TTF AUSTRALIA
Tourism & Transport Forum

2016-17 FEDERAL BUDGET SUBMISSION

Future Economy Future Jobs

Executive Summary

As Australia's economy continues its transition away from mining and manufacturing towards services, we now have an opportunity to embrace the drivers of the future economy that will continue to deliver jobs and prosperity for decades to come.

As an industry of the future economy, tourism is an engine of growth and jobs creation. Australia's visitor economy – the web of activities that encompasses travel and tourism – supports the jobs of almost a million people and contributes more than $93 billion to Australia's GDP.[1]

Australia possesses the natural, cultural and human resources to become a global tourism powerhouse. While Australia has seen growth in visitor numbers and expenditure from key markets, we cannot be complacent. We still only attract less than one per cent of all Chinese international visitors – our highest yielding visitor market – and other competitor nations will seek to erode that share even further.

Tourism & Transport Forum Australia (TTF) is calling on the Federal Government to make serious investments in the future of the tourism sector to support more jobs and stimulate growth.

We need to alleviate the cost of travelling to Australia. The visitor economy makes a significant $11 billion contribution to tax revenues from the products it sells. Some of these taxes, however, such as visa application charges and the Passenger Movement Charge (PMC), are a direct hit on the visitor's hip pocket and can artificially constrain demand.

At the same time, Australia needs to invest in demand-driving tourism marketing and infrastructure, and focus on improving access to appropriately skilled labour.

TTF is also encouraged by the Federal Government's reversal of its opposition to funding urban public transport. Cities are Australia's main drivers of economic activity and the main gateways for visitation. The Federal Government has an important role in ensuring that our urban environments have the necessary infrastructure to support jobs and the growth of our economy.

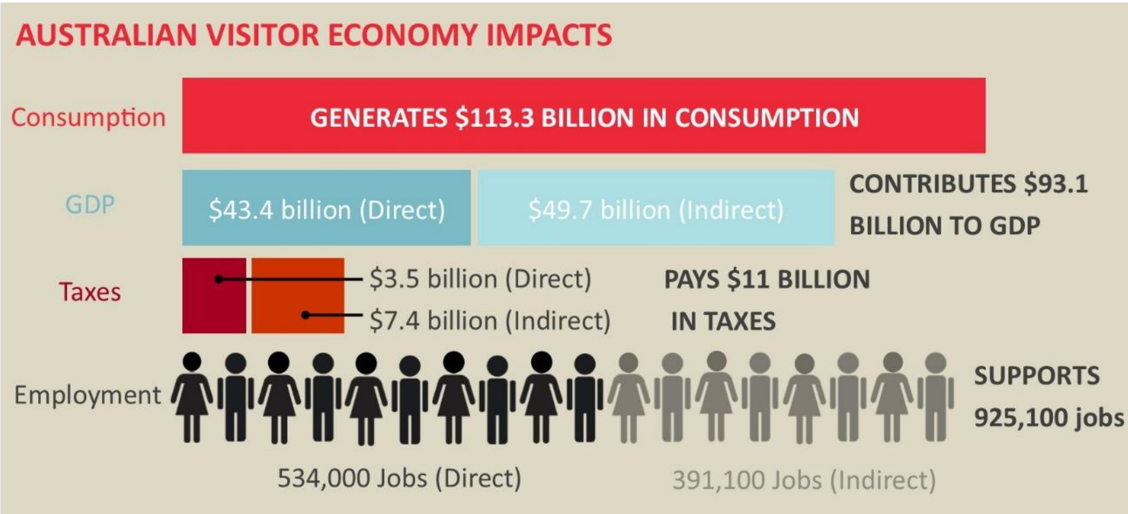
1 ABS (2014), Tourism Satellite Account 2013-14 and TRA (2015), State Tourism Satellite Accounts 2013-14

Challenges and Opportunities

Tourism - Generating jobs and growth

Tourism is one of our future economy industries that has the potential to collectively add hundreds of billions of dollars to the Australian economy over the next 20 years.[2] Tourism has the capacity to be more than a mere backfill for the jobs vacuum left by declining mining investment and to contribute hundreds of millions of dollars in taxation revenue.

Like other future economy industries such as agribusiness, funds management, international education and technology-based services, tourism is well-positioned to take advantage of the incredible growth in demand from Asia's burgeoning middle-class.



Source: Tourism Research Australia (2015), *State Tourism Satellite Accounts 2013-14*

Global travel boom

Strong growth in emerging countries like China and a return to better economic fortunes in Europe and North America following the global financial crisis (GFC) have all contributed to a greater number of international travellers and a corresponding increase in visitor expenditure.

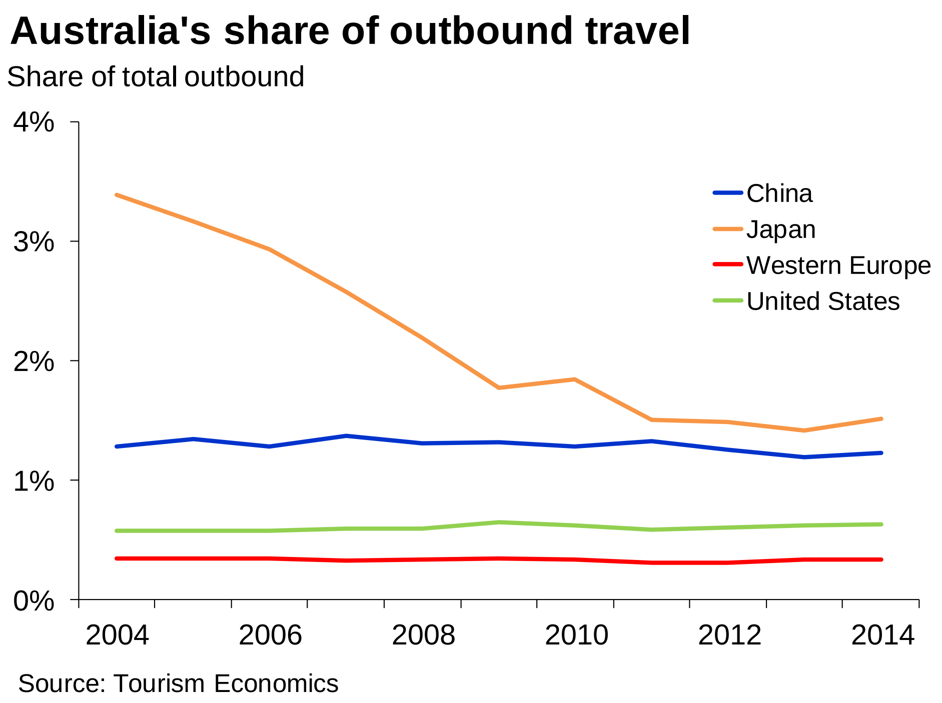
[2] Deloitte (2013) *'Positioning for prosperity? Catching the next wave'*

The United Nations World Tourism Organisation (UNWTO) estimated that there were some 1,014 million international tourists travelling globally between January and October 2015.[3] This represented an increase of more than 33 million travellers compared to the same period in 2014.

Australia is well-positioned to take advantage of the enormous demand coming from the Asia-Pacific region. With our relative proximity to key markets, favourable time zones and strong aviation and cruise ship access, Australia should be aiming to take a competitive share of the outbound travel occurring in our region and beyond.

However, despite the growth in international visitors to Australia, our share of outbound travel from key markets is declining or stagnant (see **Figure 2**). Growth from China has been the standout amongst Australia's key markets, with visitor numbers increasing 300 per cent and more importantly expenditure increasing 500 per cent over the past decade. Australia's share of Chinese outbound travel is hovering at just above one per cent of all Chinese travellers and has remained at that point since 2004.

Figure 2: Australia's share of outbound travel



3 UNWTO (2015), *UNWTO Tourism Barometer*, vol. 13

Towards 2020 – And Beyond

In 2009, Governments at the Federal, State and Territory levels saw the potential to grow Australia's tourism industry and signed up to ambitious targets to double overnight expenditure.[4] While each State and Territory has its own corresponding target, the national target is to boost overnight visitor expenditure to between $115 billion and $140 billion by 2020.

While the aftermath of the GFC slowed progress towards the targets in the early phase, global travel has since more than rebounded and Australia is now reporting stronger growth. The latest data shows that over the year to September 2015, overnight visitor expenditure increased to $91.7 billion. This includes domestic overnight expenditure increasing by almost six per cent to $56.9 billion and international visitor expenditure increasing by nine per cent to $34.8 billion.[5] This outcome puts Australia only just on track to achieve the lower Tourism 2020 target of $115 billion in overnight expenditure by 2020.

Looking at the expenditure targets for individual international markets,[6] China is the only market substantially progressed and likely to reach its target. Other markets were taken into negative territory in 2014-15, with expenditure falling behind the 2009 index point. Moving beyond 2020, Tourism Research Australia's latest forecasts predict that the average growth in total tourism spend over the decade to 2024-25 will sit at 3 per cent, with international visitor spending growth at 3.8 per cent and domestic at 2.7 per cent.

[4] http://www.tourism.australia.com/documents/corporate/2020_Tourism_Industry_Potential.pdf
5 Tourism Research Australia (2016), *International and National Visitor Survey Results to September 2015*
[6] Tourism Research Australia (2015), *State of the Industry.*

Liveable and Productive Cities, Accessible Regions

Efficient, affordable and sustainable public transport networks underpin the productivity of Australia's cities and urban environments. They also provide vital connections to regional areas, complementing our road networks.

TTF has three key transport policy goals:

1. Promoting investment by Government in transport infrastructure
2. Increasing the involvement of private operators in the delivery of public transport services
3. Improving the customer experience, particularly through the use of new technology.

Investing in public transport reduces the economic costs of congestion, increases social inclusion and delivers improved environmental outcomes.[7] Public transport also delivers an economic dividend in jobs growth. In research conducted for TTF by PwC, a case study analysis of the impact of a rail line to Macquarie Park in Sydney's north indicated that improved public transport access generated an additional $1.49 billion in economic activity and an increase in the area's workforce of 32.5 per cent.[8]

Public transport investment not only enhances the liveability of cities for its residents, it also makes cities more appealing to visitors. Efficient public transport systems with clear signage and simple fare structures are particularly important to attract visitors and to ensure they leave with a positive impression. Public transport services that can also connect with regions beyond urban centres can help disperse visitors more widely, spreading the benefits of the visitor economy.

Industry has welcomed the change in the Federal Government's approach to modal neutrality, reversing the previous administration's bias towards roads funding and announcing its intention to become more involved in the planning of cities and the funding of public transport services. This has manifested itself initially in a $90 million funding commitment towards stage two of the Gold Coast Light Rail.

The Federal Government should continue to use Infrastructure Australia to prioritise transport projects for investment, as well as work closely with the States and Territories on innovative options for funding.

[7] TTF and L.E.K Consulting (2010), *Meeting the Funding Challenges of Public Transport*
[8] TTF and PwC (2014), *Better Public Transport, Better Productivity*

Recommendations

TOURISM AND TRANSPORT RECOMMENDATIONS

Drive visitor demand

Invest in tourism marketing

- Increase investment in Tourism Australia by an additional 29 per cent over the forward estimates

Improve tourism's competitiveness

Make visas accessible and affordable

- Bring down the cost of visitor and working holiday visas
- Deliver on promised deadlines for reforms to visa processing for China, India and Indonesia
- Investigate the potential for establishing a permanent joint visa partnership with New Zealand for key source markets
- Establish an annual Productivity Commission benchmarking report to monitor the international competitiveness of Australia's visitor visa system

Reduce the Passenger Movement Charge (PMC)

- Freeze on the Passenger Movement Charge followed by phased reductions to a genuine cost recovery levy

Reinstate Tax-Free Threshold for Working Holiday Makers

- Reverse the removal of the tax-free threshold for Working Holiday Makers announced in the 2015/16 Budget

Rental Car Regulation harmonisation

- Work with State and Territory Governments to harmonise taxes and regulation for the rental vehicle sector

Investing in Statistical Research

- Federal government to maintain research funding to support the continuation of tourism-specific statistical programs conducted by the ABS and TRA.

Improve the visitor experience

Invest in reforms to passenger facilitation

- Continue investments in world-leading biometric technology and automation
- Support a premium processing product delivered jointly with the private sector
- Introduce customer feedback at the border to benchmark customer service

Reform the Tourist Refund Scheme

- Reform the Tourist Refund Scheme to allow private operators to deliver the scheme

Invest in infrastructure

Visitor Economy Infrastructure

- An investment strategy for visitor economy infrastructure

Identify public transport projects

- Work with Infrastructure Australia, the States and Territories and the private sector to identify priorities for investment and opportunities for financing

Improve cruise ship access

- The Federal Government provides long-term access for large cruise ships to Garden Island and provides Customs passenger processing facilities.

Australian National Parks

- Parks Australia funding is increased in real terms to at least the 2014-15 level over the forward estimates

Investing in Australia's Cultural Institutions

- Increase funding support for national cultural institutions

Driving Visitor Demand

Invest in Tourism Marketing

Recommendation

- Increase investment in Tourism Australia by an additional 29 per cent over the forward estimates

Government-funded international tourism marketing addresses a case of market failure. The fragmented nature of the tourism industry and wide dispersal of visitor expenditure across the different sectors that make up the visitor economy make it necessary for Government to play a central funding and coordinating role.

As a long-haul destination for almost all of our key markets, Australia must work harder than most to market the nation to international visitors. This task is undertaken by the national tourism organisation, Tourism Australia. It has run award-winning campaigns that include the 'Best Job in the World' and 'Restaurant Australia' campaigns, and is a social media leader among global destination marketing organisations.

In order to achieve at least the lower end of the Tourism 2020 target of $115 billion of overnight expenditure, Australia will need to generate an additional $1.3 billion of international expenditure in 2020. Based on research commissioned by TTF,[9] it is estimated that Tourism Australia will require a 29 per cent increase to its funding over the four year period from 2016/17. This should be delivered in an initial investment of an additional $46.5 million in 2016/17 to establish a new baseline of funding, with maintenance thereafter and is based on a return of marketing of 15:1.

Tourism Australia has been successful in attracting significant private sector investment in destination marketing. In 2014-15, the organisation was able to leverage an additional $50 million in marketing spend through industry partnerships.

Tourism Australia has also embraced innovation through digital technologies. Its '@Australia' Instagram account currently has 2 million followers and uses the best photographs uploaded by visitors to Australia as a rolling social media billboard.

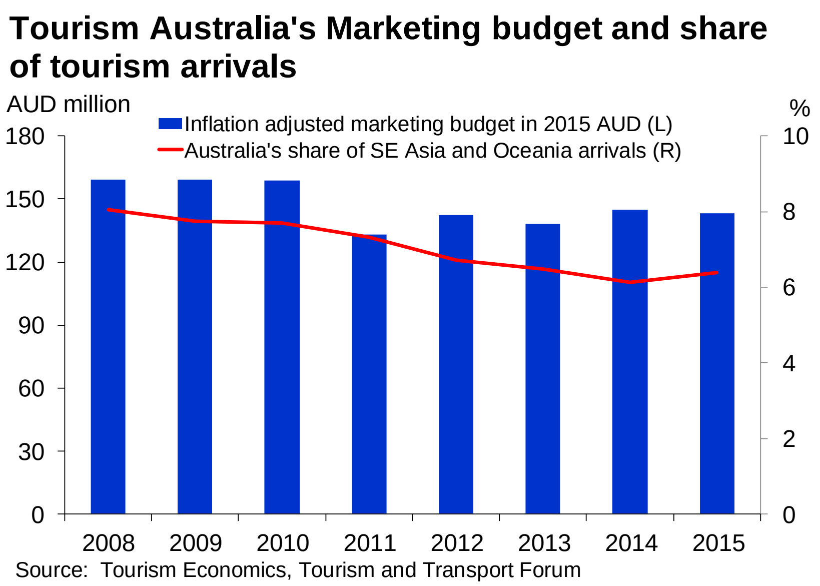
Despite its forward-thinking innovation and ability to leverage private sector investment, Tourism Australia's budget has remained relatively constant over the past six years in nominal terms and

[9] Tourism Economics (2016), unpublished report

actually declined in real terms by 10 per cent since 2008. This period of budget stagnation has also corresponded with an 18 per cent decline in Australia's share of Oceania and South-East Asia arrivals (see **Figure 3**), although expenditure, particularly from key markets in China has increased.

At the same time other competitor destinations have ramped up their investment in destination marketing and are seeing the results. New Zealand has significantly increased its investment in tourism promotion by almost 35 per cent, taking Tourism New Zealand's budget from $84.2 million in 2013 to $113.4 million in 2013/14, rising to $115.9 million in 2015/16. New Zealand has also experienced a 38 per cent increase in international visitor expenditure in the year ending September 2015,[10] while Australia has only seen a 13 per cent rise over the same period.[11]

Figure 3: Tourism Australia's marketing budget and share of tourism arrivals



Failing to maintain funding for Tourism Australia in at least real terms will see it fall behind by almost $40 million in the four years to 2018-19, with a gap of $14.5 million in 2018-19 alone. Assuming a return on marketing investment of 15:1,[12] $38.8 million less in resources to spend on marketing activities over the next four years will result in a loss of $582 million in tourism expenditure in Australia that could have otherwise been realised if the real funding base had been maintained. Industry argues that there needs to be a game-changing investment in tourism marketing if we are to give ourselves any chance of reaching the Tourism 2020 targets and create the jobs of the future.

[10] New Zealand Ministry of Business (2015), *Innovation & Employment*, Key Tourism Statistics
[11] Tourism Research Australia (2015), September Quarter International Visitor Survey
[12] Tourism Australia (2014), submission to Productivity Commission research paper, Australia's International Tourism Industry

Improve tourism industry competitiveness

Make visas easier and affordable

Recommendations

- Bring down the cost of visitor and working holiday visas
- Deliver on promised deadlines for reforms to visa processing for China, India and Indonesia
- Investigate the potential for establishing a permanent joint visa partnership with New Zealand for key source markets
- Establish an annual Productivity Commission benchmarking report to monitor the international competitiveness of Australia's visitor visa system

Visa policy is as important to tourism as it is to border security. Visas that are too expensive or too difficult to obtain can act as deterrents to travel. Visas that are affordable, accessible and processed in a timely manner can help to remove the red tape barriers to travel and drive visitation. Visa policies and charges must be driven by the goal of increasing visitation, not simply as a means of increasing Government revenue.

In joint research conducted by the United Nations World Tourist Organisation (UNWTO) and the World Travel and Tourism Council (WTTC) in 2012, a series of case studies of 46 bilateral pair changes concluded that facilitative visa policy changes increased tourist arrivals from the targeted market in a range of 5 per cent to 25 per cent per year on average over a three year period.[13]

Visitor visa policy is arguably at its most globally competitive. Australia was a pioneer in 1996 when it introduced the electronic travel authority (ETA), which made it simple and affordable for visitors from a range of countries to obtain a visa. However, as more countries scramble to take market share of the burgeoning Asian middle class we have steadily lost that competitive advantage.

Australia should be aiming to regain its position as a world leader in visitor visa policy by continuing to reform and streamline its processes.

Cost of visas

Australia is going backwards when it comes to the cost of visas. As other nations are moving to reduce their visa fees to attract more visitors, particularly from China, Australia has moved in the opposite direction by increasing fees for some of its largest and growing markets.

[13] World Travel and Tourism Council (2014) *The Impact of Visa Facilitation in ASEAN Member States*.

High visa costs can deter price conscious travellers. They can also make Australia uncompetitive as a destination for business events, with organisers of large meetings and corporate conventions unwilling to pay a multi-million dollar visa bill for their delegates.

The current costs for visitor visas differ according to the country of origin. The visitor visa program has three products – ETA (Subclass 601), eVisitor (Subclass 651) and Visitor (Subclass 600).

The ETA can be accessed by passport holders from 33 countries, including 16 EU member nations.[14] It can be applied for online for eight of those eligible countries, and attracts a $20 service fee. The eVisitor visa is available to all 28 EU countries, can be lodged online and attracts no fee. The Visitor visa is available to all remaining nationalities, is not yet available online for all passport holders and attracts a $135 visa application charge.

Australia has an opportunity to capture a greater market share of travellers from China and emerging markets like India, Brazil and Indonesia by tackling the cost of visitor visas. At $135, visas for visitors from these countries carry the highest cost of the three visitor visa products. This cost was increased by four per cent in the 2015/16 Federal Budget. The recently announced pilot for 10-year multiple entry visas for Chinese visitors also carries a $1,000 application fee – significantly higher than similar visa products offered by the United States (AU$215), Canada (AU$105) and Singapore (AU$28).

Likewise, working holiday maker (WHM) visa costs have increased almost 60 per cent, from $280 in 2011 to $440 in 2016, including a $20 increase in the 2015/16 budget. The cumulative impact of these increases has been negative: following an increase in the fee in 2013, applications for the program fell by 8.7 per cent, or around 23,000 fewer visas. This decline has continued: the total number of working holiday visas granted in the uncapped 417 subclass fell by 5.8 per cent in 2015-16.[15]

TTF recommends that the Federal Government lower visitor and working holiday maker visa charges for visitors from key and emerging markets to stimulate visitation and make Australia competitive with other destinations.

Visa processing

Industry applauds the Federal Government's substantial progress in reforming visitor visa processing. A number of major reforms were announced as part of the Northern Australia White Paper process[16] including:

- a pilot for 10-year multiple entry visas for Chinese visitors by December 2016

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14 Andorra, Austria, Belgium, Brunei, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong (SAR of China), Iceland, Ireland, Italy, Japan, Liechtenstein, Luxembourg, Malaysia, Malta, Monaco, Norway, Portugal, Republic of San Marino, Singapore, South Korea, Spain, Sweden, Switzerland, Taiwan, The Netherlands, United Kingdom, United States, Vatican City.

15 Department of Immigration and Border Protection (2015), Working Holiday Maker visa programme statistics, as at September 2015

16 Office of Northern Australia (2015) http://industry.gov.au/ONA/WhitePaper/Documents/northern_australia_white_paper.pdf

- a trial of a premium visa product that guarantees a 48-hour turnaround, due in the first half of 2016
- commitments to provide full online lodgement pilots for China by the end of 2016 and India by the end of 2017
- Trials of online applications in simplified Chinese by the end of 2016.

These are significant steps forward given the stagnation in visa policy over the last decade but Australia is still playing catch up. It is now absolutely essential that the Federal Government maintains – or, where possible, brings forward – the announced timelines for its reforms to maintain our international credibility. TTF recommends Government invest where necessary in additional ICT and staff capacity to complete these projects on time.

Joint Australia-New Zealand visitor visa

The Australian and New Zealand Governments announced in February 2014 that they had agreed to a single visa agreement for the duration of the ICC Cricket World Cup 2015, open to all nationalities, which operated between 26 January and 5 April 2015.

Since the conclusion of the Trans-Tasman Visa Arrangement (TTVA) in April 2015, the New Zealand Ministry of Business, Innovation & Employment has undertaken a review that indicates that the TTVA was used 7,578 times to allow approximately 7,239 travellers from 77 nations to enter New Zealand during the period.[17] Of interest is that the largest users of the TTVA – at 40 per cent or 3,289 visitors – were from China, a non-playing nation in the Cricket World Cup. The joint visa offered travellers who were not necessarily cricket fans a unique opportunity to visit both Australia and New Zealand by taking advantage of the temporarily improved visa facilitation. Immigration New Zealand advises that there were no significant issues with joint visa holders breaching the terms of their visas.

The temporary TTVA has demonstrated the great potential of a single visa arrangement to develop and market a multi-destination Oceania experience.

A 2014 TTF report, *'Bringing Our Neighbour Closer: Four reforms to maximise tourism from New Zealand'* estimates that the benefit of developing a TTVA between Australia and New Zealand could increase international arrivals from Asia by approximately 141,300 by 2020.[18] Approximately 70 per cent of these arrivals were estimated to be from China. Further, an accompanying reduction in the cost of a TTVA was estimated to increase that number by an additional 46,000 arrivals.

17 NZ Ministry of Business Innovation & Employment (2015), Cricket World Cup Visa Agreement Research & Analysis, July, p. 2.

18 Tourism & Transport Forum Australia, 'Bringing Our Neighbour Closer: Four reforms to maximise tourism from New Zealand', p.49. Note: Analysis for 2020 forecast with common visas was based on actual arrivals data for 2013

The Australian Government has not yet undertaken or released its own analysis of the TTVA. TTF would encourage the Australian Government to urgently undertake its review and move towards investigating the potential for a permanent visa arrangement with New Zealand.

Benchmarking

Australia should be looking to position itself as a global leader in visa policy. To ensure that we are globally competitive, the Federal Government should put in place a benchmarking mechanism that regularly measures our performance in visitor visa policy reform relative to other nations.

TTF recommends establishing an annual Productivity Commission benchmarking report that measures Australia's global position on visitor visa policy against our competitors. This would ensure that Australia can have an open discussion, based on the economic advice of the Productivity Commission, about the best ways to improve our visitor visa settings.

Reduce the Passenger Movement Charge

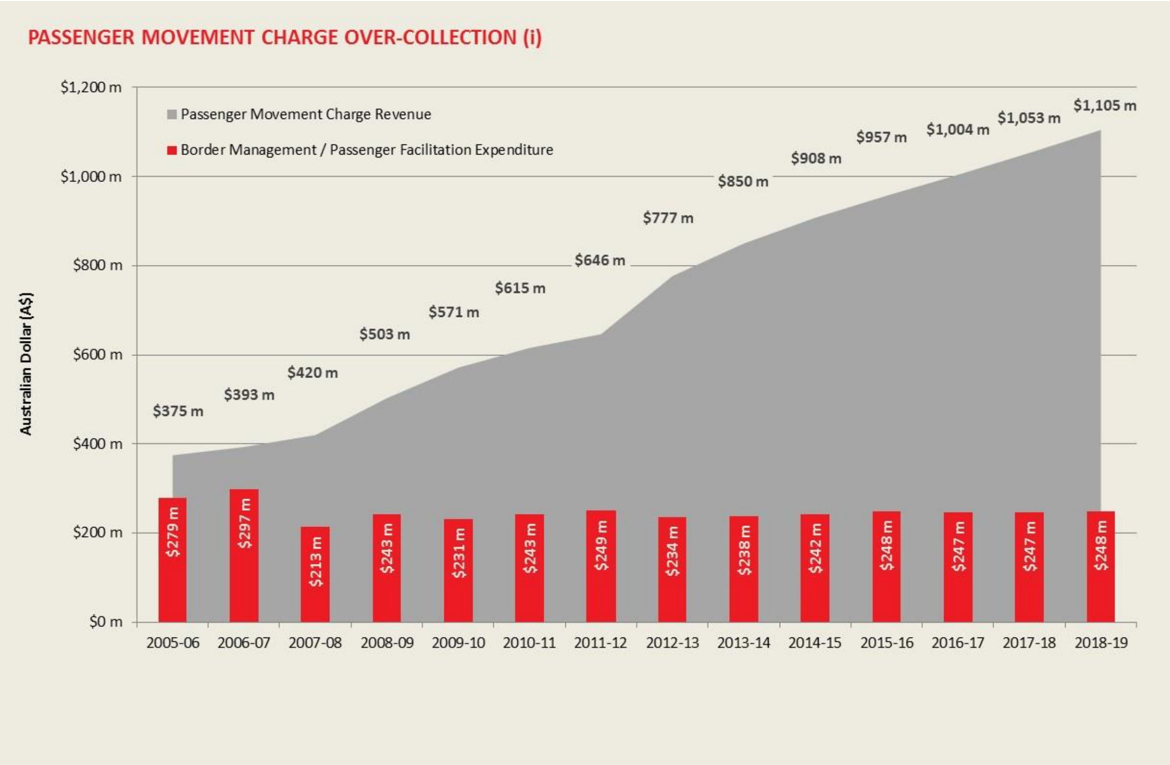
Recommendation

- Freeze on the Passenger Movement Charge followed by phased reductions to a genuine cost recovery levy

Australia's Passenger Movement Charge (PMC) is a billion dollar tax hit on our visitor economy. Visitors to Australia, and Australians departing for overseas travel, should not be used to prop up consolidated revenue. The PMC represents an unfair tax and industry wants it reformed so that it reflects the actual costs of passenger processing.

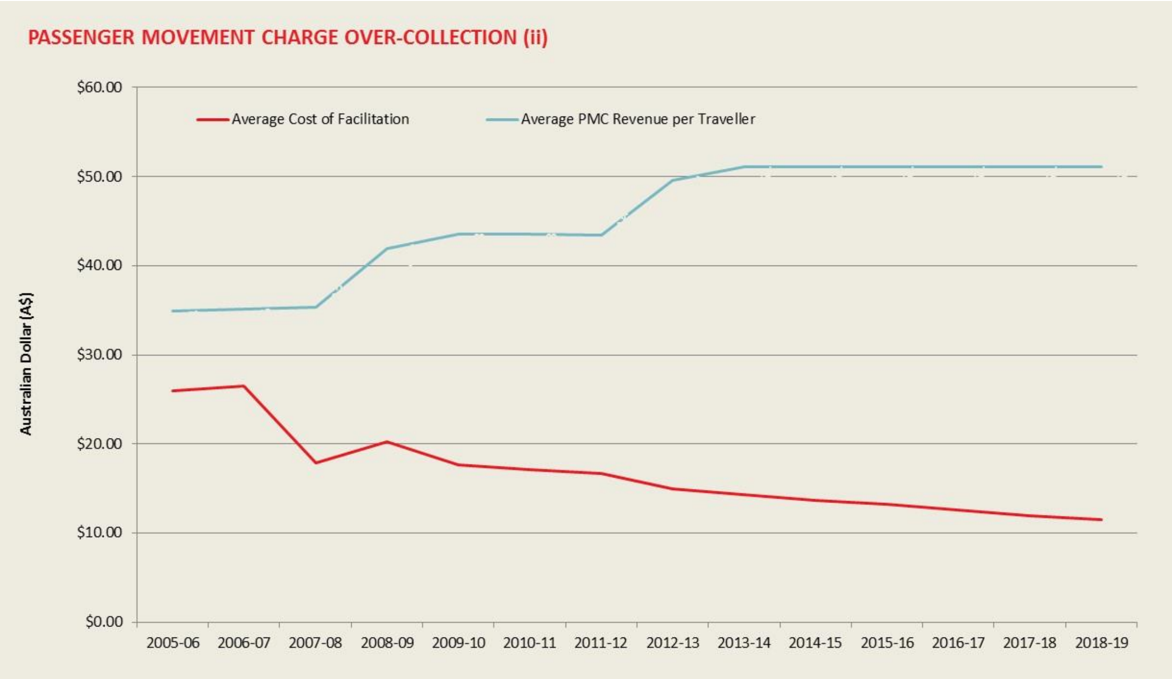
The PMC was introduced in 1995 to recover the costs associated with border processing and short-term visa issuance. Subsequent Government decisions to increase the PMC, however, mean that considerably more revenue is now collected than is needed to cover the costs of processing visitors (see Figure 4 below). PMC revenue is forecast to be over $1 billion by 2016/17, which dwarfs the estimated $247 million allocated to facilitate passenger movements at international airports and cruise terminals.

Figure 4: PMC revenue vs Passenger Facilitation



In 2016-17 the PMC will collect 10 times the net revenue than it did in 2006-07; while the total cost of passenger facilitation has been relatively stable, Figure 5 shows the cost per passenger has plummeted – delivering a massive windfall gain to consolidated revenue.

Figure 5: Average Facilitation Cost vs PMC Revenue per traveller



Australia's PMC is one of the highest tourism taxes for short haul routes among advanced economies. At $55 per passenger aged 12 years and over, it has a particularly large impact on visitors travelling relatively short distances, including the trans-Tasman market travelling to the east coast and south-east Asian markets travelling to northern Australia.

Modelling by the International Air Transport Association (IATA) suggests that holiday visitors (as distinct from those travelling to visit friends or relatives) are most sensitive to departure taxes such as the PMC, with every price increase of 10 per cent estimated to generate a decline of five to seven per cent in the number of leisure passengers travelling globally.[19]

Recognising that departure taxes can damage a destination's price competitiveness, many countries are already moving to reduce or abolish their own charges, including Malta, the Netherlands and the United Kingdom.

Industry welcomed the Federal Government's commitment to freezing the PMC at $55 for the current term of the Parliament.[20] This was an important first step in alleviating this tax burden on travel. As a further step, TTF believes that the PMC should revert to a cost recovery model. TTF is

19 International Air Transport Association (2013)

20 'Win for tourism with freeze on passenger movement charges', Minister for Trade and Investment, Andrew Robb, media release, 11 October 2013

seeking a commitment from the Government to continue the freeze indefinitely, with a plan to phase reductions in the PMC over time to bring it in line with the actual cost of passenger facilitation.

There should also be greater transparency with respect to the costs of passenger facilitation and how accurately this is reflected in the PMC. To this end, as part of any plan to better align the PMC with the cost of border management, the Government should appoint an industry reference group, to which Government has to submit its claimed passenger processing costs. While such a group would not necessarily have the power to accept or reject the Government's proposed cost structures, it would serve as a powerful accountability mechanism and could also assist the Government in making decisions about priorities for passenger facilitation investment.

Reinstate Tax-Free Threshold for Working Holiday Makers

Recommendation

- Reverse the removal of the tax-free threshold for Working Holiday Makers announced in the 2015/16 Budget

The national tourism industry employs almost one million workers, 534,000 directly and 391,000 indirectly. This accounts for eight per cent of Australia's total employment, or almost twice as many people as those employed in the mining industry.[21]

The industry is currently facing labour and skills shortages, especially in regional and remote locations, and research indicates that these shortages will only increase into the future. Half of Australia's tourism businesses experience recruitment difficulties, with a vacancy rate of seven per cent and turnover rate of 66 per cent. The industry is currently facing a shortage of 38,000 workers and this shortage is forecast to increase almost fourfold by 2020 to 123,000 workers. Of this shortage, the majority will be for unskilled or low-skilled jobs, particularly kitchenhands, waiters, bar attendants and baristas, cooks, café workers and maintenance staff.[22]

Addressing labour and skills issues requires a multifaceted approach. While the vast majority of workers in the tourism industry are domestic (90 per csent) and the tourism industry will continue to employ Australians first, this is not always possible. The tourism industry therefore relies on alternative labour streams such as mature age, youth and overseas workers. The Government plays a

[21] ABS (2014), *Australian National Accounts: Tourism Satellite Account, 2013-14* (latest available as at 5th February, 2016).
[22] Deloitte Access Economics (2015), *Australian Tourism Labour Force Report: 2015-2020*.

significant role in assisting businesses to better access overseas workers through the implementation of streamlined, competitive and efficient visa programs.

Backpackers, or visitors on Working Holiday or Work and Holiday visas, are an important part of the workforce mix for the tourism and hospitality sectors, especially in regional and remote destinations. In 2013-14, there were 239,592 working holiday maker visas granted to participants, or 23.8 per sent of the Australian labour force for that year. The importance of regional tourism cannot be underestimated. With some $42 billion or 45% of tourism expenditure in Australia spent in regional areas, tourism is of considerable importance to many of Australia's regional communities, and therefore any Government reforms that negatively impact on visitors exponentially impact regional and remote operators and economies.

The Federal Government announcement in last year's budget that it will abolish the tax-free threshold for working holiday makers from 1 July 2016 has the potential to significantly jeopardise Australia's Working Holiday Maker visa program. As a consequence of the announcement, backpackers will no longer be eligible for the tax-free threshold, paying 32.5 cents in the dollar from their first dollar of income up to $80,000. While this measure is expected to raise more than $540 million over four years in Government tax revenue, the potential economic consequences are likely to far outweigh any benefits. The tourism industry along with other industries that rely on backpackers as a source of labour – such as agriculture – has serious concerns that this measure will significantly reduce Australia's attractiveness as a destination for this important segment of the market. In simple terms, from 1 July 2016, a working holiday maker earning an average $21 per hour and paying 32.5 cents in tax from the first dollar they earn, will only have $14 left for accommodation, food and transport with no capacity to save to further their travels around Australia and no incentive to work.

A 2012 study prepared by the Australian Tourism Export Council (ATEC) found that working holiday makers stay an average of eight months and spend $13,000 each during their stay.[23] Working holiday makers are particularly valuable as visitors, since the visa conditions stipulate a minimum savings level, which is invariably spent in Australia, together with any earnings from work over the course of the stay. This helps to support local economies and jobs as backpackers continue to travel around the nation during their holiday. Gains in gross domestic product (GDP) from the working holiday maker schemes are conservatively estimated at $85 million or up to $700 million over 10 years. .[24] This makes backpackers not only valuable as workers, but also as substantial contributors to the economy.

If the Government is serious about wanting a strong tourism sector that is able to contribute to our nation's economy, it should be implementing policy and budgetary measures that encourage more

[23] Australian Tourism Export Council (2012) *The Importance of the Working Holiday Visa (Subclass 417).*
[24] Ibid.

overseas visitors to undertake working holidays in Australia rather than deterring them. Backpackers are inherently price sensitive, and this new backpacker tax coupled with the a history of working holiday maker visa price increases, will have a detrimental effect on the uptake of the Working Holiday Maker program and push backpackers to travel elsewhere, such as New Zealand and Canada.

TTF encourages the Federal Government to reject this false economy by reversing the decision in last year's budget to remove the tax-free threshold for Working Holiday Makers and work with the tourism and agriculture industries to make Australia a welcoming and competitive destination for backpackers to visit.

Rental Car regulation harmonisation

Recommendation

- Work with State and Territory Governments to harmonise taxes and regulation for the rental vehicle sector

The rental vehicle industry abides by eight different state and territory regulatory and tax regimes – with only Tasmania recognising rental vehicles within their own regulatory framework. Regulatory guidance and legislative instruments have been created without a clear national policy objective and lack the simplicity and flexibility required for a healthy operating environment.

For operators, this has stymied industry growth, hindered innovation, reduced workforce efficiency, made it difficult to determine the compliance task, created a significant administrative burden, and led to cost inefficiencies. For regulatory agencies, it has fashioned a significant knowledge gap, limited national data on the size, value and economic contribution of the industry, and created cost inefficiencies.

TTF calls for regulation and tax reform to ensure the industry has a framework that allows it to invest in the innovation required to drive the sector forward.

Invest in Statistical Research

Recommendation

- Federal Government to maintain research funding to support the continuation of tourism-specific statistical programs conducted by the ABS and TRA.

TTF strongly believes that robust and timely national statistics and data are essential for generating informed policy, outcomes and investment decisions for the tourism industry. Without bodies like the Australian Bureau of Statistics (ABS) and Tourism Research Australia (TRA), the industry would not have the capacity to invest in these statistics and data.

TTF is a strong supporter of the ABS and TRA and the need for robust and well-supported statistical programs. While the temptation to reduce sample size, scope and frequency of collections will always exist, we urge the Federal Government not to sacrifice the overall quality of its tourism-specific programs in the name of relatively minor financial savings. For this reason, TTF is calling for the Federal Government to commit to maintain funding support for the ABS and TRA.

The ABS conducts invaluable research to produce the Tourism Satellite Account, which is the only definitive measurement of tourism in the Australian economy. The monthly Overseas Arrivals and Departures is also conducted by the ABS, and with the quarterly International and National Visitor Surveys conducted by the TRA, forms the foundation of visitor data that is of integral importance to the broader visitor economy.

Improve the visitor experience

Reform passenger facilitation at the border

Recommendations

- Continue investments in world-leading biometric technology and automation
- Support a premium processing product delivered jointly with the private sector
- Introduce customer feedback at the border to benchmark customer service

Border processing, whether at air or sea ports, is an important part of the visitor experience. It is often the first and last point at which international travellers interact with Australia – and first and last impressions count.

Airlines and airports invest heavily in programs to improve the experience for visitors. Beyond their control, however, are the operations of Government agencies, including the Australian Border Force, the Department of Agriculture and the Office of Transport Security, who are responsible for passenger facilitation at the border.

Passenger facilitation processes – both inbound and outbound – contain a number of significant pain points that require reform. Addressing these pain points presents a number of opportunities to improve the visitor experience and enhance Australia's international reputation.

TTF will be releasing a position paper on improving the passenger facilitation process in early 2016. TTF believes that improvements in passenger facilitation can be driven in the following key areas:

- Prioritising customer service
- Adopting risk-based intervention
- Embracing new technologies and automation

TTF is calling for investments in biometric technology in the 2016-17 Budget. This is game-changing technology that will use facial recognition software and other biometrics to identify the small proportion of travellers that require an intervention, allowing the vast majority to flow through border control without manual checks. Industry was disappointed in the Government's decision to cut $8 million of funding to this workstream in the Mid-Year Economic and Fiscal Outlook (MYEFO). This cut should be reversed and an investment made in the technology that will make Australia's border process world-leading.

TTF wants Government to support a model of premium passenger processing that can be delivered in conjunction with the private sector. This type of service would typically be provided through a private lounge operated by the airport, airline or third party that also provides border clearance services on arrival and departure. This would be a user-pays model where all of the costs of providing the border agency staff can be met in the lounge service charge paid for by the passenger.

Several destinations, including Singapore and Dubai, already provide these services. This private lounge model is a proven success in other destinations around the world. For example, JetQuay in Singapore, which has operated from Changi Airport since 2006, offers various arrival and departure services that are paid for by travellers. Prices range from around $120 to $800 per person depending on the level of service passengers request.

Government should engage with industry on options to deliver a user-pays premium passenger processing service; both on and off termainal.

TTF is also calling on Government to make investments in customer feedback mechanisms at the border. The customer experience at the border is anecdotally poor. Government has prioritised national security at the border, but there is widespread concern from industry that this has been to the detriment of customer service. National security and customer service are not mutually exclusive. Passengers passing through border control should have the opportunity to rate the level of service they receive. This will allow border agencies to track movements in customer satisfaction and allocate resources to staff training or improvements to processes where necessary.

Reform the Tourist Refund Scheme

Recommendations

- Reform the Tourist Refund Scheme to allow private operators to deliver the scheme

Australia's retail offering is a key attraction for international visitors, particularly those from the growing Asian visitor markets. It is also a key part of achieving the yield targets associated with growing overnight visitor expenditure. To increase competitiveness in this area, Australia needs to reform its Tourist Refund Scheme (TRS). The TRS is the program under which departing travellers can claim back either the Goods and Services Tax (GST) or the Wine Equalisation Tax (WET) on eligible purchases.

TTF is co-chair of the Tourism Shopping Reform Group (TSRG), which has led the discussion on reform to the TRS. The TSRG has separately lodged a pre-Budget submission with detailed analysis on the impacts of potential reform options.

The current system, administered by the Australian Border Force at international airports, can be cumbersome and time consuming. This provides a negative impression of Australia to travellers as they depart, making them less likely to recommend Australia to their friends and also less likely for them to return. It has also emerged as a significant pressure point in passenger facilitation, with passengers stuck in queues at the TRS collection point made to run late for their flights.

There has been significant reform to the TRS process in recent years, notably with the introduction of online claim forms and through a revision of the rules around multiple purchases and the minimum claim amount.

However, further reform is required. TTF believes that opening up the TRS to a private provider would deliver benefits to Australian tourism. This includes promotion of Australia as a shopping destination in key source markets and an improved visitor experience leading to increased visitor spending. This is the model adopted very successfully by other destinations in the Asia Pacific region, such as Singapore, and used in more than 40 countries worldwide.

Investing in Infrastructure

Prioritise game-changer visitor economy infrastructure investment

Recommendations

- An investment strategy for visitor economy infrastructure

Visitor economy infrastructure is important in supporting demand and improving the visitor experience.

Traditionally, much of this investment has occurred at a State and Local level, resulting in a fragmented dispersal of government funds not necessarily tied to a broader strategic approach. Recent exceptions have been Tasmania's targeted expressions of interest process for investments in tourism projects in and around national parks, with the explicit objective of developing a portfolio of experiences to boost visitation. A similar process is underway in New Zealand, with a $10 million annual Tourism Growth Partnership.

The Government has already nominated tourism as one of its five investment priorities and has employed an investment specialist within Austrade to help attract international interest. Industry is now calling for a Commonwealth-led visitor economy infrastructure investment strategy to map out the critical gaps and plan for funding and development.

These infrastructure projects should be assessed and prioritised by independent experts for Commonwealth funding, similar to the process employed by Infrastructure Australia.

Key among these projects would be public transport links to airports, improvements to cruise ship facilities, and demand-driving infrastructure like outback road access to key tourist destinations (such as sealing South Australia's Strzelecki Track), national parks, cultural institutions, convention centres and urban open spaces.

Public transport infrastructure projects

Recommendations

- Work with Infrastructure Australia, the States and Territories and the private sector to identify priorities for investment and opportunities for financing

The role of the Federal Government in public transport infrastructure provision

Historically, the role of the Federal Government in transport has primarily related to responsibility for interstate and international air services along with shared responsibility for national roads and some cross-continental railways. Federal support for our transport network has more recently expanded to include urban motorways and, during the term of the last Government, public transport infrastructure projects.

TTF strongly supports a modally-neutral approach to assessing and funding transport infrastructure needs and proposals. TTF has welcomed the Federal Government's change in approach to funding public transport and was pleased to see the first contribution was towards the second stage of the Gold Coast Light Rail.

The Federal Government should fund projects based on their contribution to the functioning of the national economy and enhancing national productivity. Such an approach would see support flow to both urban road and public transport projects, but it should be the place of Infrastructure Australia to prioritise those projects that promise to deliver the most benefit. It is vital that Infrastructure Australia continues the important work of scrutinising all public transport projects before any stage of development.

The overarching principle of modal neutrality is supported by the critical role that public transport plays in our cities beyond supporting the visitor economy. Growing congestion will only be contained by both a better road network and the provision of expanded public transport services. In some of our major CBDs, improved public transport is the only viable option as land constraints mean that expansion of the road network is not feasible.

TTF has identified a number of key urban rail infrastructure projects that will benefit both commuters and visitors but that are likely to require financial support from the Federal Government in order to be completed within acceptable timeframes. These projects include:

- Brisbane Cross River Rail
- Melbourne Airport rail link
- Extension of the Gold Coast light rail to the airport

- Perth light rail

It is acknowledged that the Federal Government's asset-recycling fund can be utilised by the States and Territories for some of these public transport projects and this is a welcome development. However, TTF believes that funding from this source only will not be sufficient to ensure that the nation has the public transport infrastructure that it needs to support the Australian economy and our cities.

Additionally, the Federal Government should encourage and support public sector involvement in public transport delivery. There are a number of different way in which the private sector can be involved in the operation of public transport services, including outsourcing, franchising, privatisation and public private partnerships. The private sector tends to have greater incentive to innovate and exceed performance benchmarks than government-owned operations due to competitive tendering processes. The private sector can also play an important role in financing infrastructure projects with appropriate arrangements and risk sharing in place.

The relationship between public transport and the visitor economy

The visitor market is not the primary target of public transport services, which has a large focus on the commuter. However, the relationship between the visitor economy and public transport is often underestimated.

With the exception of those using the hire car sector, international tourists and business travellers frequently do not have access to personal vehicles when visiting Australian capital cities. Public transport, taxis, ferries and coach services remain the primary mode of transport for visitors to capital cities. In this regard, transport services impact the experience of the visitor and the appeal of the destination in many ways.

Airports and transport links from the airport are the first impressions of the city and the country for visitors. As such, they significantly affect the visitor experience. The majority of successful international airports around the globe are serviced by rail links providing visitors easy access to the destination's city centre. Rail services can offer a faster, more frequent, comfortable and reliable journey for air passengers arriving in Australia after a long flight. Connecting airports to rail networks also enhances the accessibility of airport precincts for the large workforce they employ. While Brisbane and Sydney (and soon Perth) airports are serviced by rail links, they are still lacking at Melbourne and Canberra airports. Adelaide is also only serviced by bus services, although it has the potential to be serviced by light rail.

The visitor's experience of the broader urban public transport network is an important factor contributing to the overall visitor satisfaction with a destination. Urban public transport is also a major destination development tool. The ease of access to local visitor attractions across the metropolitan area is essential to promoting the city as a holistic destination and broadening the tourism offering. Enhancing the mobility of visitors between destinations also facilitates the dispersal of visitors beyond the metropolitan areas and ultimately lengthens the duration of the visitor's stay. Enabling the visitor to explore more areas through good transport links has a direct impact on visitor expenditure.

Increase cruise ship access to Garden Island

Recommendations

- Federal Government provides long-term access for large cruise ships to Garden Island and provides Customs passenger processing facilities.

Australia has one of the world's fastest growing cruise markets, with passenger numbers increasing by 20 per cent on average each year for the past 12 years. Ten years ago fewer than 200,000 Australians were taking a cruise holiday each year. Passenger numbers have since increased fivefold such that cruising's Tourism 2020 target of one million Australians cruising a year by 2020 was achieved last year -- a full six years earlier than expected. The industry now has its eye on two million Aussies cruising. Australia is also the global leader in terms of market penetration (4.2 per cent) and fourth in the world for overall cruise passenger numbers.

The cruise sector is now estimated to generate more than $3.3 billion in economic activity for the Australian economy each year, providing more than 9,200 jobs directly and a further 4,800 in supporting industries.[25]

Its benefits cascade to local shore tour providers and attractions, hotels, restaurants, taxis and transport operators as well as primary producers. Hundreds of pallets of goods, including large quantities of fruit and vegetables, beef, poultry and dairy are delivered with each ship turnaround.

The growth in cruising is also supporting regional Australia. Cruise ships have added another 16 regional ports to their itineraries over the past two years and now call at places such as Gladstone, Fraser Island, Eden, Portland, Port Lincoln, Kangaroo Island, Mornington Peninsula and Esperance and Busselton. Indeed, Industry figures indicate nearly 190,000 Australians sailed on local itineraries in 2014 – an increase of almost 30 per cent.

Sydney is one of the world's most popular cruising destinations and is consequently the cruising gateway to Australia. Port congestion during cruise season peaks remain a problem, particularly at the Overseas Passenger Terminal in Sydney, which is at capacity for much of the summer season.

[25] AEC Group (2015), *Economic Impact Assessment of the Cruise Shipping Industry in Australia, 2014-15*

This is because the worldwide trend towards larger cruise ships, with a growing number too big to sail under the Sydney Harbour Bridge, is placing serious pressure on the remaining berths. Indeed, within five years, 85 per cent of new cruise ships constructed will not be able to fit under the Sydney Harbour Bridge and access the White Bay cruise terminal. The first new ship to be built specifically for the Australian market will be delivered in 2019 and will not be able to sail under the Sydney Harbour Bridge to White Bay's facilities.

To facilitate this anticipated growth, the industry is looking for certainty to share the Garden Island Naval Base at peak periods during the cruise season, particularly when visiting international ships call in Sydney during their world cruises.

A critical component to deliver this long term objective is to process passengers through Customs facilities at Garden Island, rather than by ferrying visitors on small boats from Garden Island to White Bay cruise terminal to go through Customs. This would greatly improve the customer experience and increase the competitiveness of Sydney as a global cruise destination. The additional time given to visitors will also maximise the benefits of the cruise sector to Sydney's, and more broadly Australia's, visitor economy.

Australian National Parks

Recommendations

- Parks Australia funding is increased in real terms over the forward estimates

Australia's international brand appeal is greatly enhanced by the natural assets under the management of Parks Australia. Tourism also contributes to broader environmental and social outcomes, providing funding sources and points of engagement for Australia's natural and indigenous heritage.

A recent study by Tourism Australia found consumers from some of Australia's key inbound markets viewed Australia's world-class beauty and natural environment as the third most important factor in selecting a holiday destination, behind only safety and value for money.[26] Capitalising on the potential benefits of nature-based tourism requires a supportive legislative framework and strategic public investment in critical visitor infrastructure.

Maintaining basic infrastructure and providing opportunities by developing new visitor experiences will support potential commercial partnerships with environmental, economic and social benefits for many regional or remote communities, continued visitor engagement in national parks and business opportunities for traditional owners. This can only be achieved with a consistent and appropriate level of funding for Parks Australia.

The 2015-16 Budget allocated $160.8 million to Parks Australia over four years, with a slight reduction in funding for 2015-16 compared to the previous year. Given the need for consistent funding to ensure national parks are appropriately managed and visitor infrastructure is maintained and enhanced – as outlined in TTF's National Tourism Agenda [27] – funding for Parks Australia should be increased in real terms across the forward estimates.

Investing in Australia's Cultural Institutions

Recommendation

- Increase funding support for national cultural institutions

The creative and cultural sector is a significant part of the visitor economy as it not only provides a unique reason to travel in itself but also forms the daily tapestry and visitor offering of a destination,

[26] Tourism Australia (2013) - Consumer Demand Study
[27] Tourism & Transport Forum (2013) – *Australian Tourism: Backing our Strengths*

complementing other sectors of the visitor economy. This in turn provides a continuous attraction for visitors helping to fill beds, restaurants, shops and transport seats, spreading the economic benefit beyond the creative and cultural sector. However, while the current value and importance of the creative and cultural sector in Australia is impressive, it has the potential to be much greater in terms of its economic and employment outcomes, especially with the right attention from the Federal Government.

It is paramount to recognise that Australia is competing with other global cities for both talent and visitors. Internationally, Australia is competing with cultural destinations such as New York, London, Paris and Hong Kong. In order to realise the greatest social and economic benefits that the nation’s creative and cultural industries can deliver, Australia’s national cultural institutions, both museums and galleries, must be adequately supported to compete on the global stage, rather than being content with cultural strength in a national context. This is of particular importance when other international destinations are ramping up their investment in cultural infrastructure and cultural tourism marketing as well as aggressively bidding for cultural exhibitions and events.

Australia’s national cultural institutions draw hundreds of thousands of visitors each year, making a vital contribution to the cultural fabric of the country and its economic prosperity. Not only is cultural tourism becoming more prominent domestically and globally, but cultural visitors stay longer and therefore spend more at a destination, making them a lucrative high-yield market for the visitor economy. Australia’s culture and heritage is a significant demand driver of international visitation and should be leveraged by the Federal Government. A Consumer Demand Project conducted by Tourism Australia in November 2012 found that a ‘rich history and heritage’ ranked sixth in terms of importance factors for destination choice. Seven out of the top 15 key visitor source markets for Australia ranked ‘rich history and heritage’ in their top 5 destination choice factors.

It is essential that our national cultural assets continue to be supported to ensure Australia’s cultural tourism experiences remain attractive and globally competitive to support the growth of the visitor economy. TTF therefore recommends the Government increases funding support for Australia’s national cultural institutions.