

2016-17

WA BUDGET
SUBMISSION

Future Economy Future Jobs





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Executive Summary

To an extent not faced by most other states and territories in Australia, Western Australia should confront the looming fiscal, growth and employment challenge of the waning mining construction boom. With the past decade dominated by the successes of the resources sector, the next decade is set to be defined by how well Western Australia is able to embrace a diversified economy and support industries in the non-mining sector.

At the forefront of this diversification is tourism. Tourism is one of the future economy leaders that have the potential to collectively add hundreds of billions of dollars to the Australian economy over the next 20 years¹. Tourism has the capacity to more than back fill the jobs vacuum left by the resources sector and 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.

Western Australia has signed up to the 2020 goal of doubling overnight visitor expenditure, from \$6 billion to \$12 billion. The challenge now for Western Australia is to ensure that it invests in its capacity to attract more leisure visitors to its key destinations and drive jobs and growth.

In this pre-budget submission, TTF recommends the West Australian government establishes baseline funding over the forward estimates for Tourism Western Australia to give industry certainty about marketing funding. TTF also recommends that investments in key visitor economy infrastructure like the Perth Stadium and Perth Convention Bureau be appropriately leveraged with a funded strategy to attract a pipeline of events beyond its opening date. Finally, TTF also recommends that investments are made in public transport projects, in conjunction with the Federal Government and the private sector, that create liveable urban precincts and regional centres that are desirable and accessible destinations for visitors.

¹ Deloitte, 2013, 'Positioning for prosperity? Catching the next wave'.

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TTF Recommendations

TTF Recommendations – WA Budget 2016-17

Grow demand for travel to Western Australia

Increase funding for Tourism Western Australia

- Establish a new baseline of funding for Tourism Western Australia over the forward estimates and reverse the agency's projected budget decline
- Ensure that restrictions are not placed on Tourism Western Australia's marketing spend, giving it flexibility to respond to opportunities in the market

Attract major and business events

- Maintain recurrent funding in real terms for Events to ensure that Western Australia has a well-developed and diversified calendar of major events into 2017-18
- Invest in an additional pool of money to secure a pipeline of major events for the new Perth Stadium
- Restore funding to Tourism WA for the purpose of ensuring that Perth and Western Australia continue to attract business events in a highly competitive Asia-Pacific market

Retain and attract domestic and international air services

- Grow aviation capacity through airline marketing partnerships which attract and retain targeted airlines, routes and services, in line with the State Aviation Strategy
- Ensure that development around airports is consistent with the National Airports Safeguarding Framework

Increase the connectivity and liveability of cities and regions

Improve transport infrastructure

- Work with the Federal Government and the private sector to fully fund the construction of MAX light rail and maintain announced timeframes for its construction
- Maintain funding and timeframes for the construction of a rail link between Perth CBD and the airport
- Invest in ongoing activation and place-making for the Elizabeth Quay precinct

Improving the visitor transport experience

- Commit to developing an integrated tourism and transport strategy for Western Australia

Improve the visitor experience

Enhancing the visitor retail experience

- Support reforms to allow private sector operators to deliver the Tourist Refund Scheme

Remove regulatory barriers



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Improve rental car regulation harmonisation

- Engage the Federal Government to harmonise state and territory taxes and regulation for the rental vehicle sector

Build on the success of cruise tourism

- Engage the Federal Parliament to pass reforms to the licensing provisions contained in the Coastal Trading Act to support expedition cruise shipping

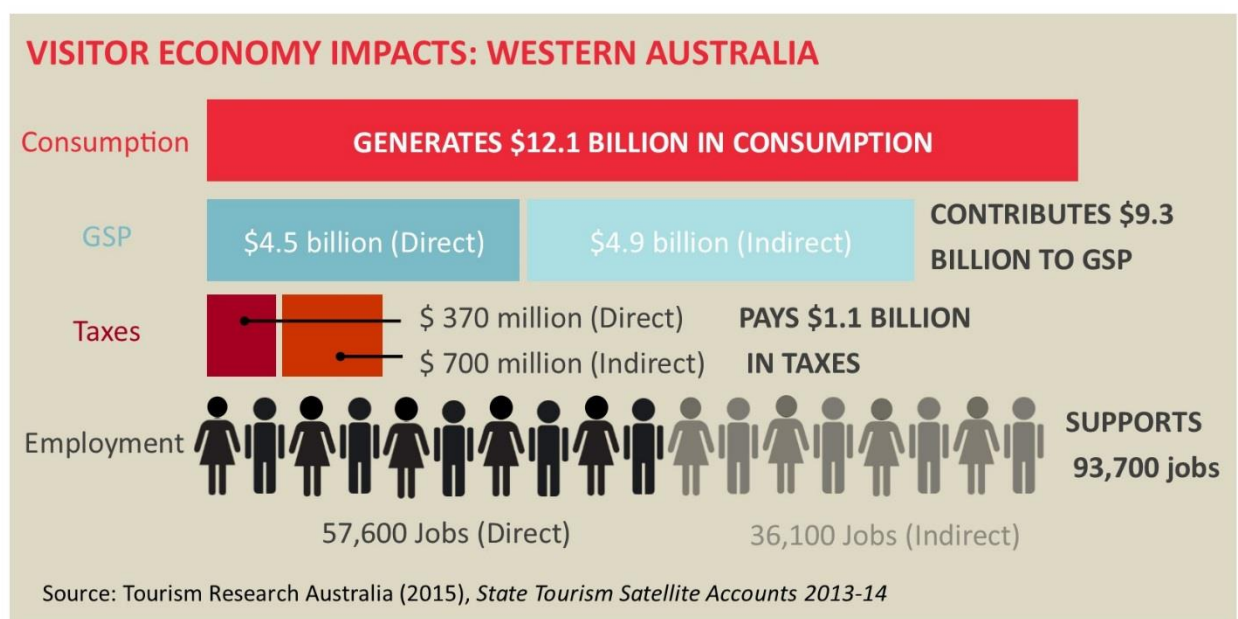
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The visitor economy is critical to Western Australia

The economic impact of tourism

As business investment associated with the resources boom eases, the visitor economy is emerging as one of the sectors that can deliver sustainable growth and jobs into the future. Tourism already plays a critical role in the West Australian economy, supporting 25,300 businesses, employing 57,600 people directly and contributing \$9.3 billion to gross state product (GSP).²

Figure 1: Visitor Economy Impacts: Western Australia



² Tourism Research Australia (2015) – *State Tourism Satellite Accounts 2013-14 and Tourism Businesses in Australia, June 2010 to June 2013*.



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Grow demand for travel to Western Australia

Promote tourism to Western Australia

Rise and fall of business travel

Destination marketing is essential to driving demand. Destinations compete fiercely for visitors and the most successful make serious investments in their marketing programs, backed up by research-based strategies.

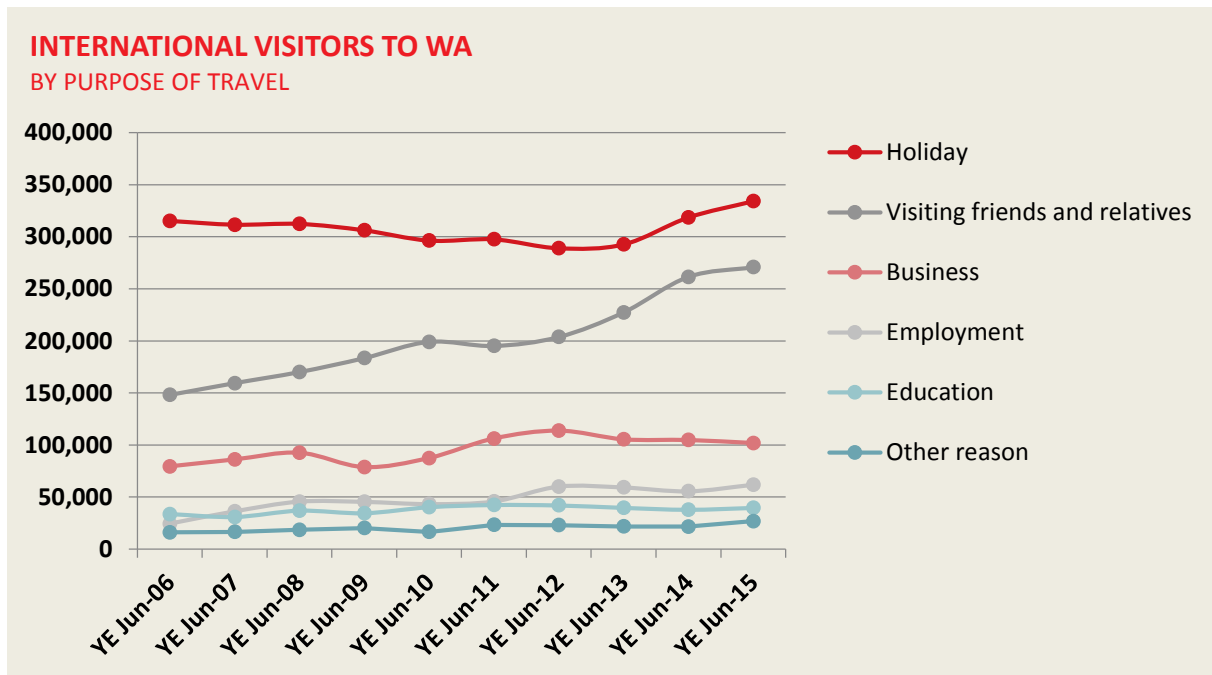
Over the last decade, Western Australia's visitor economy has been largely driven by resources-based business travel, but at the expense of the leisure market. Hotels experienced sustained high occupancy rates and growth in revenue per room, while aviation capacity was all but taken up by the demand from mining-related travel. Between 2004 and 2013 business travel increased by 80 per cent. However, this strong demand drove up prices for leisure visitors, many of whom simply stopped visiting the State.

At the same time as demand ramped up, investors turned to opportunities to increase supply. Perth currently has a strong pipeline of visitor accommodation supply. Three new hotels have been built since 2012, with a further eight currently under construction, including the 500-room Crown Towers. Three more hotel developments have been committed to under agreements with the State Government to build on Crown land, including the Ritz Carlton, Westin and AVANI. These developments alone will add an additional 2,300 rooms to the market. There are also another 16 hotels with development approval.

The lag in timing between approval and delivery to market for these projects, however, has meant that the ramp up in supply now intersects with the sharp decline in demand from business travel, which will potentially depress revenue per room going forward if demand for leisure and visiting friends and relatives is not driven higher at the same time.

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Figure 2: International Visitors to Western Australia by Purpose of Travel

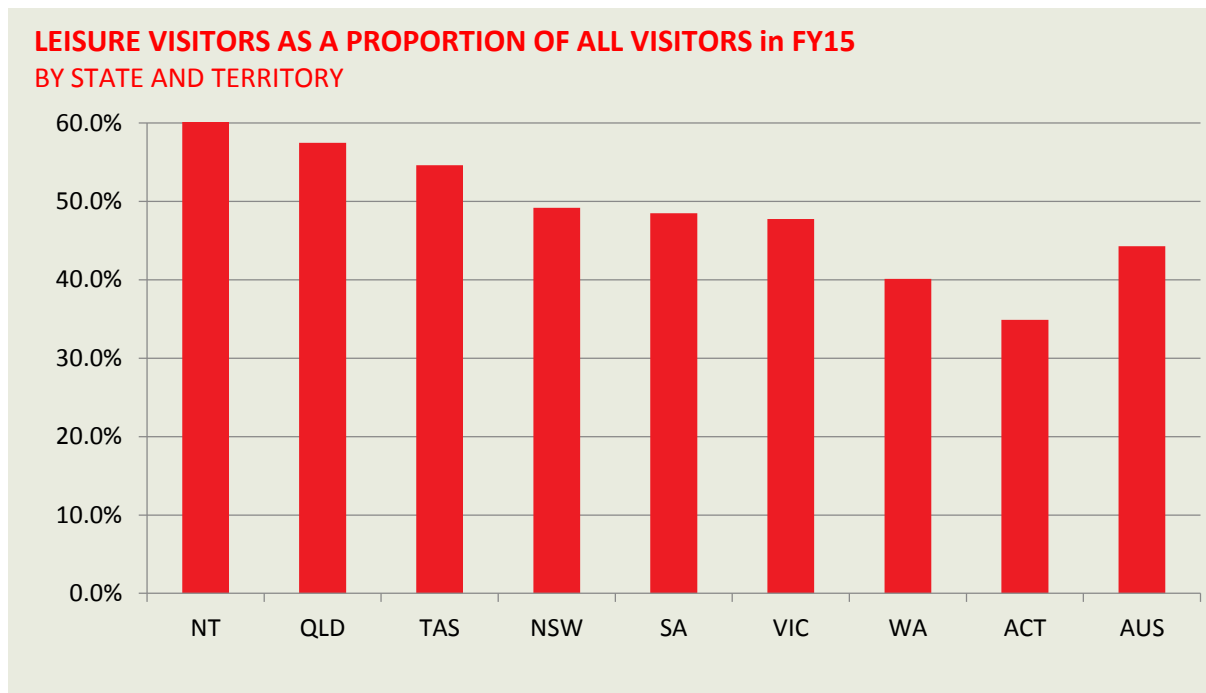


Driving demand for leisure travel

As available capacity shifted to meet the strong demand from mining-related travel, the lower-value leisure market declined (see *Figures 3 and 4*). At the same time, other states consolidated their leisure market share.

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Figure 3: Leisure Visitors as a Proportion of all Visitors in FY15 by State and Territory



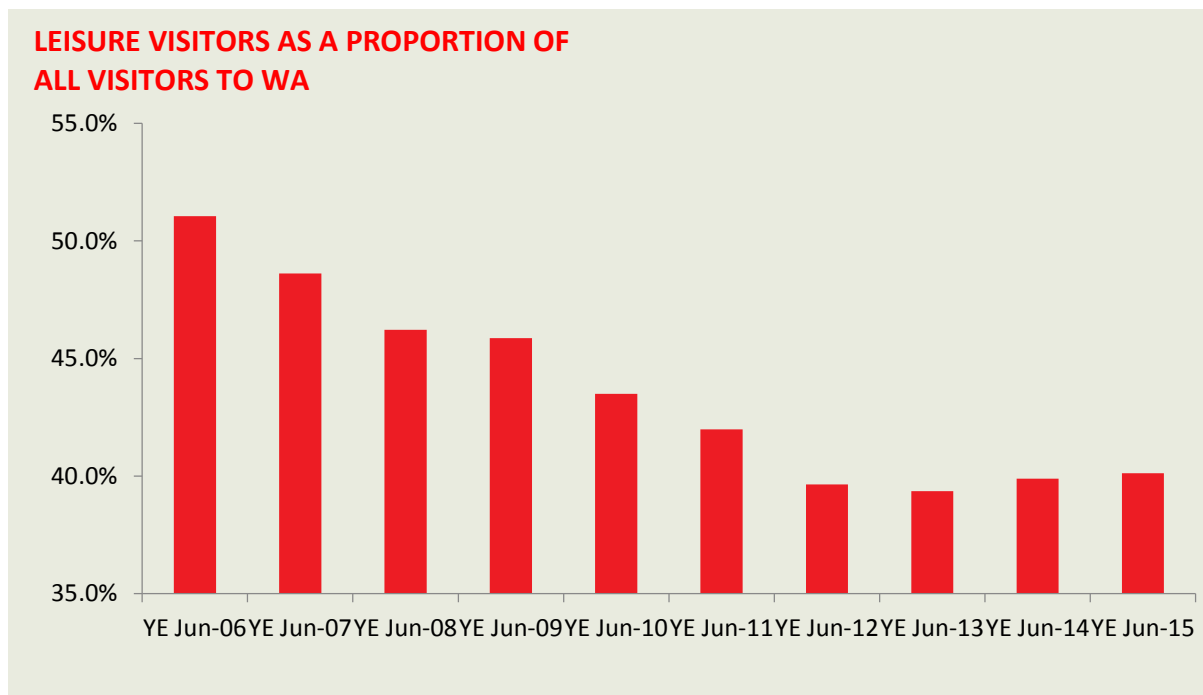
As we move beyond the mining construction boom, Western Australia should rebuild its leisure destination brand or face a stagnating visitor economy – and by extension, inhibit the State’s chances of diversifying its economy and growing the jobs of its future. This challenge is made sharper by the volume of accommodation supply due to come to market in the next three years.

In light of this volume of accommodation supply and the ongoing challenges facing the State as a somewhat isolated destination, Government should direct investment to capture higher-yield visitors to boost visitation numbers in the short term. Perth in particular is equipped with a large supply of high quality accommodation stock and can leverage this to attract the high-yield visitor demographic. This product can also be used to position Perth as a gateway to some of the major regional high-yield visitor destinations such as Broome, Ningaloo and Margaret River.

Now is the time for the Government to think strategically and make a concerted investment in destination marketing over the forward estimates to ensure it retains its competitive advantage in the face of economic headwinds.

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Figure 3: Leisure Visitors as a Proportion of all Visitors to WA



Towards 2020 - Funding Tourism Western Australia

In conjunction with private sector partners, destination promotion by a single agency such as Tourism Western Australia provides consistent messaging to prospective visitors and contributes to building the brand and appeal of Western Australia. Research on the return on investment of marketing funding, at a national level, has estimated a ratio of up to 15:1.³

The West Australian tourism strategy identifies the need to “firmly establish the *Experience Extraordinary* brand” as a strategic pillar to assist in achieving the goal of doubling overnight visitor expenditure.⁴ The *Experience Extraordinary Western Australia* campaign, launched in 2010, has played an important role in raising awareness of Western Australia and driving visitation among both domestic and international travellers. While in the past there has been some focus on regional areas of Western Australia, there is now a strong imperative to market Perth as the state’s key gateway destination.

³ Tourism Australia, submission to the Productivity Commission (2014).

⁴ State Government Strategy for Tourism in Western Australia 2020, Government of Western Australia, Perth (2014).

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To ensure this brand builds on momentum and remains competitive in key source markets, sustained and consistent funding for Tourism Western Australia is required.

Figure 4: Progress towards the 2020 tourism target - WA



Western Australia is currently one of the few States on track to meet their Tourism 2020 target of doubling overnight visitor expenditure. This growth in expenditure has largely corresponded with successive increases in destination marketing investment.

At the 2013 election, the Barnett Government committed an additional investment of \$24 million over four years to marketing funding. This funding was delivered in tranches between the 2013-14 and 2015-16 budgets. However, current forward estimates indicate this boost will not be sustained and Tourism Western Australia's funding will drop from \$89.1 million in 2015-16 to \$68.1 million in 2018-19 (see figure 4). If this decline in funding is allowed to occur, Western Australia risks a corresponding decline in visitor expenditure, which in turn will cost jobs.

At the same time as Western Australia has increased its marketing budget, so too have competitor destinations around Australia and in the Asia-Pacific region. Western Australia has now established a new baseline for its funding and this should be maintained over the forward estimates.



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Importantly, Tourism Western Australia should also have flexibility in how it prioritises its marketing funding. While the Royalties for Regions funding stream has been able to capture some of the value of the resources activity and divert it back into development of the State's regional centres, funding from this pool restricts the agency's ability to divert resources to urban destinations like Perth.

RECOMMENDATION

- Establish a new baseline of funding for Tourism Western Australia over the forward estimates and reverse the agency's projected budget decline
- Ensure that restrictions are not placed on Tourism Western Australia's marketing spend, giving it flexibility to respond to the needs of the market

Attract major events and business events

Major sporting and cultural events

Major events are a significant driver of demand in the visitor economy and a key strategic priority for Western Australia if the State is to meet its 2020 target of doubling overnight visitor expenditure. While many destinations around the world are highly aspirational, if there is no sense of urgency, they will remain an aspiration and their appeal will not be converted into a trip. Events drive consumer decisions to travel, giving visitors a timeframe in which they must act or miss out.

The WA tourism strategy seeks to position the State as “a recognised events destination for locals and visitors”, with a world class events calendar which supports and complements the marketing activities of Tourism Western Australia. Major sporting and cultural events drive visitation and provide high-profile opportunities to promote Western Australia as a destination.

The WA government's events agency, Events, has developed a robust calendar of major events that provide a compelling reason for interstate travel, enhance the experience of international visitors, and encourage the regional dispersal of tourism expenditure. A strong and consistent events calendar assists in mitigating the seasonality of tourism demand, improves predictability of patronage for tourism operators, and provides a strong incentive for private sector investment in event campaign funding.

The WA Government already makes a significant commitment to events acquisition, development and management and needs to maintain this spending in future years to support the State's tourism growth targets. In a tight fiscal environment governments are coming under pressure to reduce spending in a variety of areas, but continued investment in tourism marketing and major events is essential to maintain competitiveness. TTF commends the Government for providing a funding envelope over the forward estimates for Events, giving the industry certainty that the calendar of events will be delivered. TTF urges



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the Government to ensure that the agency continues to have the flexibility it needs to acquire events that meet the State's strategic objectives and that may fall outside of the current calendar of events.

New Perth Stadium

The importance of investment in major events will increase with the new Perth Stadium coming in late 2017, with the first AFL matches to be played at the venue in 2018. The 60,000-seat stadium will be a significant increase on the current capacity of stadia infrastructure in Perth, however there should be a concerted, and resourced, effort to secure a pipeline of major events to fill the stadium and activate the precinct. Football seasons, business events, and major exhibitions and conventions will be critical in forming the base of the stadium's calendar of events, however additional investment is needed to ensure the asset is fully utilised and attracts other major events. Economic assessment of major events at Perth Stadium showed a direct tourism impact of \$46.1 million per international sporting event and \$21.5 million per major entertainment event held at the new Stadium.⁵ TTF recommends the government invest in an additional pool of money to secure a pipeline of major events for the new Perth Stadium when it becomes operational.

Business events

Historically, business events – meetings, conferences and exhibitions – generate higher yielding visitors, with international business events visitors spending on average 20 per cent more than the average international visitor.⁶ Surveys conducted by Perth Convention Bureau (PCB) showed that delegates at one Perth business event spent \$564 per night, five times more than the average leisure visitor.⁷ The PCB research showed that business events can also help drive leisure visitation, with 92 per cent of delegates returning to WA for holidays.

Investment by Government in business events generates a real dividend for the State in not only visitor expenditure but also in the knowledge economy: business events can provide a platform for debate on key policy issues and showcase the State's industry strengths. Governments committed to the doubling of overnight expenditure in line with Australia's Tourism 2020 targets need a solid and secure investment strategy for the business events sector.

Industry has been concerned by the Government's decision to reduce funding for the PCB in the 2015-16 budget. The reduction over the forward estimates, from \$14.5 million to \$9.2 million, is significant and, if allowed to continue, threatens to undermine the State's capacity to attract business events. This could see WA miss out on the opportunity to leverage the industry. TTF is calling on the Government to restore

⁵ AEC Group (2015) *Perth Stadium Impact Assessment*

⁶ Tourism Research Australia (2013), International and National Visitor Surveys, December quarter 2012 editions – unpublished data.

⁷ Perth Convention Bureau (2014), *High Yield Delegate Research*.



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funding to the PCB to ensure Western Australia can retain the capacity to attract business events in a highly competitive Asia-Pacific market place.

RECOMMENDATION

- Maintain recurrent funding in real terms for Events to ensure that Western Australia has a well-developed and diversified calendar of major events into 2017-18
- Invest in an additional pool of money to secure a pipeline of major events for the new Perth Stadium
- Restore funding to Tourism WA for the purpose of ensuring that Perth and Western Australia continue to attract business events in a highly competitive Asia-Pacific market

Aviation attraction and retention

Aviation activity in Western Australia has undergone unprecedented growth in the past decade. Driven by the activity in the State's resources sector, Perth Airport has been the fastest growing capital city airport in Australia and the Pilbara regional airports the fastest growing of any in the country. Recent investments in airport facilities have included the new Virgin terminal at Perth Airport and the \$60 million upgrade of Busselton airport, allowing it to accept interstate flights and improving access to the Margaret River wine region.

Aviation access is vital for WA. Western Australia's geography, comprising Perth as a major coastal city surrounded by an isolated interior, makes it even more reliant on aviation access than other States. This includes regional routes as well as domestic and international services.

Given the need to support and grow tourism air services in the State, TTF urges the Government to invest in aviation route development to support existing airlines and attract new entrants. In order to fully undertake the aims of the draft strategy for route development, the West Australian Government should ensure that Tourism Western Australia has the capacity to engage in cooperative marketing partnerships and targeted aviation attraction. Establishing a new baseline of funding for Tourism Western Australia and preventing its forecast budget decline will be key to delivering on this outcome.

The West Australian Government should also continue to ensure that development around airports is consistent with the National Airports Safeguarding Framework. Noise-sensitive development should not be allowed to encroach upon airports, including Perth Airport, and hamper their competitiveness. Perth Airport's curfew-free status enables the airport to attract international flights during night time hours, and any threat to current or future flight paths from noise-sensitive developments would impinge on the State's competitiveness as a visitor destination.



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RECOMMENDATIONS

- Grow aviation capacity through airline marketing partnerships which attract and retain targeted airlines, routes and services
- Ensure that development around airports is consistent with the National Airports Safeguarding Framework



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Increase the connectivity and liveability of cities and regions

Improve transport infrastructure

MAX light rail

Perth is expected to experience strong population growth over the next decades. Forecasts indicate that Perth will reach a population of between 3 and 3.5 million residents by 2031 and between 4.4 and 6.6 million by 2061.⁸ As travel demand grows, congestion levels increase and the liveability of the city is threatened.

Transperth patronage (train, bus and ferry services) is growing at an even faster pace with an increase of 63 per cent from 2003-04 to 2013-14.⁹ This increase is in part due to the relatively recent expansions of the rail network.

However, while the travel demand continues to grow, there are limited opportunities to further develop the rail network within 15 kilometres of the CBD. To respond to this challenge, the WA Government started the planning process for Perth's light rail 'Metro Area Express' network (MAX) as an alternative to heavy rail and tunnels.

MAX is Perth's proposed 22 kilometre light rail network that will run from Mirrabooka in the north to the CBD, before splitting into two branches to Victoria Park Transfer Station in the east and to QEII Medical Centre in the west. The proposed route, which links major education, retail and leisure centres is one of Perth's busiest public transport corridors but currently has no mass-capacity transport options. Combined with bus feeder services and integrated land planning, light rail has the potential to support and stimulate Perth's economic and population growths while improving the city's amenity and appeal to visitors.

TTF notes the deferral of the project until 2019, with estimated completion by 2022. Industry urges the WA Government to continue to work with the Federal Government on the funding of this project. Given the capacity for light rail to catalyse urban regeneration along its corridor, industry urges the WA Government to examine financing models that capture the uplift in value for commercial property owners on the proposed MAX route.

⁸ Australian Bureau of Statistics - Population Projections, Australia, 2012 (base) to 2101.

⁹ Transperth Patronage – www.pta.wa.gov.au



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TTF strongly supports the MAX light rail project and recommends the WA Government commit to funding the project in its 2016-17 budget.

RECOMMENDATION

- Work with the Federal Government and the private sector to fully fund the construction of MAX light rail and maintain announced timeframes for its construction

Forrestfield-Airport Rail Link

Another key transport challenge for Perth is access to Perth Airport. Perth Airport is the fastest growing capital city airport in Australia. It is the main airport in Western Australia and also the hub for flights to/from regional Western Australia, including to major mining regions. Passenger movements through Perth Airport last financial year were 25 per cent higher than previously expected, with the 2009 Airport Master Plan's projections being reached five years earlier than predicted. This underestimation has subsequently meant investment in aviation-related infrastructure and services did not occur in a timely fashion. While TTF recognises that the WA's resources sector has heavily influenced passenger numbers through the airport, the Government's commitment to growing the tourism sector in WA will require serious investment in improved infrastructure capacity.

Following the consolidation of Perth Airport terminals and the construction of a business park at the domestic terminal by 2020, Perth Airport will require a dedicated passenger rail line linking to the metropolitan network. Perth Airport has the lowest public transport mode share of any mainland capital. In 2012, the total number of passenger movements through Perth Airport had increased by 6.9 per cent a year over the past 19 years – this pace of growth will place an increasing strain on the surrounding road network as Perth's freight task and passenger air travel is expected to almost double by 2031.¹⁰ While the Legacy Way upgrade will mitigate the congestion impacts of some of this growth, Perth Airport will inevitably require a direct rail service to serve unprecedented levels of demand.

Scheduled for completion in 2020, the 8.5 kilometres rail link will provide a rail solution that improves transport connectivity to and from Perth Airport, the eastern suburbs and regional centres. Enabling an Airport-to-CBD journey of less than 20 minutes will considerably improve the visitors' experience and prove a viable alternative to car travel.

The West Australian government should confirm its commitment to fund the \$2 billion Forrestfield-Airport Rail link and maintain existing timeframes.

¹⁰ Department of Infrastructure and Transport Bureau of Infrastructure, Transport and Regional Economics (2012) 'Air passenger movements through capital and non-capital airports to 2030-31'



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RECOMMENDATION

- Maintain funding and timeframes for the construction of a rail link between Perth CBD and the airport

Invest in Precinct Activation

Key to the success of urban precincts is their activation as vibrant places of economic and social engagement.

The \$2.6 billion redevelopment of the 2.7 hectare Elizabeth Quay precinct is a potential game-changer for the Perth CBD. Fronting the Swan River, Elizabeth Quay will, once complete, be a mixed use residential and commercial hub with substantial public domain areas.

The first major events to be held at Elizabeth Quay will be the 2016 Perth International Arts Festival and Fringe World. Events like these will help to define the character of the precinct early in its life. TTF urges the WA Government to continue investing in the activation of the precinct. While the presence of residents and workers will drive weekday traffic in and out of the precinct, a concerted place-making campaign will be needed to consolidate the precinct's brand and drive activity at night and in shoulder periods.

RECOMMENDATION

- Invest in ongoing activation and place-making for the Elizabeth Quay precinct.

Improve the visitor transport experience

TTF is calling for a commitment to develop an integrated tourism and transport strategy for WA.

The success of the visitor economy is underpinned by well-coordinated interaction between the transport and tourism sectors. Connected, integrated and active cities and regions are key to improving liveability for residents and creating destinations that are attractive to visitors.

While transport authorities understandably focus on the needs of domestic commuters, the role of public transport in our cities and regions for visitors must also be a core part of their operations. In many jurisdictions, transport operators can do better and learn from world's best practice. TTF



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therefore believes that State Governments should develop specific tourism and transport policies that outline mechanisms to improve the experience of visitors on public transport networks. Such policies should consider the customer experience through the lens of international or interstate visitors who may face language barriers and no familiarity with a particular transport system, including its fares and ticketing structures.

RECOMMENDATION

- Commit to developing an integrated tourism and transport strategy for WA



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Improve the visitor experience

Enhancing the visitor retail experience

Tourist Refund 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 purchases.

However, the current system, administered by the Australian Customs and Border Protection Service, 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 less likely to return themselves. 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 for multiple purchases and the minimum claim amount. TTF believes that opening up the TRS to a private provider would deliver benefits to Australian tourism, including 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 our region, such as Singapore, and used in more than 40 countries worldwide.

The administrative costs of Australia's TRS are currently funded by State and Territory taxpayers under the GST agreement. In other countries, the scheme operates on a user-pays basis. TTF recommends the West Australian Government continue to support to the privatisation of TRS administration. This will deliver benefits to visitors, retailers, duty-free operators and the broader West Australian visitor economy.

RECOMMENDATION

- Support, and continue to encourage the Federal Government to commit to the privatisation of Tourist Refund Scheme (TRS) administration



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Remove regulatory barriers

Facilitate the harmonisation of car rental regulation

The rental vehicle industry abides by eight different State and Territory regulatory and tax regimes – with only one State 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 product innovation, reduced the efficiency of the workforce, 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 regulatory and tax reform to ensure the industry has a streamlined national framework that allows it to invest in the innovation required to drive the sector forward.

RECOMMENDATION

- Engage the Federal Government to harmonise State and Territory taxes and regulation for the rental vehicle sector

Build on the success of cruise tourism

Amendment to the Coastal Trading Act

Cruise shipping is the fastest growing segment of Australian tourism and Western Australia has been a major beneficiary. In 2013-14, cruise shipping generated an estimated \$116.5 million in expenditure for the State. Western Australia has adopted a Cruise Shipping Strategic Plan 2012-2022, under which it will be promoting its 10 port destinations of Fremantle, Esperance, Albany, Bunbury, Geraldton, Exmouth, Broome, Port Hedland, Busselton and Augusta.

Growth in the sector has been facilitated by a ministerial exemption from the licensing provisions contained in the *Coastal Trading Act* issued by the Federal Government to large cruise ships. This has ensured that cruise shipping is competitive in what is a highly contested international market.

However, that exemption has not been extended to the high-value expedition cruise ship market. These smaller vessels traditionally visit remote ports and coastal locations and Western Australia is an obvious destination for ships in this class. The regulatory hurdles of the *Coastal Trading Act* have



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meant that Australia has not been able to secure the benefits of this part of the market despite impressive growth internationally.

Regional ports such as Broome, Geraldton, Bunbury and Albany are especially missing out. Bringing international tourists to these regions should be actively supported by both the Western Australian and Federal Governments.

TTF believes that while the legislation to amend the *Coastal Trading Act* has not yet passed the Federal Parliament, the West Australian Government should continue to advocate for these reforms to be implemented due to their capacity to encourage growth in the expedition cruise ship market to Australia

The West Australian Government should continue to advocate for Federal reforms that will encourage growth in the expedition cruise ship market to Australia.

RECOMMENDATION

- Engage the Federal Parliament to pass reforms to the licensing provisions contained in the *Coastal Trading Act* to support expedition cruise shipping.