

TOURISM TRADE WITH THE MIDDLE EAST

TTF submission into the Department of Foreign Affairs & Trade inquiry into trade with the Middle East

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Membership of Tourism & Transport Forum

Tourism & Transport Forum (TTF) is a national, member-funded CEO forum, advocating the public policy interests of leading corporations and institutions in the Australian tourism, transport and aviation sectors.

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Tourism trade with the Middle East

Tourism & Transport Forum welcomes the opportunity to provide input into the Department of Foreign Affairs & Trade's inquiry into Australia's trade with the Middle East. As tourism is an important export trade for Australia, we feel it is important that the sector is included in any review into our trade relationship with the Gulf Cooperation Council and the wider Arabian Peninsula.

Tourism continues to emerge as one of the foundations of Australia's future prosperity. Australian tourism creates employment, has a rapidly expanding base of potential customers and is an industry in which we have a competitive advantage. Tourism is already Australia's largest service export, directly employing almost three times as many as work in mining.

The significant potential of Australia's tourism industry was highlighted in the recent Deloitte Access Economics report *Positioning for Prosperity*. The report identified tourism as one of Australia's five super growth industries capable of collectively delivering an additional \$250 billion to the national economy over the next 20 years. But this potential is contingent on good government policy.

TTF believes the government needs to attract high-spending visitors if it is to achieve even the lower target of its aim of doubling tourism expenditure by 2020.

The Middle East has been identified as a key growth market by Tourism Australia, which estimates that visitors from Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates collectively have the potential to reach \$1 billion per annum in expenditure in Australia. As such, this places the Middle East as a third tier priority market alongside Indonesia and India.

The \$1 billion expenditure target places the relatively sparsely populated countries of the Gulf in the same league as Japan and Germany, which each contribute a quarter-million visitors per year. This reflects the high average spend of Middle Eastern tourists to Australia, who both spend more per day and stay longer than visitors from other countries.

This has prompted some countries, notably the United Kingdom, to actively court Arab visitors. A 2013 study for VisitBritain showed that Saudi visitors to the UK spent almost \$5000 (£2,700) per day, followed by those from the UAE who averaged \$4,400 and Kuwaitis at \$4000. The top-spending non-Arab nationality was the Chinese who spent around £1400 followed by the Russians at \$2600.

There is also a high propensity to travel. In 2007, there were some 4.4 million international trips originating last year from the UAE alone, from a population of 4.2 million people. Due to the large number of expatriate workers resident in the UAE, however, visiting friends and relatives is thought to represent as much as 80 per cent of total outbound travel¹. The high percentage of foreign residents in the Arabian Peninsula aids air transport connectivity. The total population of the six members of the Cooperation Council for the Arab States of the Gulf (GCC) is some 44 million, of which roughly half are non-citizens². An expatriate market, which includes tens of

¹ United Arab Emirates Market Insight, European Travel Commission Market Intelligence Group, December 2007

² The Middle East Outbound Travel Market, European Travel Commission / United Nations World Travel Organization, Brussels April 2012

thousands of Australians, exists in all six members states of to a lesser extent. Returning Australians and citizens of traditional Australian tourism source markets resident in the Middle East can help underpin air services to Australia, providing far greater frequency of service for all residents.

Air access

Australia's trade, investment and community engagement with the Middle East has been enhanced by the growing aviation links with 140 flights a week to the Gulf. Last year international services to Australia from the Middle East grew 27 per cent, chiefly due to Australian airlines' alliances with UAE-based carriers

For the financial year ending June 2014, some 3.4 million passengers arrived on flights originating from either the UAE or Qatar³. The most significant carrier is Dubai-based Emirates, followed by Abu Dhabi-based Etihad Airways (see table below). Australia's Qantas Airways and Virgin Australia have partnerships with Emirates and Etihad respectively. Qatar Airways, flying to Melbourne and Perth is in the Oneworld airline alliance that also includes Qantas, British Airways and Cathay Pacific Airways.

| SCHEDULED INTERNATIONAL AIR TRAFFIC TO AND FROM AUSTRALIA: Year to June 2014 | | | |
|--|----------------|--------------------|---------------------|
| Airline | Home base | Inbound passengers | Outbound passengers |
| Emirates | Dubai, UAE | 1,067,756 | 1,055,312 |
| Etihad Airways | Abu Dhabi, UAE | 301,634 | 308,133 |
| Qatar Airways | Qatar | 158,406 | 170,616 |
| Qantas Airways | Australia | 123,016 | 104,240 |
| Virgin Australia | Australia | 33,255 | 36,724 |

SOURCE: Bureau of Infrastructure, Transport and Regional Economics (BITRE)

GCC flag carriers not currently flying to Australia directly are Bahrain's Gulf Air, Kuwait Airways, Oman Air, and Saudia. Of these, Gulf Air is the only carrier to have previously flown to Australia. In addition, a sole Middle Eastern low cost carrier, Saudi Arabia's Flynas, has aircraft with sufficient range.

Current bilateral air services agreements have allowed for growth in the crucial UAE market, through increases to the maximum permitted flights from the current 123 per week to 137 per week from March 2015. This is rising in step with demand for services.

The bilateral with Qatar is currently at its maximum allowance of 14 flights per week by a Qatari carrier to Australia's four major airports. No further expansion by Qatar Airways is currently permitted.

Air services agreements with other GCC states currently allow for six services per week from Saudi Arabia, four from Oman, seven from Kuwait and 12 from Bahrain⁴.

In addition to scheduled air transport, many wealth Middle Eastern visitors may wish to travel by private aircraft, or business jet. However, current restrictions prevent many of these potentially lucrative visitors from doing so. In

³ International airline activity 2013-14, Bureau of Infrastructure, Transport and Regional Economics (BITRE), Department of Infrastructure and Regional Development. Canberra 2014

⁴ Register of Available Capacity for Australian International Airlines. Department of Infrastructure and Regional Development, Canberra. October 2014

particular, the curfew rules in place at both Adelaide and Sydney bar intercontinental jets from landing at night and, in some cases, from taking off at an intermediary stop such as Malé, Maldives, during the Australian night time.

Premium passenger facilitation

Today's high-end travellers increasingly expect excellence in customer services. This is especially true of those originating from, or accustomed to, the service quality of the Arabian Peninsula. In this region, border facilitation is seen as an integral part of the airport experience, which is in itself an integral part of the travel experience. Features common to this kind of service elsewhere in the world are a high level of human touch, a separate arrivals lounge and dedicated passport controls.

By contrast, the only differentiated services available for immigration, customs and border processing available at Australian airports is the Express card system. The Tourism industry has been calling for a cost recovery model that would allow our border agencies to offer a new premium passenger processing product.

Any enhanced passenger processing options that go beyond standard service should be priced at the level of cost recovery to government. The private companies marketing the service will build this into their offering, which will also include personnel and facility costs.

Another potential market for premium processing that is relevant to Middle Eastern visitors is in fixed-base operations, or business jet terminals. At present off-terminal border processing is inconsistent, with agents usually available at Sydney and Brisbane's jet bases, but not at those in Melbourne, Perth or Darwin. Business jet customers expect to complete border formalities in FBOs, as is customary elsewhere in the world.

Visa reform

Once a visa pioneer, Australia is now falling behind comparable countries when it comes to visa policy. Our competitive set is beginning to make changes to their visa application processes and charges. The consideration of the tourism industries in these countries has been at the forefront of these reforms.

With evidence mounting around the world on the economic benefits of eliminating visa restrictions, governments are examining ways in which to reduce or remove the barriers.

Citizens of the GCC countries currently require a full visitor visa (subclass e600) to visit Australia despite being among the most compliant of all visa applicants. In 2012-13, the rate of non-return (visa overstay) was 0.34 per cent for Emirati citizens visiting Australia, 0.17 per cent for Qataris, 0.41 per cent for Omanis and 0.87 per cent for Kuwaitis. This is comparable to the overstay rates for European visitors and is lower than the average for all foreign visitors to Australia at 0.69 per cent⁵.

Although both Saudi Arabia and Bahrain have a rate of non-return of over five per cent, this is reflective of social and religious upheaval following the Arab Spring and the associated Bahraini protests.

In recognition of the low risk presented by Middle Eastern tourists, the UK has recently announced it will launch a new electronic visa waiver program for Emirati, Omani and Qatari nationals⁶. Australia was a pioneer in electronic visa waiver schemes, with the Electronic Travel Authority (subclass 601) introduced for Singaporean nationals in

⁵ Modified Non-Return Rate Quarterly Report Ending at 30 June 2013, Department of Immigration and Border Protection, Canberra 2013

⁶ UK electronic visa waiver introduced for Oman, Qatar and UAE, UK Visas and Immigration, Gov.uk London 2014

1996 the first of its kind globally. The programme has now been expanded to six Asian countries, the US and Canada. Meanwhile, European citizens can apply for a fee-free eVisitor (Subclass 651).

Tourism & transport Forum would urge the government to open the ETA scheme up to additional countries under the conditions established for its earlier expansion, namely rate of non-return, average wealth of citizens and stability of political regimes.

Elsewhere other countries are remodelling their visa regimes in light of this growing evidence of the damage visa fees do to inbound tourism flows. Retaining elevated charges is counterproductive to tourism marketing and unnecessarily as the cost of data-profiling drops exponentially, making the cost recovery rationale for collecting and analysing data on foreign nationals less compelling than in the last century.

While price is not necessarily a core concern of Middle Eastern visitors, ease of application and freedom to return without subsequent visa application is. On this basis, we would recommend that Oman, Qatar and UAE be added to the list of ETA eligible countries.

Tourist GST shopping refund scheme

Australia's retail offering is a key attraction for international visitors, particularly those from the Middle East. 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 purchases.

However, the current system, administered by the Australian Customs and Border Protection Service can be cumbersome and time consuming. It also costs the Australian taxpayer some \$14 million per year to administer, funded from the Customs budget.

The current system provides a negative impression of Australia to travellers as they depart, making them less likely to recommend Australia to their friends and them less likely to return. 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.

Take-up of the scheme is still far below that of comparable schemes in other countries; meaning Australian retailers are missing out. Middle Eastern visitors are well aware of the shopping schemes in place in Europe, most of which are operated by private companies.

We believe that if the TRS scheme were easier and more heavily marketed to international tourists, total spend in Australian stores would rise. This is evidenced by many other jurisdictions globally where the processing of tax refund schemes have been placed with private operators who have incentive to market destination shopping. Economic modelling, undertaken by KPMG on behalf of the Tourism Shopping Reform Group, estimates that by 2017 this reform could attract an extra 18,000 international visitors to Australia⁷. The reform could increase international visitor shopping spend by \$226 million.

We believe that opening up the Australian TRS to a private provider would between private refund providers would deliver even greater benefits, including promotion of Australia as a shopping destination in key source

⁷ KPMG, "Economic impact of reforms to the Tourist Refund Scheme," Sydney, 2012.

markets and an improved visitor experience. This is the model adopted very successfully by rival destinations in our region, such as Singapore, and used in more than 40 countries worldwide.

Product development

Much has been done in the Gold Coast in particular to ensure Australia's tourism product is accommodating to Middle Eastern visitors. Middle Eastern visitors have a preference for service apartments that cater for an extended family. The Australian destination with the most serviced apartments is the Gold Coast and as such, the Gold Coast attracts the lion's share of inbound family tourism by GCC citizens.

Gold Coast Tourism has worked with its members to ensure this competitive advantage is cemented through initiatives including:

- The Gold Coast Ramadan Lounge introduced in 2010 to meet the cultural needs of those guests traveling during the holy month of Ramadan.
- Arabic maps and visitor guides produced and Arabic-speaking staff at the Gold Coast Visitor Centre during the peak holiday season
- Training for local businesses on how to cater for Arab travellers including Arabic signage, prayer room facilities and Halal food options.

From a federal point of view, little is needed to assist these initiatives. However, with the Gulf states home to four of the top 10 sovereign wealth funds, attention needs to be paid to ensuring investment in hotels in Australia by Middle Eastern funds is an attractive option.

Destination marketing

Funding for tourism marketing is essential to attracting visitors to Australia. Public funding for marketing through a government agency, which at the Commonwealth level is Tourism Australia, helps to address a case of market failure. Commonwealth, state and territory tourism organisations play a vital central coordinating role. While industry commits significant resources to marketing, often in partnership with government, industry alone, with its varying and disparate sectors, is not able to cohesively and consistently market Australia as a destination.

A range of studies since 1997⁸ point to a return on investment of between \$8 and \$16 for each dollar spent on marketing. Crucially, the funding made available to government marketing bodies helps to leverage resources from the private sector through cooperative marketing agreements.

Likewise, ensuring that there is appropriate support for programs and activities that attract high-yielding visitors is vital to Australia reaching its 2020 target. As demonstrated above, attracting more high-spending, long-duration Middle Eastern visitors is part of the solution to meet this target. As such, an appropriately-resourced and commercially-oriented Tourism Australia is crucial to ensuring that we have a strong presence in our key markets with the flexibility to respond to emerging demand.

Tourism Australia has identified the Middle East as a third tier priority market, although currently services its activity in the region from its Indian office. As the market grows, it would be expected that the government reviews its resources to consider establishing a local presence in the UAE for the wider GCC market. In order for it to establish an office and devote more marketing resources to the Middle East, appropriation from government will need to be increased in addition to leveraging off commercial partnerships with Middle Eastern airlines.

⁸ These studies include: Access Economics (1997); Access Economics (2002); Sustainable Tourism Cooperative Research Centre (2006); Tourism Accommodation Australia (2014)

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