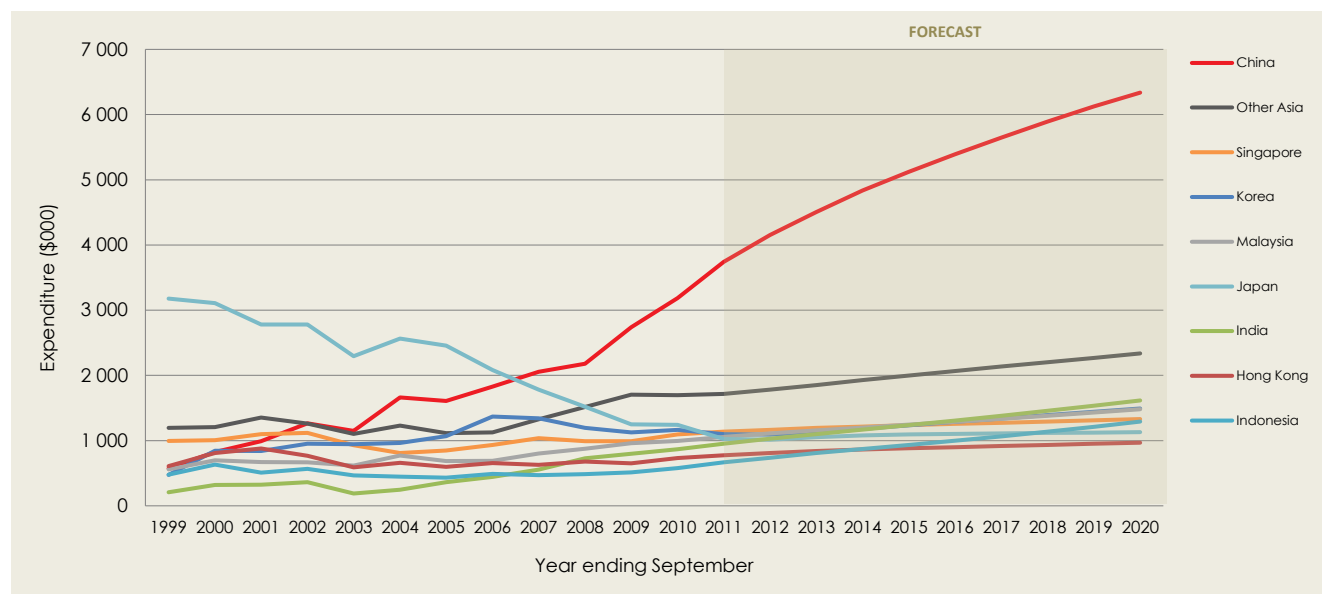
Sources: TRA, *International Visitor Survey*, 1999-2011 editions; Tourism Forecasting Committee, *Forecast*, 2011 Issue 2.

² Australian Tourism Satellite Account, cat. no. 5249.0, ABS, 2010-11. The visitor economy data reported from this source does not include visits to Australia of longer than one year and therefore excludes some of the economic contribution of longer stay visitors such as university students or long-stay temporary visitors.

³ Tourism Forecasting Committee, *Forecast 2011*, Issue 2, TRA. Results for Total Inbound Economic Value (TIEV). TIEV is an estimate of total export earnings for Australia from the visitor economy designed to closely approximate the Australian Tourism Satellite Account estimates, which are not available by source market.

While China has seen the most significant growth in the real value of visitor economy exports - up \$2.5 billion or 453 per cent - over the period (see Chart 2), there has been significant growth from a number of other Asian markets including India (315 per cent), Korea (145 per cent), and Malaysia (up 79 per cent).

Chart 2 – Real export earnings from Asian visitors, by country, 1999-2020



Sources: TRA, *International Visitor Survey*, 1999 -2011 editions; Tourism Forecasting Committee, *Forecast*, 2011 Issue 2.

Notes: Other Asia includes the smaller markets of Thailand, Taiwan and remaining Asia.

Looking ahead to 2020, the key role of Asia in export earnings from the visitor economy is clear. The Tourism Forecasting Committee expects that Asian source markets will account for 55 per cent of the nearly \$10 billion increase in real export earnings from international visitors to Australia over the 2010 to 2020 period⁴, with Chinese visitors to account for half of this growth (see Chart 2).

Australia's tourism 2020 targets

The Australian Government, with all the states and territories, has endorsed a higher target for spending from the visitor economy by 2020 than the official forecast from the Tourism Forecasting Committee. This aspirational goal, to double overnight visitor spending in Australia between 2009 and 2020, is a cornerstone of Tourism 2020, the policy update of the National Long-Term Tourism Strategy (NLTS), announced in December 2011.

Very strong growth in Asian visitor spending, the fastest growing segment of Australia's visitor economy, underpins this target of doubling nominal overnight visitor spending from \$70 billion in 2009 to \$140 billion by 2020.

Critical to achieving the aspirational growth target, however, is to invest sufficiently to improve the focus and effectiveness of our marketing in Asian markets, to increase the ease of access to Australia and to deliver a welcoming and high-quality experience to Asian visitors – be they in Australia for a holiday, for business or to study.

Australia cannot take a business-as-usual approach and expect to maximise the benefits of the Asian Century. Without further investment across the areas outlined in this submission, Australia will be left behind while other countries take advantage of the opportunities afforded.

⁴ Tourism Forecasting Committee, *Forecast* 2011 Issue 2, TRA

Asian perceptions of Australia

How Australia is perceived in Asia will be a key determinant of how trade, investment and political relationships will develop, and how actively Australia will benefit from the Asian Century.

For example, many dimensions of the Australia-India relationship were negatively impacted by reaction to media reports of problems faced by Indian students in Melbourne. This submission calls for Australia to get on the front foot in engaging with the public in Asia and will recommend a range of cost-effective initiatives to achieve this (see *Enhancing perceptions about Australia in Asia*, in the Reforms section).

FOR VISITOR ECONOMY EXPORTS INCLUDING HOLIDAYS IN AUSTRALIA, BUSINESS EVENTS AND EDUCATION, PERCEPTIONS OF AUSTRALIA ARE CRITICAL.

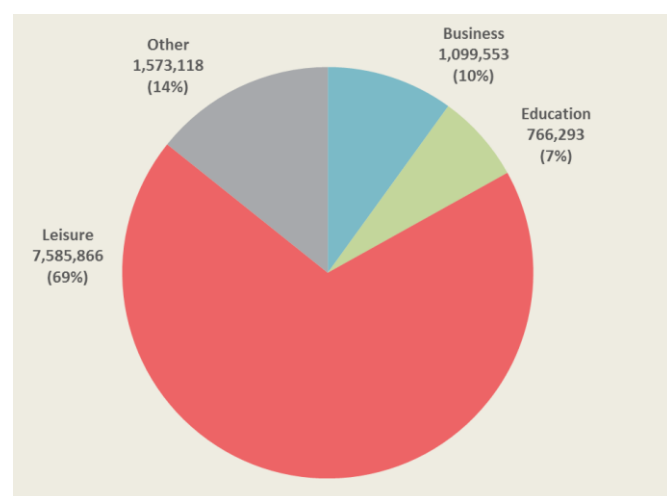
While trade and investment in bulk commodities such as iron ore are less affected by perceptions of Australia in Asia, trade and investment in the sales of sophisticated manufactures and especially services are heavily influenced by perceptions of Australia in these markets. For visitor economy exports including holidays in Australia, business events and education, perceptions of Australia are critical.

Asian visitors to Australia are at the core of well-developed perceptions of Australia

When residents of Asian countries have a well-developed understanding of Australia, it is often because they have visited here. Tourism Australia's Managing Director, Andrew McEvoy, recently noted that:

*"Australia is world renowned for the warm welcome it offers its visitors and we believe this is particularly the case for first-time visitors from Asia, aided by our strong ties and close proximity to the region, and the many, well-established Asian-Australian communities that now flourish across our country. We feel that Australia easily meets and, in most cases, exceeds the expectations of most Asian travellers, who recognise and appreciate the level of development, modern infrastructure and quality tourism products and services we are able to offer our visitors."*⁵

Chart 3 – Asian visitors to Australia by purpose, 1999-2011



In the last 12 years, there have been 25 million visits by residents of Asian countries to Australia, whether for holidays, to visit friends and relatives, to study, for business, and for other purposes including temporary employment and medical care.⁶

An analysis of Asian visitors to Australia by purpose over this period highlights the significant share of leisure visitors, although the long average stay of education visitors means these visitors form a more comprehensive understanding of Australia (see Chart 3).

Source: TRA, *International Visitor Survey*, 1999-2011 editions. Note: All visitors, 15 years+.

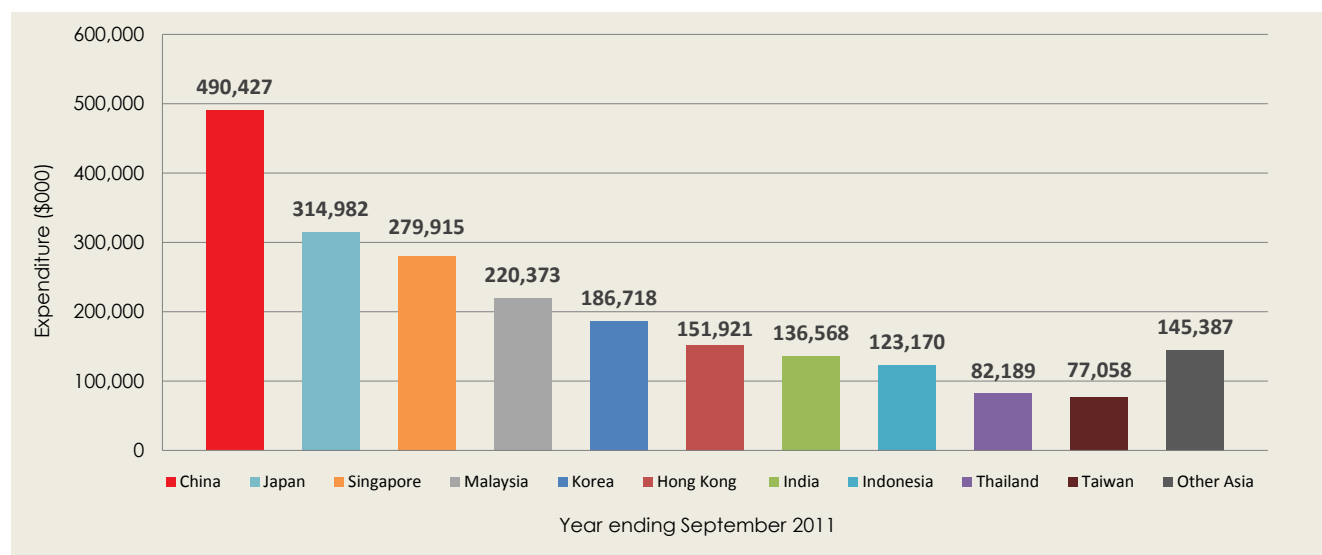
⁵ Andrew McEvoy, 27 February 2012

⁶ International Visitor Survey, TRA, year ending September 2000-2011

Since the start of the decade, there has been a strong switch in the major source countries of Asians visiting Australia, away from Japan to China, South Korea and other Asian countries. Since 2010, China has become the largest source of inbound visitors from Asia, but a number of other markets also provide large visitor numbers to Australia.

The most recent annual data shows that visitors from China totalled almost half a million, or 22 per cent of all Asian visitors, with Japan and Singapore at 14 per cent and 13 per cent, respectively (see Chart 4).

Chart 4 – Asian visitors to Australia, 2011



Source: TRA, *International Visitor Survey*, Sep 2011 edition. Note: All visitors, 15 years+.

Making a good first impression

Since 1999, Tourism Research Australia has looked at whether international travellers to Australia were first-time or repeat visitors. Since then, Australia has welcomed more than 11 million first-time Asian visitors 15 years and over – representing more than 60 per cent of the current comparable Australian population.⁷

Table 1 – First time Asian visitors to Australia by purpose, 1999-2011

	BUSINESS	EDUCATION	LEISURE	OTHER	TOTAL
China	21%	10%	67%	2%	1,720,064
Hong Kong	10%	7%	81%	2%	496,804
Taiwan	5%	5%	89%	1%	622,512
Japan	4%	3%	91%	3%	4,087,573
South Korea	6%	9%	2%	84%	1,493,016
India	23%	13%	55%	10%	522,096
Singapore	15%	5%	76%	4%	546,795
Malaysia	9%	7%	80%	4%	544,228
Indonesia	15%	18%	59%	7%	246,615
Thailand	17%	13%	67%	3%	325,278
Other Asia	19%	12%	57%	12%	419,848
TOTAL	10%	7%	69%	14%	11,024,830

Source: TRA, *International Visitor Survey*, 1999-2011 editions. Note: All visitors, 15 years+.

Almost seven out of ten first-time Asian visitors came to Australia for a leisure holiday, while ten per cent were here for a business trip and 7 per cent came to Australia to study. The mix of purposes varies

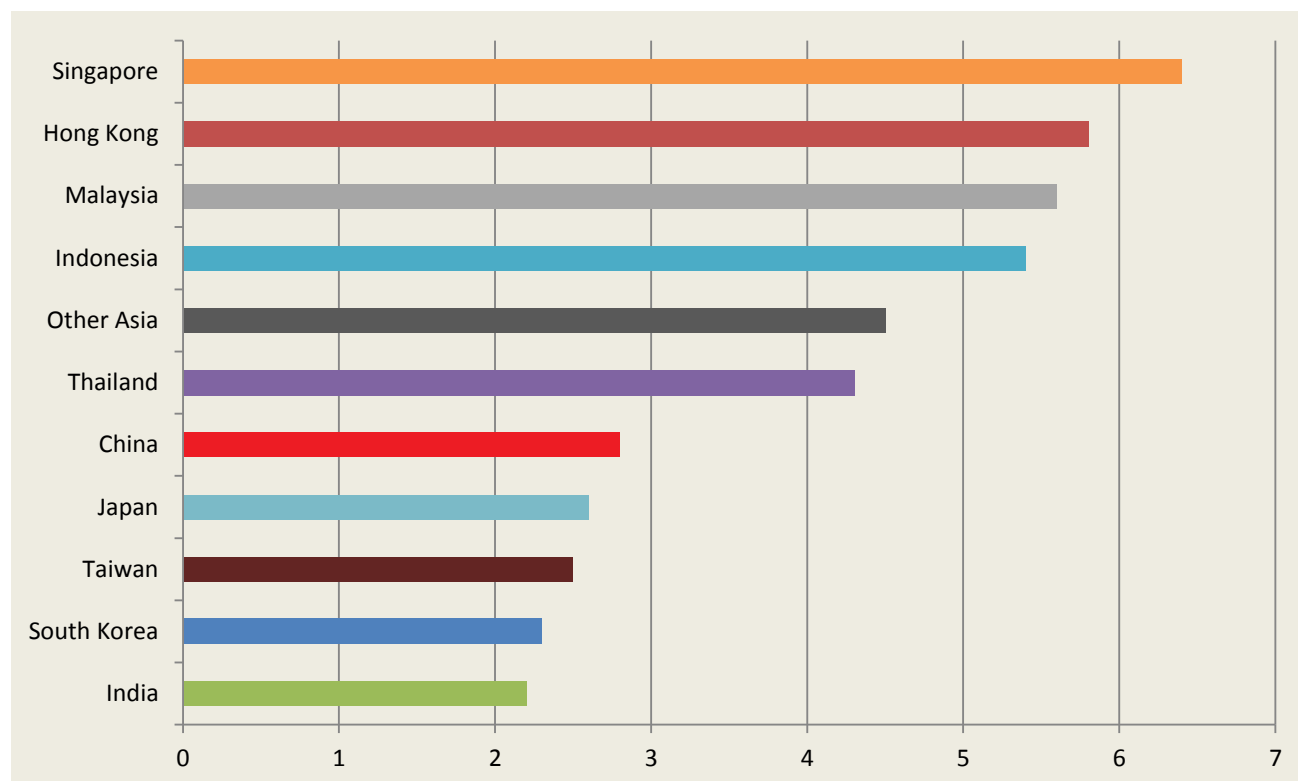
⁷ Looking specifically at those aged 15 and over, as per the visitors included in the data from the International Visitor Survey

by source country – with business trips making up a larger share of first time visits for Chinese and Indian visitors, but holiday trips accounting for more than half of all trips from each country⁸ (see Table 1).

Looking beyond first-time Asian visitors and the initial opportunity to build a positive impression, it is also informative to consider the number of times Asian visitors have returned to Australia as we look to shape closer relationships with the emerging markets of Asia.

Repeat visits indicate a deeper understanding of Australia. Returning visitors from key source markets in South East Asia, including Singapore, Hong Kong and Malaysia, have been to Australia an average of five or six times, while visitors from markets in North Asia, such as China, Japan and South Korea, have travelled to Australia an average of two to three times (see Chart 5).

Chart 5 – Average number of visits to Australia by country in 2008



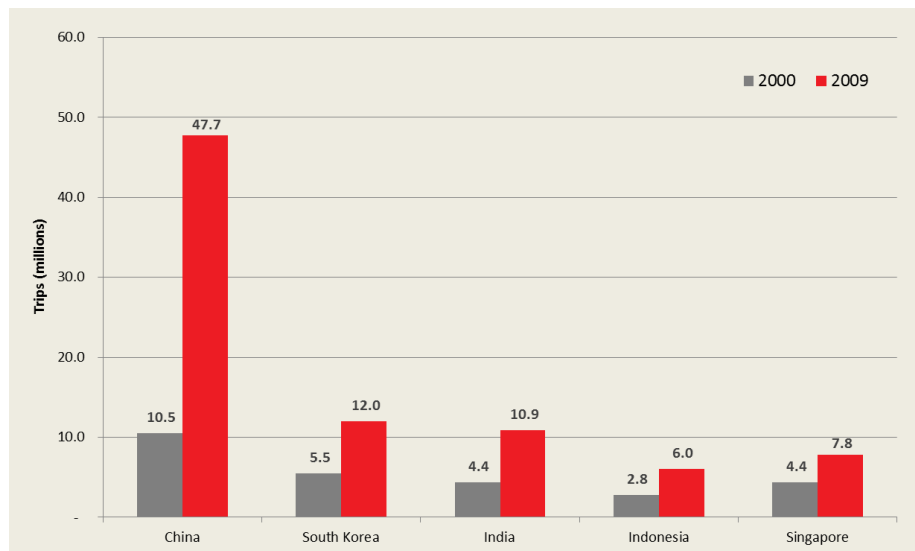
Source: TTF analysis. TRA, *International Visitor Survey*, December 2008 edition

⁸ Except South Korea

The outlook for Asian outbound travel

The Issues Paper notes that the number of people in the Asian middle class could rise from 500 million in 2009 to 3.2 billion in 2030⁹. This six-fold growth in the middle class is likely to occur at the same time as the population is looking increasingly beyond the borders of their own nations (see Chart 6).

Chart 6 – Total outbound travel by residents of selected Asian markets, 2000 and 2009



With the growth of the middle class has come significant growth in outbound travel from a number of the key Asian markets. Tourism Australia records that the number of outbound travellers from China going beyond other North Asian countries (i.e. beyond Korea, Japan, Macau and Hong Kong) increased from 4.6 million in 2000 to 12.6 million in 2010.¹⁰

Source: Market Profiles, Tourism Australia

While travel from Asia has grown considerably in the last decade, Australia's share is not necessarily keeping pace

Looking specifically at China, Australia's share of total outbound travel decreased from 1.1 per cent in 2000 to 0.8 per cent in 2010. Fortunately, Australia's longstanding Approved Destination Status (ADS) may be providing a solid foundation with China's out-of-region travellers (those going beyond North East Asia), where Australia's share has grown from 2.6 per cent to 3.6 per cent over the decade.

Australia's share of total outbound travel from a number of other key Asian source countries has also declined over the decade, including South Korea (down from 2.9 per cent in 2000 to 1.8 per cent in 2009), Indonesia (down from 3.5 per cent to 2.1 per cent) and Singapore (down 6.4 per cent to 3.9 per cent).¹¹

While income growth is a key determinant of outbound travel by any source market, other factors driving increased international travel by Asians are the easing of restrictions on travel in many Asian source markets and the increasingly aggressive marketing to Asian potential travellers by a growing number of developed and emerging destinations.

A key prospect related to the growth of outbound travel is the focus by the Asian middle class on enhancing their children's educational achievements. This presents an opportunity for Australia as an increasing share of the education of young Asians is expected to occur outside their home country and the desirability of English-language training will increase. Building on a decade of strong growth in international education, Australia is well placed to contribute to the supply of formal university educational qualifications, vocational education and English-language training.

⁹ Kharas H and Gertz G (2010), 'The new global middle class', in China's emerging middle class, Li C (ed), 2010, Brookings Institution Press, Washington.

¹⁰ China Market Profile 2011, Tourism Australia.

¹¹ Market Profiles, Tourism Australia

Competitive challenges in attracting Asian visitors

Asia is providing new competition for Australian industries as well as new sources of demand. Compared to the resources industries where there are comparatively few competitor countries to Australia, there are hundreds of competitors in attracting visitors from Asia.

In the case of encouraging visitor arrivals, there have been strong proactive policies in some Asian countries to build their respective tourism industries. Countries as diverse as Singapore and Japan have aggressively targeted growth in inbound visitation. Singapore, for example, has invested heavily to attract business events to the city, including courting the headquarters of international associations. Hong Kong and Macau have similarly targeted international visitor arrivals as a key driver of economic growth.

Tourism Australia has noted that China now has 100 active National Tourism Offices with 130 countries having Approved Destination Status (ADS), which is a very different scenario to 1999 when Australia with New Zealand were the first western countries to be granted ADS approval.

WITH KEY COMPETITORS FOR THE LONG-HAUL ASIAN TRAVELLER – THE UNITED KINGDOM AND THE USA – MATCHING THEIR MARKETING CAMPAIGNS WITH GOVERNMENT-WIDE EFFORTS TO CUT RED TAPE ON BUSINESS, TO STREAMLINE VISA PROCESSES AND TO IMPROVE THE AIRPORT WELCOME EXPERIENCE, IT IS CLEAR THAT IT WILL REQUIRE EFFORT ACROSS MANY AREAS OF GOVERNMENT IF AUSTRALIA IS TO MAINTAIN (OR GROW) ITS MARKET SHARE OF ASIAN OUTBOUND TRAVELLERS AND REACH THE TOURISM 2020 TARGETS.

With Australia's key competitors for the long-haul Asian traveller – the United Kingdom and the USA – matching their marketing campaigns with government-wide efforts to cut red tape on business, to streamline visa processes and to improve the airport welcome experience, it is clear that it will require effort across many areas of government if Australia is to maintain (or grow) its market share of Asian outbound travellers and reach the Tourism 2020 targets.

Easily accessible web-based information has resulted in an increasing number of destinations being marketed. Tourism Australia considers that this has resulted in the 'long tail' effect, where many lesser known destinations are challenging the better known destinations such as Australia.

In labour-intensive sectors of the visitor economy, such as luxury hotels and restaurants, Australia faces a major competitive disadvantage related to our pay systems, including penalty rates and high minimum wages. This is putting more pressure on all Australian visitor economy businesses to become more productive in using labour to retain their competitiveness against Asian-based rivals.

Australia's ranking in the World Economic Forum's Travel and Tourism Competitiveness Index has slipped to 13th position in 2011 (from 9th in 2009), with the decline attributed to a perceived weakening of focus on environmental sustainability and concerns around the availability of labour in the country.¹²

¹² World Economic Forum, Travel and Tourism Competitiveness Report 2011: Beyond the Downturn

Does the strong Australian dollar impact on our competitiveness with Asian visitors?

Another factor affecting our competitiveness is the strong Australian currency, which reduces our affordability as a destination. While it's generally acknowledged that the exchange rate is not the key determinant in the decision to visit Australia, it does impact on the spending behaviour and choices of visitors once they arrive. Tourism Australia Chairman Geoff Dixon noted recently that "Australia is now a high-cost destination" and that "complaining about the high dollar is self-defeating"¹³. Mr Dixon said that instead, "what we need to do is spend our time on how we market the country better and make sure that the product is worth what people pay for it."¹⁴

This is a view that TTF endorses. With our high capital and operational costs, Australia's tourism industry is unable to compete on price with many competitor destinations in our region. Our focus must be on providing potential visitors with a compelling value proposition. We must concentrate our efforts on improving our product, through investment in new and refreshed accommodation, attractions and activities.

However, it is also the intangibles which play a key role in delivering that value. We must ensure that service levels are exemplary and that the personal interactions of tourists with Australians are a pleasant experience. Frontline staff should have an understanding of Asian cultures and be sensitive to the differences that may expose them to. Visitors to Australia must be welcomed to our country, not treated with suspicion. Delivering value is the responsibility of the entire tourism supply chain.

It is also important to note that first-time visitors to Australia do not have a comparative prior experience on which to base their perception of the value of travelling in Australia. Nor is it likely that they have been following the historical fluctuations in the exchange rates. Potential visitors from our traditional source markets may be more aware of the exchange rates changes over time; however, the general strength of their home economy is a much bigger factor in their travel decision than the relative value of their currency against the Australian dollar.

¹³ *Australian Financial Review*, January 14, 2012

¹⁴ *ibid*

Making the most of the Asian Century

The Asian Century presents many opportunities for Australia, and to maximise these opportunities will require coordinated effort and investment. The Commonwealth Government should allocate additional funding of \$1 billion over the next ten years directly for growing inbound visitation from Asia, ensuring that key policies and programs are in place in the current year, and that sustained efforts continue in the years to the end of the decade and beyond.

This additional investment should be directed in large part to the promotional efforts of Tourism Australia in key Asian markets, as it looks to develop strong relationships, distribution channels and market Australia more aggressively. To maximise the impact of these efforts, however, investment will also be required in other interconnected areas of government, to make it easier for Asian visitors to come to Australia, to deliver a welcoming and high quality experience, and to build positive perceptions of Australia in Asia.

1. Promoting visits to Australia

Growing visitors from Asia is the first of the six areas identified in the Tourism 2020 Strategy. However, this overdue strategic priority is yet to be reflected in adequate funding for marketing by Tourism Australia.

The strategy acknowledges that industry and government need to develop tailored marketing campaigns, strengthen distribution, deepen consumer understanding, and develop appropriate product and relevant policy frameworks.

To ensure that Australia can respond to the opportunities will require significant additional spending on marketing through Tourism Australia, particularly to leisure travellers. It's also essential that Tourism Australia retains the flexibility to respond to changes in demand and make tactical adjustments to its activities.

a. Boost leisure trips

Compared to its marketing efforts in Western markets like the USA and Europe, Tourism Australia must play a greater leadership role in marketing to potential leisure visitors from Asian countries. This reflects the fact that the challenges confronting Australian businesses are more complex in Asia than in Western markets – in raising awareness, gaining distribution through wholesale and retail channels, and converting awareness into sales,.

Tourism Australia has already shifted marketing resources to Asia following the impacts of the global financial crisis, but additional resources are necessary to compete effectively with a rush of new competition and to combat rapid media cost inflation in Asia.

The challenges facing Australia in raising awareness in Asian markets have been significantly increased by the high Australian dollar, which has focused marketing efforts on less price-sensitive visitor segments that are often the most expensive to target.

When Tourism Australia was initially established in 2004, its budget was \$138 million and this budget is predicted to fall slightly in dollar terms by 2015/16 to around \$135 million. Over the eleven years, this represents a fall in real budget funding for Tourism Australia of over 30 per cent – while our major

competitors have generally increased the budget funding for their national tourism organisations or, in the case of the USA, established a national tourism marketing program.

Convincing the Asian market to go beyond the capital cities

A core challenge for Australia is to entice Asian leisure visitors beyond Australia's cities to encounter more of the unique aspects of Australian travel. The natural environment is at the heart of Australia's comparative advantage for the potential leisure visitor. Yet, the share of Asian travellers' leisure visitor nights in Australia that are spent in regional Australia remains worryingly small. China and India have the lowest share of visitor nights spent outside the Sydney, Melbourne, Brisbane/Gold Coast and Perth regions of the 23 source markets reported in Tourism Research Australia data. Only one night in ten by Chinese leisure visitors and one night in eight by Indian leisure visitors is spent outside these key gateway cities.

Whereas Western international leisure visitors to Australia spent 39 per cent of their nights outside the Sydney, Melbourne, Brisbane/Gold Coast and Perth regions, Asian visitors only spent 23 per cent of their nights outside of these cities.¹⁵ With Asian leisure visitors set to grow far more quickly than non-Asian leisure visitors, this highlights a major challenge for maintaining the share of employment in the visitor economy in regional Australia.

Tourism Australia needs to work with state and regional tourism organisations to build marketing for itineraries in regional Australia that are both appropriate for and attractive to Asian group and independent travellers.

Developments to be initiated with additional funding include:

- Increased Tourism Australia development of digital marketing capability in Asian languages to provide portals that link to individual company websites (encouraging digital marketing capability is the second of the six identified priority areas of the 2020 Tourism Strategy);
- Over time, an increased direct Tourism Australia presence in the fast-growing Indonesian market, providing improved market intelligence and links with retailers and wholesalers in this market; and
- Increased use of visiting journalist and advocacy programs in Asia.

b. Boost international education

There is growing competition for potential Asian international education travellers¹⁶. The sector encompasses tertiary, vocation, school and English-language students, contributing nearly \$14 billion in export income to the Australian economy¹⁷. With most students undertaking travel while studying in Australia and attracting visits by friends and family, the benefits of closer ties between the international education sector and the visitor economy is clear.

Tourism Australia has a range of core competencies that can assist Australia's education providers in marketing more effectively in Asia. These competencies include extensive experience in running programs such as the Visiting Journalists Program, marketing to wholesale and retail partners in Asia and targeted digital marketing campaigns. This access and expertise should be leveraged to maximise the exposure of Australia's education providers to potential international students.

More than one in five visitors who nominate education as their primary purpose for visiting Australia also cite leisure as another reason for their visit.¹⁸ Indeed, there are prospects for lifting Australia's

¹⁵ International Visitor Survey, TRA, year ending Sep 2011.

¹⁶ Phillimore, J. and Koshy, P., Higher Education Student Visa Systems: Australia and Selected Countries Compared, The John Curtin Institute of Public Policy, Curtin University

¹⁷ Australian Education International, Department of Education, Employment and Workplace Relations (DEEWR), 2008

¹⁸ International Visitor Survey, TRA, year ending September 2011

comparative advantage in the visitor economy by further linking our strengths in education and leisure, and by leveraging existing international marketing efforts.

c. Boost business events

Hosting business events is vital to developing Australia's comparative advantage in our key industry sectors. Australia has a longstanding leading role in hosting international medical, scientific, mining and financial conferences that is under assault from aggressive marketing campaigns led by competing destinations. In addition, the strength of the Australian dollar has created even greater challenges in continuing to win international business events and getting overseas delegates to visit Australia for these events.

Owing to the squeeze on overall Tourism Australia funding, the funding available for the existing responsibilities of Tourism Australia in marketing business events has been very limited. Current Tourism Australia funding devoted to business events is around \$5 million per annum. With countries like Singapore spending many multiples of this, Australia is losing market share.

Tourism Australia requires additional funding targeted to both co-operative marketing with Australian cities to win more international events, and delegate boosting marketing to attract more Asian visitors once events are secured.

2. Improving Australia's competitiveness

As canvassed in a previous section, *Competitive Challenges in Attracting Asian Visitors*, competitiveness is not simply about price, it is about value and it is the responsibility of the entire tourism supply chain to provide the right products and experiences at a price that visitors are prepared to pay. Competitiveness also relies on levels of service and cultural awareness from everyone involved in a tourism transaction, from front line customs staff to hospitality and retail workers to public transport operators. All of these interactions form part of the experience and influence the perceptions of Australia these visitors will take home with them.

However, improving competitiveness is also about recognising that some policies work counter to the marketing efforts of Tourism Australia and its corporate partners, putting unnecessary and inequitable barriers in front of prospective visitors.

a. Reform the Passenger Movement Charge

The Passenger Movement Charge (PMC) should be reformed so that it constitutes a smaller proportion of the overall airline ticket price for Asian visitors to Australia. This should be examined as part of a wider reform for inbound visitors from South East Asia in order to minimise the impact of the tax on the most price-sensitive inbound visitor markets.

The PMC is a tax that does more damage to inbound tourism from Asia than its level of revenue collection warrants. Due to its flat rate, the PMC represents a highly variable share of the total price of the taxed service (air fare in this case). For comparison, the PMC can represent nearly 15 per cent of return airfares from South East Asia on low cost carriers, but less than half of one per cent of a long-haul business class airfare to Europe.

Feedback from Tourism Australia in South East Asia is that the PMC is a growing barrier to travel to Australia, with many potential consumers aware that the PMC at \$47 is above the total airfare on many low cost carrier international services to neighbouring countries. Australia is also out of step with competing destinations for Asian travellers, many of which do not levy a departure tax.

TTF estimates indicate that the PMC, while raising \$270 million in tax receipts from foreign tourists, discourages other tourists who would contribute around \$800 million in spending in Australia. This reflects the strong price sensitivity to airfares, particularly on short-haul international routes to Australia.¹⁹

In the two years to 2010-11, PMC revenue increased by over \$100 million to \$615 million without an increase in the per person rate, indicating that this tax can provide fast growing tax revenue to government without a further increase in its rate.²⁰

Tax receipts for the PMC now outstrip the underlying cost of providing the service for which it was originally intended, the cost of processing passengers moving through customs and border controls at airports. Indeed, in the financial year 2011-12, receipts are likely to reach \$671 million, while only \$236 million will have been spent on passenger facilitation at ports of arrival. TTF argues that this gap provides the government with significant room to manoeuvre when it comes to reforming the tax to lessen its impact on Asian travellers.

¹⁹ Analysis completed for TTF by Decisive Consulting Proprietary Ltd, December 2011

²⁰ House of Representatives (2011), answers to questions in writing by Bob Baldwin to Minister for Home Affairs

Modelling prepared for TTF indicates that eliminating the PMC for short- and medium-haul routes, including from South East Asia, would deliver a healthy annual growth of over five per cent in arrivals from the region. If Treasury prefers maintaining revenue neutrality over accessing the gap, this measure could be achieved by increasing the PMC on longer-haul routes, which are less price-sensitive. Even allowing for some decline in these markets as a result, the total upswing would still be around three per cent.²¹

b. Extend GST relief to leisure tourism packages

Currently, international visitors to Australian business events such as conferences and conventions are able to purchase GST-free packages to Australia, adding a critical edge to Australia's international competitiveness in winning business events bids. TTF recommends the extension of this scheme to international leisure packages to provide similar incentives for leisure visitors to Australia.

BY REMOVING GST FROM THE ACCOMMODATION AND TOUR COMPONENT OF PACKAGES, AUSTRALIA WILL BE MORE COMPETITIVELY PLACED TO WIN LEISURE VISITOR GROWTH FROM ASIA.

The impact of this initiative on government revenue is limited, as currently only 19 per cent of leisure visitors to Australia package their international airfare with Australian ground content²² (e.g. accommodation and tours). The international airfare, normally the overwhelming share of total package cost, is already (Australian) GST-free.

Asian visitors account for 64 per cent of the leisure visitors who package their international airfare with Australian ground content, a higher share than for total leisure visitors to Australia. Feedback from the tourism industry is that leisure package visitors are among the most price-sensitive segment of inbound travellers, indicating this initiative could be effective in encouraging additional travellers from Asia.

Leisure packages, like international airfares, have a more powerful impact on destination choice than does the total cost of travel to Australia. This reflects a common two-step decision-making approach by consumers in considering their spending for international leisure trips. In the first stage of destination choice, the key variables considered are the most obvious and best understood trip costs, such as airfares or package costs. In the second stage, the visitor adjusts their spending on arrival at the destination to accommodate their budget as they gain information on other local costs. This two-stage process was recently noted as common to many visitors by InterVISTAS in a study for IATA.²³

Removing the GST on the this component of total trip cost will have a larger positive impact on expenditure in Australia than reducing the GST on either non-packaged ground content or overall tourism export earnings. By removing GST from the accommodation and tour component of packages, Australia will be more competitively placed to win leisure visitor growth from Asia.

c. Enhance the operation of the Tourist Refund Scheme

Shopping is an important component of the visitor experience for many international visitors. Chinese and Korean visitors, for example, account for almost 20 per cent of total retail spend by international

²¹ Analysis completed for TTF by Decisive Consulting Proprietary Ltd, December 2011

²² International Visitor Survey, TRA, year ending September 2011

²³ InterVISTAS (2007), 'Estimating air travel demand elasticities', A report for the International Air Transport Association (IATA), page 7.

visitors in Australia, with retail purchases also representing more than one-third of each market's total expenditure.²⁴

CONTRARY TO THE STANDARD GST-FREE TREATMENT OF OTHER EXPORTS, RETAIL PURCHASES BY OVERSEAS VISITORS IN AUSTRALIA INCUR THE GST.

However, contrary to the standard treatment of other exports, retail purchases by overseas visitors in Australia incur the GST. In 2009-10, these export retail sales generated \$6.5 billion²⁵, nearly three times the value of wool exports²⁶. Despite this, the sector does not enjoy the GST-free treatment of other export sectors, an impediment that

hinders the international competitiveness of the Australian retail and tourism industries to the detriment of the national economy.

Almost half of the tourism executives surveyed in a recent TTF-MasterCard study indicated that GST on products and services purchased by overseas visitors while in Australia is a medium to high concern to their businesses²⁷.

Over the five years to December 2010, retail expenditure by international tourists increased by 32 per cent²⁸, outpacing overall Australian retail expenditure growth of 29 per cent²⁹; this growth trend is projected to continue. The Australian retail and tourism industries are well positioned to benefit from growth in shopping-motivated key inbound markets such as China and Korea, with the Australian 2020 Tourism Industry Potential aiming to double total overnight visitor expenditure to \$140 billion by 2020.

While the Tourist Refund Scheme (TRS) seeks to mitigate some of these impacts, TTF believes that the scheme, in its current form, falls short of achieving its stated aims with fewer than half of available refunds claimed in 2009-10³⁰ – a decade after the scheme's introduction.

Indeed, the TRS's eligibility criteria are restrictive. The current \$300 threshold reduces the number of retailers who access the scheme. Furthermore, the 30-day reclaim period is inconsistent with the average length of stay of overseas visitors to Australia given that international visits of less than 30 days account for only 21 per cent of international visitor nights in Australia³¹.

CASE STUDY: QUEEN VICTORIA BUILDING

The Queen Victoria Building (QVB) is in the heart of Sydney's retail precinct and is a major tourist attraction for international visitors. The QVB was built in 1898 and was restored in 1985 to its current retail format by Ipoh, its owner and operator. A further major refurbishment in 2008-2009 followed, to ensure the QVB remains a world-class shopping centre.

Located close to Sydney's Chinatown precinct, the QVB provides five floors of distinct retail offerings with a focus on fashion, jewellery and gifts. Of the 36 million visitors to the QVB each year, Ipoh attributes approximately 10 per cent of QVB foot traffic to international visitors. The most highly regarded products for international visitors are unique Australian products including giftware and jewellery, along with international brand names in fashion and accessories. Ipoh supports the extension of the Tourist Refund Scheme to encourage greater expenditure by international visitors.

²⁴ International Visitor Survey, TRA, 2010

²⁵ Australian Tourism Satellite Account, cat. no. 5249.0, ABS, 2009-10

²⁶ International Trade in Goods and Services, cat. No. 5368.0, ABS, June 2010

²⁷ TTF-MasterCard Tourism Industry Sentiment Survey, August 2011

²⁸ International Visitor Survey, TRA, June 2011

²⁹ Retail Trade, Australia, cat. no. 8501.0, ABS, Dec 2010

³⁰ TTF analysis of Australian Customs & Border Protection Service Annual Reports & International Visitor Surveys, TRA

³¹ International Visitor Survey, TRA, June 2011

Practical reforms to the TRS could include honouring 2008-09 federal budget commitment to extend the reclaim period to 60 days. In addition, the eligibility threshold could be reduced to include all purchases of \$50 or more. These measures would simplify the marketing of the scheme by retailers and increase the attractiveness of Australia as a destination for shopping-motivated travellers.

d. Extend the WHM visa scheme to aid labour supply

The Working Holiday Maker (WHM) scheme has been a major policy success for Australia since it was introduced in 1975. While the primary aim of the program has been to foster closer ties and cultural exchange between Australia and partner countries, it has also resulted in: Australia gaining a mobile and committed source of labour to satisfy seasonal labour demand in agriculture and the visitor economy; provided direct returns to the visitor economy as the visa holders travel around the country; and produced a large number of ambassadors for Australia when they return home.

There were approximately 130,000 working holiday makers in Australia as at December 31 2011, an increase of 15 per cent over 2010³².

Since 2005, a second-year extension of the WHM visa has been available for individuals who, in their first year, undertake three months of work with a regional employer in the agriculture, mining and construction industries. TTF believes working holiday makers who spend three months or more working in regional tourism and hospitality businesses should also be able to apply for a second-year WHM visa.

The highly seasonal nature of the visitor economy in many regional areas creates significant challenges for businesses, which face an often desperate need for staff during peak periods. This problem has been exacerbated by the resources boom and ending of the drought. For example, the challenges faced by Queensland island resorts in attracting seasonal staff have been a key factor in the financial problems confronting this region.

If WHM visa holders interested in extending their stay under the scheme could qualify by working in regional tourism and hospitality businesses, this would boost the labour supply of these regions and improve their competitiveness.

A new intern scheme with China, India and Indonesia

In non-Asian markets, and in some Asian countries including South Korea, Taiwan, Japan and Hong Kong, the WHM scheme is providing thousands of workers for businesses helping to address in part the ongoing labour shortages in the tourism and hospitality sectors. For example, around 30,000 young South Koreans and 14,000 Taiwanese visit Australia each year as working holiday makers³³. However, extending this scheme to the fastest-growing Asian visitor markets of China, India and Indonesia appears impractical at this time because as a reciprocal scheme it is unlikely to be accepted by these governments and because of the perceived overstay risk³⁴.

An alternative approach to consider might be a targeted intern program, which could help to foster closer ties (the main intention of the WHM program) and to address the urgent shortage of staff with high-level Asian cultural and language skills in the tourism and hospitality sectors.

³² Department of Immigration and Citizenship, Working Holiday Maker visa program report, December 2011

³³ Department of Immigration and Citizenship, Working Holiday Maker visa program report, December 2011

³⁴ Indonesia currently participates in the Work and Holiday program (subclass 462) which is capped at 100 places

The ongoing failure to attract more Australian schoolchildren to study Asian languages has left a large deficit in Asian-language proficiency that will exist into the medium term, no matter how the Australian Government prioritises this issue as a response to the *Australia in the Asian Century* White Paper.

The introduction of a targeted, Asian-focused intern scheme could provide Australian businesses with an opportunity to meet the growing demand for Asian cultural and language skills while providing mentoring for Australian staff. During their stay in Australia, interns could be provided with appropriate tourism and hospitality training which would allow them to return to their home countries with new skills.

This program could noticeably lift the quality and appropriateness of the welcome provided to Asian visitors at businesses as diverse as hotels, museums, other attractions, restaurants, tourism retailers, conference venues and education providers. The improved welcome would come from the interns and also from Australian staff coached by the interns in simple greetings and cultural sensitivity.

This program would also create a large cadre of ambassadors for Australia in these major source markets as the Asian Century unfolds.

3. Improving the welcome

The old adage says that you only get one chance to make a first impression. For 90 per cent of our international visitors, their initial experience in Australia is at one of the four gateway airports – Sydney, Melbourne, Brisbane and Perth. Passenger processing and facilitation therefore plays a major role in the formation of their early opinion of Australia, which can colour their attitude for the entire trip.

Making the customs, quarantine and immigration experience a seamless and relatively quick one can leave visitors with a positive opinion before they've even picked up their luggage.

CASE STUDY: MELBOURNE AIRPORT

Melbourne Airport's international passenger growth is the highest in Australia and higher than the world airport average. Asia is driving this growth, particularly countries such as Malaysia, China, Singapore, Indonesia and Taiwan. In the financial year 2010-11, arrivals by Chinese passport holders grew by 23 per cent on top of 33 per cent growth the year before. The airport expects Chinese citizens to outnumber New Zealand passport holders by mid-decade.

This rapid growth prompted the airport operator Australia Pacific Airports to introduce a number of initiatives to welcome Chinese travellers, including dual language way-finding signage, public address announcements in Mandarin and cultural training for staff.

The airport has also worked with its retailers to ensure Chinese signage carries on through the terminal. Retail promotions are geared around culturally significant days such as the Lunar New Year celebrations and have a structure aligned to Chinese numerology.

The airport has now expanded its cultural program to include celebrations from other parts of Asia including the Hindu festival of lights, Diwali.

a. Support improved passenger processing at Australia's airports

Visitors' first impressions are vital to Australia as a destination. Delays in immigration, customs and quarantine processing are the number one visitor complaint regarding their Australian experience³⁵. A one-hour delay to enter the country will lead to fewer word-of-mouth referrals and a generally negative perception of Brand Australia in the minds of key influencers. The lasting memory of Australia for many visitors will also be tarnished by queues to leave the country.

The 2011-12 federal budget included savings of \$34 million over four years from the Australian Customs and Border Protection Service. The agency was forced to cut staffing from this area to prevent impacting on national security, resulting in a reduction in staffing levels across the primary clearance function at Australia's eight international airports.

Modelling undertaken by the agency at the time of the cut indicated the national average performance benchmark of processing 95 per cent of arriving passengers within 30 minutes of joining the inwards queue was expected to fall to 92 per cent as a result of the funding cut. The national benchmark of processing 95 per cent of outbound passengers within 10 minutes is similarly expected to increase to 15 minutes.

³⁵ Complaints and Compliments, National Quarterly Report, Australian Customs and Border Protection Service, July – September 2011

TTF is concerned that during peak periods, arrivals may face an increase of up to 24 minutes at Sydney, Brisbane, Melbourne and Perth airports for inbound processing. This means potential delays of up to 54 minutes for many international visitors arriving in Australia, whose flights typically arrive at peak times into one of these four gateway ports.

These staffing cuts have very real implications as Australia looks to welcome greater numbers of visitors from Asian countries. As the demographics of our visitors change, arrivals from Asia will displace those from our traditional source markets of Europe and North

America. This will present unique challenges for our border agencies, both in terms of the risk level associated with some countries' citizens and quarantine items. In addition, language difficulties at border controls are expected to be greater than today.

AS THE DEMOGRAPHICS OF OUR VISITORS CHANGE, ARRIVALS FROM ASIA WILL DISPLACE THOSE FROM TRADITIONAL SOURCE MARKETS OF EUROPE AND NORTH AMERICA.

The additional stress on the system can be mitigated by greater use of SmartGate, the automated passport and identity checker. By shifting routine checks on low risk passengers, the skilled human resource at Customs can be better deployed to deal with the burgeoning Asian market. This can include language training and familiarity with imported products.

However, funding for SmartGate needs to be increased to allow it to ease the workload of Customs officials. Currently, this technological solution only allows for swifter arrivals processing of Australian and New Zealand e-passport holders. In addition to encouraging greater uptake of the technology for arriving passengers, TTF recommends extending SmartGate identity checks for departing passengers. Further, up to 40 other countries share the underlying ePassport technology standard – extending SmartGate eligibility to nationals of these countries will allow greater human interaction for Asian travellers.

Finally, many other countries across the Asia-Pacific region are experimenting with premium passenger facilitation options. This ranges from in-flight immigration checks on board Indonesia-bound flights, to Singaporean officials flying in to process passengers in third countries.

Another common feature at airports among our competitor destinations is premium arrivals processing stations³⁶. This provides the level of seamless connectivity that frequent travellers and high-net-worth individuals expect today. These stations, which consist of either discrete facilities within existing airports or dedicated premium airport terminals, are often funded directly by users, meaning no drain on customs service funding.

b. Improve visa processing and alignment of resourcing with key markets

There is an urgent need to align the efforts and resourcing of consular affairs with market demands. Providing additional resources in markets where strong growth is forecast will be required to deal effectively with rising visitor numbers. The Department of Immigration's activities will need to be better aligned with Tourism Australia's target markets to ensure that prospective visitors to Australia do not face unnecessary delays in visa processing.

³⁶ Amadeus, Future Traveller Tribes 2020: Report for the Air Travel Industry, Henley Centre Headlight Vision

With a greater proportion of international visitors coming to Australia from countries in our region, the propensity to travel at shorter notice will increase. This could be particularly beneficial for destinations in northern Australia, like Darwin or Cairns, which are within a couple of hours' flying time of major emerging source markets including Indonesia, Malaysia and Singapore. This will increase the need for quick and efficient processing of visitor visas.

Visitors from a number of Asian countries, including Hong Kong, Malaysia, Singapore and South Korea can currently lodge applications for travel visas online through Australia's Electronic Travel Authority (ETA). With the forecast growth in visitors from other key Asian markets, including China, India and Indonesia, there is a need to examine current visa practices and look for opportunities to streamline the processing and requirements to help facilitate visitation from these countries.

Australia's key competitors for Asian travellers are already closely examining and making improvements to their visa processes in order to win market share, with the US committing to accelerate their capacity to process visas in China by 40 per cent in 2012³⁷ and setting aggressive targets for both China and India for the years ahead.³⁸ The Department of Immigration needs to urgently review the processes of our key competitors, both traditional and in Asia, to ensure that Australia is keeping pace with best practice.

Innovations such as extended validity visas and options to expedite visas at a higher cost should be examined for all markets. And as Tourism Australia looks to expand its promotional efforts to an ever increasing number of cities in China, an ability to expand the reach of consular services through videoconferencing technology could play a role in ensuring our ability to process visas keeps pace with demand.

³⁷ Obama outlines plans to boost American tourism, breakingtravelnews.com, 20 Jan 2012

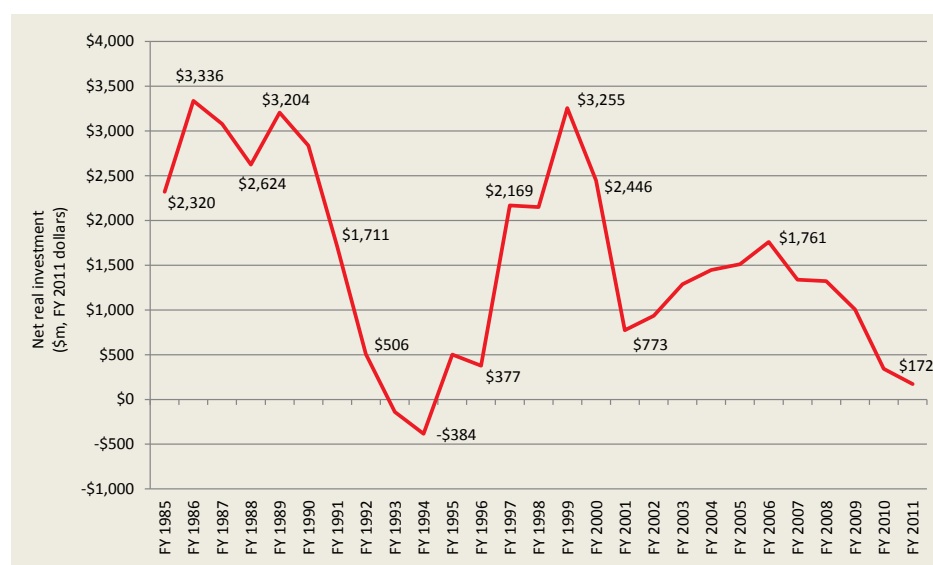
³⁸ Taking Flight A Plan to Create 1.3 Million U.S. Jobs by Welcoming Millions of International Travelers, U.S. Travel Association, 2011

4. Restarting visitor economy investment

One of the least understood aspects of the challenges faced by the visitor economy over the last decade has been an investment drought in the industry. This reflects the pressure on visitor economy businesses to reduce costs in order to survive a challenging and competitive environment, which has been exacerbated by the resources boom encouraging capital flows away from the non-mining sectors of the economy. Since late 2008, the global financial crisis has also increased the difficulty and cost of accessing long-term equity and debt finance for visitor economy investment.

Very low investment levels have produced increased capacity utilisation, which has helped businesses to survive. However, in many areas of the visitor economy, an increase in demand cannot be long sustained without new investment – especially when new hotels and other major capital items can take three or more years from commitment to opening.

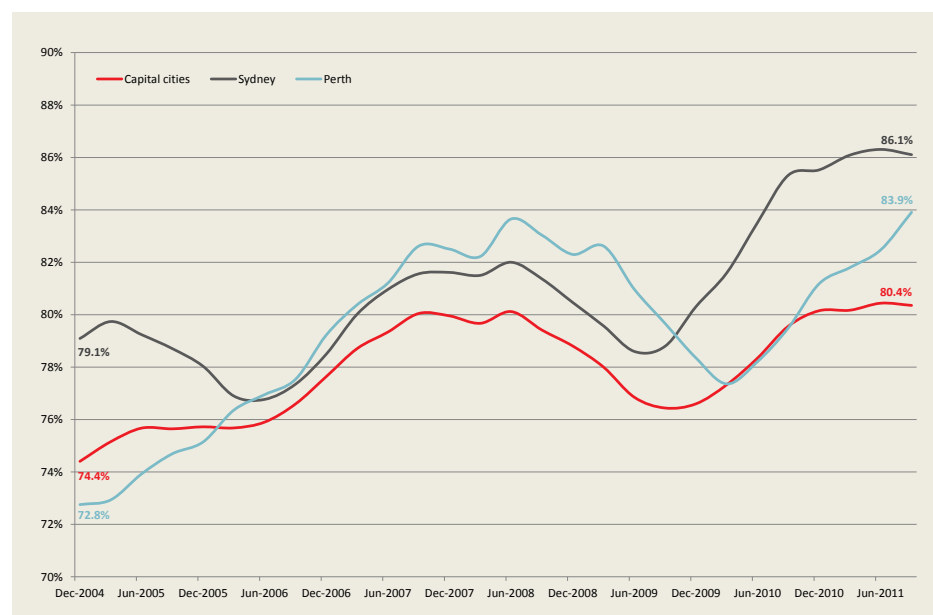
Chart 7 – Real net investment in accommodation & food services



For example, the Australian accommodation and food services sector has seen its net capital investment after deducting consumption of fixed capital collapse to well below replacement levels (see Chart 7). The sector will struggle to respond appropriately to growth in demand.

Source: ABS, *Australian System of National Accounts* (cat. no. 5204.0), table 58 - *Capital stock by industry*, 2010-11

Chart 8 – Annual average occupancy rates in hotels, motels and serviced apartments



A particular bottleneck to growth in the Australian visitor economy is a shortage of accommodation capacity in hotels, motels and serviced apartments in capital cities such as Sydney, Brisbane and Perth. This is evident in the rising trend in capital city occupancy rates over the last six years (see Chart 8).

Source: TTF analysis of ABS, *Survey of Tourist Accommodation – Small Area Data*, 2004-2011 editions.

Note: Establishments with 15+ rooms.

With annual average occupancy rates across Australia's capital cities of around 80 per cent³⁹, it has become very difficult for visitors to find accommodation during peak months or on peak days of the week. In central Sydney and in Perth, this problem is even more intense.

a. Accelerate investment in new visitor accommodation

To achieve the aspirational targets of growing overnight expenditure to \$140 billion by 2020 will required significant new investment in visitor accommodation. In fact, the Tourism 2020 Strategy calls for between 40,000 and 70,000 additional hotel rooms across Australia by 2020.

Given the strong demand for accommodation and the looming shortfall of rooms, particularly in capital cities, an incentive to encourage new accommodation construction is recommended to ensure visitors do not choose a destination other than Australia due to lack of suitable accommodation.

The current 40-year depreciation period (2.5 per cent per annum) for visitor accommodation should be reformed to a 50 per cent immediate depreciation with 4 per cent depreciation for the next 12.5 years. The visitor accommodation industry has consistently argued that hotels are in use 24 hours a day and depreciate much faster than other properties, making the current four per cent allowance insufficient – i.e. hotels have a shorter operational life than 25 years. While this reform influences the timing of the depreciation claimable on investments in visitor accommodation assets, it does not increase the total claim.

Research by Access Economics for the Perth market identified a major market failure in the supply of tourist accommodation once occupancy rates reach high levels. Access Economics noted that many visitors are discouraged from visiting due to the search costs and frustration of tight accommodation markets, while room rates will fail to rise to fully reflect the shortage of rooms due to long term contracts and early booking practices by some market sectors.⁴⁰

The capital works allowance is a tax deduction available for the structural element of a new or existing building, including fixed irremovable assets; it does not cover plant and equipment. In respect to tourism property, it covers the hotel, motel or resort buildings but not the furniture, furnishings and equipment.

L.E.K. Consulting produced a report for the Investment and Regulatory Reform working group, under the National Long-Term Tourism Strategy, which recommends bringing forward the first 50 per cent of the total capital works deduction for tourist accommodation development, as a short-term incentive over three years.⁴¹ This would see the investment in the accommodation property being written off over 12.5 years instead of 25 years. Modelling by L.E.K. estimated that this incentive would significantly improve the economic return and the ability to obtain finance for hotel operators, and would facilitate much-needed investment in accommodation room stock and ancillary meeting spaces within accommodation properties.

L.E.K. modelling also established that, as the discount rate for debt is significantly lower for the Australian Government than for investors in visitor accommodation, this reform promises a worthwhile net national benefit. This policy leaves the choice of which visitor accommodation projects are developed and refurbished to the private sector.

³⁹ TTF Analysis of ABS, *Survey of Tourist Accommodation – Small Area Data* (cat. 8635.0.55.002), Sep 2011 edition.

⁴⁰ Access Economics (2010), *Perth Hotel Economic Impact Study for Tourism WA*

⁴¹ L.E.K. Consulting (2011), *Tourism Investment and Regulatory Review*

To ensure that a supply bubble does not occur as a result of this incentive, TTF supports L.E.K. Consulting's recommendation that the incentive should be for a limited period of three years – after which its continuation would be subject to the results of a review.

b. Create new iconic experiences in capital cities and natural areas

Iconic experiences in capital cities

Given the propensity of visitors from emerging markets to spend the vast majority of their time in cities, it is essential to have iconic Australian experiences on offer in these destinations. Our flora, fauna and indigenous culture are three obvious areas which could be leveraged to create signature attractions unique to Australia. For example, opportunities exist to create more tourism experiences around Sydney Harbour which could help to broaden the city's tourism offering and drive additional economic activity. Ideally, approval processes could be streamlined to remove barriers to the development of new tourism product, as these can act as disincentives to potential future investments and make some projects unviable.

Indigenous centres in our major cities would provide the chance for international visitors to explore the culture of the first Australians, adding another layer to our tourism offering. Providing interactive and interpretive activities in our metropolitan areas would deliver an authentic experience many Asian visitors would otherwise not have the chance to enjoy.

Research shows that Asian visitors are seeking an urban experience in a Western country, with luxury hotels, high-end shopping, restaurants, wine and gaming high on their list of priorities. Other destinations in our region have made massive strategic investments in new tourism product and are reaping the rewards. Australia must be able to compete on an even footing, or risk losing market share.

Iconic experiences in natural areas

There is a need for investment in iconic environmental assets to target the Asian market. The second central recommendation of the L.E.K. report for the Investment and Regulatory Reform working group was that Australian Governments should actively facilitate the development of new experiences in natural areas. The resulting investments should be aimed at providing hard-roofed accommodation and improved interpretation and tracks in natural areas, so that eco-tourism experiences can be enjoyed by 'comfort-in-nature' visitors. Tourism Victoria has estimated that of the potential market for natural areas, 85 per cent are 'comfort-in-nature' visitors rather than the hard-core pack-carrying/camping visitors.⁴²

An example of a key iconic experience in a natural area is the proposed Cradle Mountain Visitor Centre. The Tasmanian Wilderness World Heritage Area (TWWHA) is estimated to be worth \$721.8 million in annual direct and indirect state output to the Tasmanian economy and employs approximately 5,372 people. The Tasmanian Government is seeking \$12.5 million in federal funding to match the state's investment of \$25 million in visitor infrastructure to support the development of a new Cradle Mountain Visitor Centre and village. The Tasmanian Department of Primary Industries, Parks, Water and the Environment estimates the investment would attract a further 40,000 visitors to the TWWHA, creating \$14.4 million of visitor expenditure annually, yielding \$12.5 million in gross state product and creating 200 jobs. The infrastructure funding is also expected to attract at least \$20 million in further private investment to the destination.⁴³

⁴² Victoria's Nature-Based Tourism Strategy 2008-2012, Tourism Victoria

⁴³ Parks Tasmania (2011), Prospectus for Australian Government Funding

CASE STUDY: THE SIX-DAY THREE CAPES TRACK IN TASMANIA

This project is at final approval stage with local government having received the essential environmental approvals from both the Tasmanian and Australian Governments. The vision is for the 68-kilometre Three Capes Track to be Australia's premier coastal walk, taking in the stunning sea cliffs of the Tasman Peninsula, including Cape Raoul, Cape Pillar and Cape Hauy. The multi-day bushwalk is located in the Tasman National Park. It will travel east, with a boat leg across Port Arthur Bay, and finish at Fortescue Bay. Compared to other extended walks in Tasmania and competing product in New Zealand, this track is accessible for more of the year.

The project is funded by both the Australian and Tasmanian governments, with contributions of \$12.5 million and \$12.8 million, respectively. It is expected that private investment in facilities could total an additional \$8 million. The first walkers are expected to embark on the updated track in 2014.

Walkers on the track taking advantage of the hard-roofed accommodation will be able to manage with day packs of less than 10 kilograms, compared to often 20-kilogram plus packs required for camping out with tents, cooking facilities and sleeping bags.

This walk will be more attractive to Asian visitors due to lighter pack weights, the reduced need to purchase or bring camping equipment from home, greater security in bad weather, an improved track surface and huts around 12 kilometres apart – closer than on more traditional overnight walks.

5. Enhancing perceptions about Australia in Asia

Proactive policies can help to build goodwill towards Australia in Asia, to insulate us from any incidents which may tarnish our reputation, especially recognising the reality of an often highly nationalistic press in Asia. The more levels of engagement we have in key markets, the more likely we are to be able to counter any reaction to an unexpected negative event.

a. Create goodwill through targeted media

In August 2009, the Trade Minister announced \$20 million of funding over the next four years for Brand Australia. TTF has long supported the development of a contemporary national brand which captures the essence of Australia not only as a place to visit, but also as a desirable place to live, work, invest and study. TTF notes that the Brand Australia initiative is separate from Tourism Australia campaigns and tourism promotion overall, but supports the promotion of synergies between both programs in profiling Australia's export sectors.

There is an opportunity to supplement existing Austrade Brand Australia efforts and those of Tourism Australia through a new program initiative designed to lift the profile and base of public goodwill towards Australia. By providing a better base of understanding of Australia in Asia, this will help insure against any future issues which may arise and be reported in Asia. This program is not a substitute for appropriate crisis management but is aimed at providing a reinforced base for Australia's image in Asia, so that short-term upsets do less permanent damage.

Possible initiatives include:

Good news stories on Asian success in Australia and Australians in Asia

The intention of this initiative would be to use Australian-based journalists to develop stories that would run in leading Asian newspapers and journals. Stories developed should be a mix of business stories including investment in Australia and human interest stories about visitors and by Asian Australians living, working and studying in Australia. This program could build on the efforts of Austrade's Australia Unlimited magazine which looks to challenge international perceptions of Australia by featuring the success of Australians living and working overseas who have achieved recognition in the business, research or cultural spheres, and Australian ideas which are being adopted around the world. It would be distinctly advantageous to have such stories appear in local publications or programs, especially those read or consumed by thought-leaders and early adopters in source markets.

A visiting journalist program for Asian journalists specialising in political & international affairs reporting

This new initiative should draw on the considerable experience of Tourism Australia in managing a visiting journalists program for travel media. Hosting journalists and ensuring that they have positive interactions with Australians will help to build their perception of Australia and an understanding of Australian society and culture. This will allow them to report on any incidents with a first-hand understanding of the factors behind an emerging issue and a better appreciation of the Australian situation.

Tourism Australia could use its existing relationships with media outlets at home and abroad to develop an extended network of contacts in these areas. Austrade and the broader Department of Foreign Affairs, including consular officials, could play a key role in making strategic introductions to appropriate journalists.

Conclusions

The Australia in the Asian Century White Paper should reset policy priorities to better exploit opportunities for the visitor economy. This White Paper needs to take a long-term strategic perspective, reforming policies now to better harvest opportunities to 2020 and beyond.

In the Asian Century, Australia faces new risks as well as new opportunities. The most obvious risk is an end of the largest and most enduring resources boom we have ever seen and the need for other industries to be ready to step up to provide increased income and employment. However, the end of the resources boom would likely be accompanied by a fall in the Australian dollar, making Australia a more affordable destination, and a freeing up of the labour market. Another risk is that Australia is more exposed to the impact of criticism by nationalist media in Asia, endangering the critical trade, investment and social links between ourselves and Asia.

Probably the biggest risk, however, is internal: that Australia fails to take full advantage of our geographic position in the Asia-Pacific and does not make the necessary investments and changes to grasp the opportunities that the Asian Century offers. Other countries have recognised the major structural shift occurring in the global economy and are preparing their plans to ensure they are in a position to capitalise on these opportunities. The United States is launching a massive bid to grow its inbound tourism industry and is unquestionably a major competitor to Australia for the Asian tourism dollar. Europe is also shifting its focus to Asia and the close proximity of European countries enables visitors to enjoy a level of cultural variety simply not available in Australia.

Taking full advantage will require government to provide the right framework to facilitate investment in tourism accommodation and attractions. Additional targeted funding is needed for marketing and the expansion of the Australian presence in key source countries, along with a more integrated approach to promoting Australia through our various agencies.

International education has a key role to play in introducing the repeat-visit tourists of the future to our country and turning them into ambassadors for Australia.

Implementing the initiatives proposed in this submission promises to provide the necessary base for the private sector to market and invest to convert the obvious opportunities into Australian incomes and jobs.

Without the policy reforms set out in this submission, the 2020 Tourism Strategy of the Australian Government cannot deliver the full potential of the Asian Century for Australia's visitor economy.

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