FEDERAL BUDGET 2015-16

Powering Growth – Visitor Economy Priorities for the 2015-16 Federal Budget

FEBRUARY 2015

TTF AUSTRALIA
Tourism & Transport Forum

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 Australian tourism, transport and aviation.

TTF uses its experience and networks to influence public policy outcomes and business practices, and to assist the delivery of major tourism, aviation and transport-related infrastructure projects.

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Executive Summary

TTF welcomes the opportunity to provide input into the development of the Federal Budget 2015-16.

With the continuing decline of sectors like manufacturing and with the mining investment boom waning, Australians are looking to the sectors that can deliver sustainable growth and jobs into the future. Against the backdrop of an economy in transition, the visitor economy continues to emerge as one of the foundations of Australia's future prosperity. It has been identified as one of five super-growth sectors that have the potential to collectively add $250 billion to the Australian economy over the next 20 years[1].

The visitor economy takes into account broader economic activity than that which has historically been defined as 'tourism' and 'events'. It includes the direct and indirect impacts resulting from a visitor travelling outside their usual environment for a holiday, leisure, events, business, conventions and exhibitions, retail, education, to visit friends and relatives, or for short-term employment. It captures intrastate, interstate and international visitors.

Transport is vital to the visitor economy. The use of planes, buses, trains, cars, taxis and ferries by visitors supports development of transport infrastructure, which in turn improves the quality of life in our cities and communities. This quality of life is then an important destination promotion tool – a liveable city is also an attractive city for people to visit.

Australian governments have recognised the potential of tourism as an economic development strategy for Australia and are working to boost the capacity of the sector. Federal and State tourism ministers have endorsed the 2020 Tourism Industry Potential goal for Australian tourism to increase overnight visitor expenditure to between $115 billion and $140 billion in 2020. This budget is an opportunity for the Federal government to adjust national policy settings to support the growth of the visitor economy and ensure Australia can achieve its Tourism 2020 target. Some of this work to improve the competitiveness of industry is already underway, with the government tasking the Productivity Commission to review into Australia's industrial relations framework, which we expect will address the needs and challenges of the 24 hour, seven day a week tourism industry.

However, much more needs to be done. As at June 2014 overnight visitor spending was $84.4 billion. This puts current progress below the target to achieve even the lower 2020 goal of $115 billion.

Indeed, TTF does not believe this target can be met under current policy settings.

TTF has a number of recommendations that, if implemented, will achieve progress for the visitor economy and increase the likelihood of achieving the Tourism 2020 target as well as supporting the overall economic prosperity of Australia.

[1] Deloitte (2013) - *Positioning for prosperity? Catching the next wave*

Recommendations

TOURISM AND TRANSPORT RECOMMENDATIONS

Growing demand for travel to Australia

Funding for Tourism Australia

- Tourism Australia funding is increased and maintained in real terms over the forward estimates.

Improving the industry's competitiveness

Reducing taxes and charges

- Reduce the Passenger Movement Charge for short-haul air travel (such as to New Zealand) to $25.
- Recommit to no further increase in the Passenger Movement Charge for other destinations.
- Introduce a new charging mechanism that allows new premium processing options to offset reductions in the existing taxes on international travel.

Visitor visa reform

- Roll the pilot programme of online visa applications out to all Chinese citizens.
- Follow the Chinese roll-out with online lodgement for all priority tourism markets.
- Continue to review and simplify documentary requirements of visitor visas.
- Offer visa applications in languages other than English.
- Reduce visitor visa application charges to produce a more equitable fee structure.
- Introduce a fee-for-service premium option for faster processing of visitor visas.
- Explore common visitor visas with New Zealand to encourage multi-country itineraries.
- Commit to a reopening of the ETA expansion programme.

Working Holiday visa reforms

- Reform Working Holiday visa fees.

Creating more entry points

- Introduce a new limited international airport designation.
- The Federal government funds small, mobile teams of border agents to process arrivals at regional airports accepting international flights.

Boosting Visitor Economy Investment

Research as a business intelligence tool

- Federal government to maintain research funding to support the continuation of tourism-specific statistical programs conducted by the ABS and TRA.
- Federal government to commit to permanent and continued funding for the Survey of Tourist Accommodation to support accommodation investment decisions.

Australian National Parks

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

Improving the visitor experience

Invest in 21st century passenger processing

- Work with private operators to deliver premium processing services, at terminals and off-terminal locations.

Reform the Tourist Refund Scheme

- The Federal government commits to allowing private operators to provide refunds through the Tourist Refund Scheme.

Priority visa application

- The Federal government introduces a user-pays premium visitor visa processing model into the Australian visa application process for key source markets, including Asia.

Joint visitor visas

- The Federal government publishes the formal evaluation of the Cricket World Cup visa experience and investigates the establishment of a permanent joint visa partnership with New Zealand for key source markets.

Improving the visitor transport experience

Public transport infrastructure projects

- That the Federal government, in consultation with state and territory governments, develops a mechanism and allocates capital funding for public transport infrastructure projects that have the support of Infrastructure Australia. Funding should commence in the 2015-16 financial year.

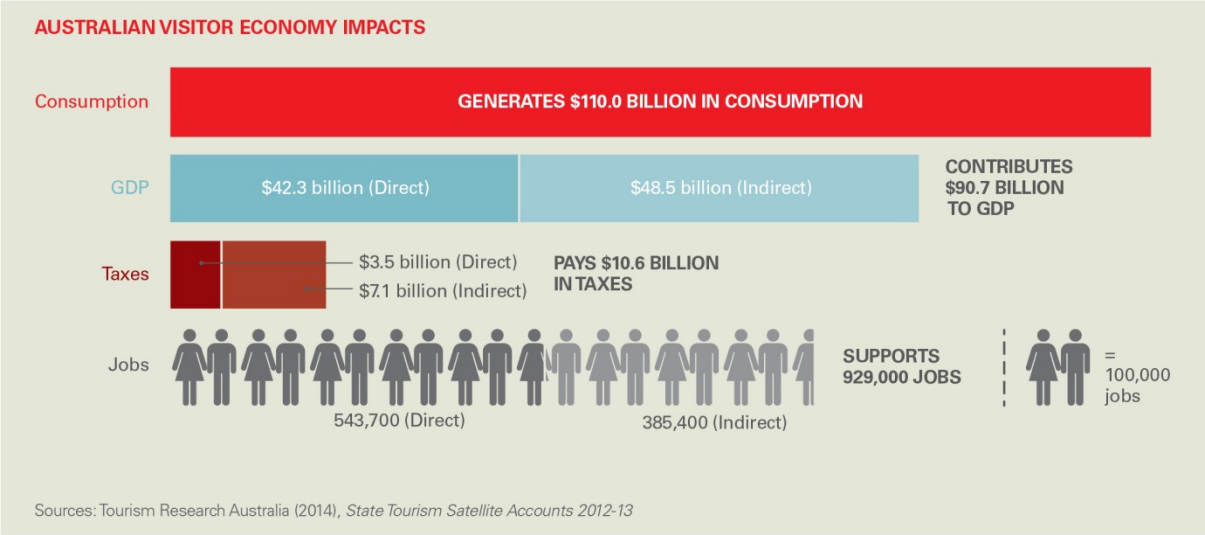
Cutting red tape in the rental vehicle industry

- That the Federal government leads tax and regulatory reforms to harmonise the car rental regulation framework nationally.

Increase cruise ship access to Garden Island

- That the Federal government increases cruise shipping access to a base of 20 visits per year and implements customs passenger processing facilities to process passengers at Garden Island.

Visitor economy: driving jobs and growth



Tourism is an important driver of growth and jobs for the Australian economy. Against the backdrop of a transitioning economy, with a declining manufacturing sector and a waning mining investment boom, tourism offers strong employment opportunities, a rapidly expanding base of potential customers and a strong competitive advantage. Tourism is already Australia's largest service export, employing almost twice as many people as the mining industry, and generating expenditure of over $100 billion every year – more than all our primary industries combined.

The potential of Australia's visitor economy 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.

A key component of achieving this potential is to maximise engagement and visitation from a broad range of markets. This includes traditional markets, such as Europe and North America, and newer markets such as Asia, the Middle East and South America.

Australia's position in the Asia-Pacific presents an unparalleled opportunity to respond to the increasing number of Asian visitors who want to come to Australia for holidays, to visit friends and family, for business or for education – and increasingly have the financial capacity to do so.

The Australian government, together with states and territories, has endorsed an aggressive tourism target as part of the Tourism 2020 strategy. Rapid growth in Asian visitor spending, the fastest growing segment of Australia's visitor economy, underpins the target of doubling nominal overnight visitor spending from $70 billion in 2009 to between $115 billion and $140 billion by 2020.

Chart 1: Tourism 2020 target progress

Unfortunately, current overnight visitor expenditure trends mean Australia is not even meeting the lower end of the Tourism 2020 target range, and without a change in policy settings this trend threatens to continue. As at June 2014 overnight visitor spending was $84.4 billion. However, to be tracking towards the lower target, spending needed to be at $87.7 billion (i.e. $3.3 billion higher) by June 2014. To be tracking to achieve the higher target, spending needed to be at $95.9 billion (i.e. $11.5 billion higher).

While growth in visitor numbers from emerging markets like China has been unprecedented, Australia cannot become complacent. At the same time as some of Australia's key policy settings are sub-optimal, our competitors are moving ahead. Key competitors for the long-haul Asian traveller match their well-resourced marketing campaigns with government-wide efforts to cut red tape on business, streamline visa processes, and improve the airport experience for visitors. It is clear that it will require effort across many areas of government if Australia is simply to maintain its market share of Asian visitors, let alone grow market share and reach the Tourism 2020 targets.

Although Chinese arrivals continue to rapidly grow to Australia, our market share against rival long-haul destinations is declining. As an indicator of the challenge, both Canada and the USA are seeing significantly faster growth in Chinese arrivals than Australia, with the USA up 23 per cent in 2014 and Canada up more than 30 per cent so far this year, compared to 15 per cent growth to Australia.

This submission urges the Australian government to take concerted action to ensure that we meet our Tourism 2020 target and we do not concede the competitive advantage we have over other destinations throughout the world.

Growing demand for travel to Australia

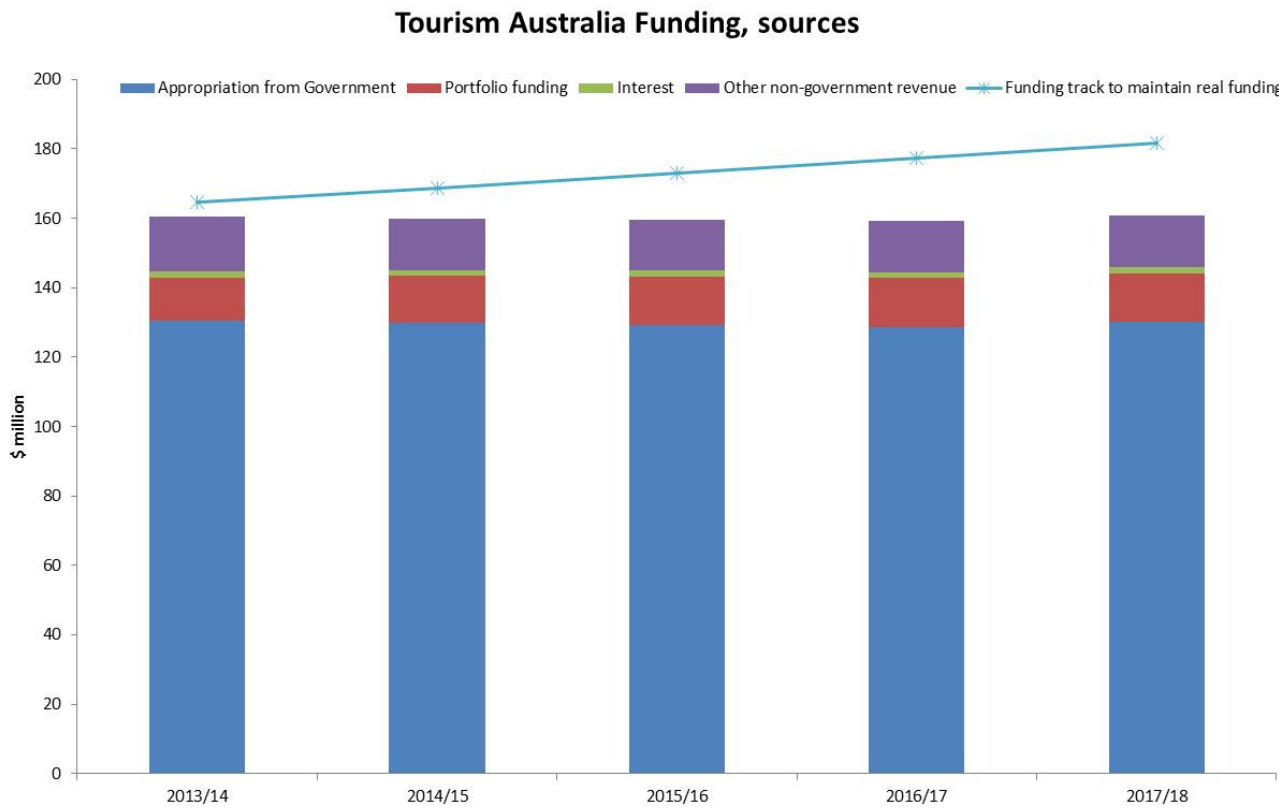
1. Funding for Tourism Australia

The Commonwealth plays an essential part in funding the marketing of Australia as a tourist destination. Tourism marketing funding by government addresses a case of market failure. The fragmented nature of the industry and the wide dispersal of visitor expenditure across industry sectors necessitates government playing a central funding and coordinating role in the overarching marketing of Australia to international visitors, rather than each individual business trying to attract international tourists themselves. Australia is primarily marketed to international visitors through the Commonwealth tourism agency, Tourism Australia, which spends 85 per cent of its resources on attracting visitors to Australia.

Tourism marketing spending represents good value for public funds. Analysis undertaken by Tourism Australia estimates its return on marketing investment (ROMI) is around 15:1. This means that for every $1 million spent by Tourism Australia on promoting Australia, $15 million is generated in additional tourism expenditure in Australia. Furthermore, when taking into account other potential uses of these funds and possible 'crowding-out' impacts of private investment, the benefit to cost ratio is 6:1. This means that across the whole economy for every $1 million spent on tourism promotion by Tourism Australia, the living standards of Australian's are increased by $6 million.

This high ROMI is a positive for the tourism industry when Commonwealth spending is growing, but also has an amplified negative impact on the industry when government spending is declining or stagnant. Overall funding for Tourism Australia is set to remain stable at around $160 million over the forward estimates. However, this relatively stable level of funding represents a decline in real terms.

Chart 2: Tourism Australia funding



The 2014-15 Budget papers indicate that a fall in the annual appropriation from Government will be offset by a small increase in portfolio funding and income from non-government sources. This supplementary funding will ensure that overall nominal funding is broadly maintained at around $160 million – although it will still decline in real terms and with the depreciation of the Australian dollar, the agency's buying power in key media markets will be further eroded.

Without a significant injection of funding for tourism marketing, Australia will continue to lose market share to competitor destinations and put further pressure on Australia's capacity to reach the target of doubling overnight visitor expenditure by 2020.

Chart 2 shows that failing to simply maintain funding for Tourism Australia in real terms will see the agency lose out on $61 million in the four year period from 2014-15 to 2017-18, with a gap of $21 million in 2017-18 alone.

Failing to maintain funding in real terms will also see the nation fail to realise the returns on investment in visitor expenditure and corresponding jobs and GDP growth. Applying the ROMI of 15:1, having $61 million less in resources to spend on marketing activities will result in a loss of $915 million in tourism expenditure in Australia that could have otherwise been realised if the real funding base had been maintained.

In the context of efforts to reach the Tourism 2020 target and the high rate of return on investment, the government should not be turning its back on almost a billion dollars in benefit to the economy.

RECOMMENDATION

- Tourism Australia funding is increased and maintained in real terms over the forward estimates.

Improving the industry's competitiveness

1. Reducing taxes and charges

Tourism is subject to a range of taxes, fees and charges, which combine to reduce Australia's competitiveness as an international destination. Border fees and charges increase the cost of coming to Australia and act as a demand dampener at the decision-making phase of a trip. The most obvious of these is the Passenger Movement Charge, a $55 tax on all international travellers over 12 years of age. Tourism is also the only export industry subject to the Goods and Services Tax (GST).

For a large proportion of inbound visitors, there is also a visa application fee, while all outbound Australians pay a tax in the form of a passport application fee in addition to the PMC.

The impact of these charges cannot be underestimated. Air travel is price-sensitive and the cost of an airline ticket is the first trigger in the decision process that leads to travel. This in turn makes government-funded promotion of Australia as a destination harder and leads to a reduction in the potential growth of the industry.

a. Passenger Movement Charge

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 Passenger Movement Charge (PMC), with every price increase of 10 per cent estimated to generate a decline of 5 to 7 per cent in the number of leisure passengers travelling globally[2].

Using the average return airfare paid to Australia in early 2014 of $1,628, IATA calculates the removal of the PMC would represent a decrease in total fare of 3.3 per cent. This in turn would drive an increase in passenger traffic of around 2.3 per cent annually, leading to 348,000 additional international passenger return journeys each year[3].

Many countries are moving away from departure taxes, as the impact on tourism is becoming more widely understood. Malta led the European movement away from taxing tourists, becoming the first country to repeal its departure tax in 2008. Another country to repeal its tourism tax is Ireland, which abolished its Air Travel Tax in April this year after economic modelling showed the losses to the economy of around €482 million. Ireland has had a number of new international air services introduced from the United Kingdom and long-haul routes following the zero-rating of the tax. Even the United Kingdom government has announced it is to reduce its Air Passenger Duty (APD) for long-haul travel from April 2015 to stimulate the travel industry.

The PMC is the second highest departure tax among the member countries of the Organisation for Economic Cooperation and Development after the United Kingdom's APD. But unlike the APD, the PMC is not distance-tiered, making it the highest in the developed world for journeys under 3220km. For example, a passenger flying from London to Istanbul – about 2,500km - would pay around $22 in tax under the APD, whereas a passenger on a comparable journey from Sydney to Auckland (2,200km) pays $55.

[2] International Air Transport Association (2013)
[3] International Air Transport Association (2014)

The price sensitivity of air travel is most pronounced on short-haul routes. This is where the PMC, as a flat tax, makes up a larger overall proportion of the fare. Analysis by TTF shows, for example, that the $55 PMC represents around 18 per cent of the cheapest low season return air fare to New Zealand[4].

Australian leisure destinations like the Gold Coast and Cairns in particular, compete with Pacific beach resorts such as the Cook Islands, Fiji, Vanuatu and Hawaii for family holidays in the New Zealand market. So for New Zealanders, the impact of the PMC is more immediate: at the decision-making stage of a potential visit to Australia. For every New Zealand family of four with teenage kids who take a holiday in Australia, the tax represents an additional NZ$250 hidden in the airfare or in the holiday package deal.

The additional $55 charged by the Australian government is a serious demand inhibitor. In economic terms, the PMC is a per-unit tax on a price-elastic good, passed through and thus the burden is borne by consumers[5]. On a $440 return air fare, the $55 tax represents a 12.5 per cent price increase over base fare, suggesting a dampening of demand of around 9.3 per cent on leisure fares, based on the industry-accepted air fare price elasticity modelled by InterVistas for IATA[6]. Further, TTF calculates that an additional 110,000 New Zealanders would have visited Australia last year had there been no PMC[7], while Air New Zealand calculates that a halving of the PMC would increase demand on trans-Tasman flights by four percent, adding a further $1 billion in expenditure in Australia[8].

As the government looks to reform its suite of border fees and charges through the joint review, TTF would urge Treasury to take a holistic view of all new potential revenue sources from new products and offset it against the existing taxes on international travel.

RECOMMENDATION

- Reduce the Passenger Movement Charge for short-haul air travel (such as to New Zealand) to $25.
- Recommit to no further increase in the Passenger Movement Charge for other destinations.
- Introduce a new charging mechanism that allows new premium processing options to offset reductions in the existing taxes on international travel.

b. Visitor visa reforms

Visa costs and processing times can act as a barrier to travel to Australia for international tourists, especially if travelling to competitor markets is easier and cheaper.

Australia's visitor visa programme contains both business and tourism visa classes. The tourism stream is made up of three subclasses that each attract different fees and have different characteristics, as detailed below in Table 1.

[4] Tourism & Transport Forum (2014) - Australian Tourism Industry Submission to Joint Review of Border Fees, Charges and Taxes
[5] Griffiths, A. and Stuart, W. (2008) – *Economics for Business and Management,* Financial Times Prentice Hall, Harlow
[6] InterVistas Consulting (2007) – *Estimating Air Travel Demand Elasticities – Final Report*, International Air Transport Association
[7] Tourism & Transport Forum (2014) - Bringing our neighbour closer – Four reforms to maximise tourism from New Zealand
[8] Air New Zealand (2014)

Table 1: Australia's visitor visa fees and characteristics

AUSTRALIA'S VISITOR VISA			
Visitor group	Subclass	Fee	Characteristics
eVisitor i. Tourist ii. Business	651	Nil	• For European nationals • Online application • Validity: 12 months • 98.9% automatic approval • Multiple entry
Electronic Travel Authority i. Tourist ii. Business	601	$20	• For nationals of 9 low-risk North American and Asian countries • Online application • Validity: 12 months • Maximum stay: 90 days • 100% grant rate • Multiple entry
Visitor i. Tourist ii. Business iii. Sponsored family iv. Approved Destination Status	600	$130-$335	• For all other nationals • Online applications for most countries • Validity: 3, 6 or 12 month • 75% approved in under 12 days • Validity: • Multiple and single entry

Source: Visitor visa programme quarterly report, Department of Immigration and Border Protection, 30 September 2014

The current system reflects a simplification that took place in March 2013 as part of the deregulation agenda. TTF proposes the Federal government continues its programme of visa simplification with the goal of allowing as many potential visitors easy and affordable access to Australian visas as possible.

As outlined in TTF's research paper *Visitor Visa Reform: Reducing Barriers For Travel To Australia,* Australia risks falling behind other countries in our visa reform agenda unless urgent steps are taken to make our visitor visas easier, cheaper and quicker to obtain.

Competition for leisure visitors is strong and many of Australia's rival destinations are already taking steps to make it easier for visitors to travel, especially for fast-growing target markets, such as China. For example, Canada, the US and the UK all allow Chinese leisure tourists to lodge applications online, whereas Australia visa lodgement is still paper-based (except for a small trial).

As a further competitive advantage, the US usually processes applications in two to nine days compared to Australia's 15-day standard. US visas can also now be collected at any of the 900 China CITC Bank branches across the country, compared to Chinese visitors to Australia having to attend one of three Australian consular locations to receive their visa.

This difference in visa application process is contributing to stronger growth in visitors from China to the US than to Australia. In 2013-14 Chinese visitors to Australia grew by an impressive 12 per cent, but this was dwarfed by growth of 23 per cent to the US and 30 per cent to Canada.

TTF recognises that significant reform has happened in the visitor visa regime for Chinese citizens in the past three years, notably the extension of three-year multiple entry visas for business travellers, the simplification of documentary requirements and the trial of online application currently underway.

However, the Federal government needs to stay committed to reforming the current system with the following priorities:

- Roll the pilot programme of online visa applications out to all Chinese citizens
- Follow the Chinese roll-out with online lodgement for all priority tourism markets
- Continue to review and simplify documentary requirements of visitor visas
- Offer visa applications in languages other than English
- Reduce visitor visa application charges to produce a more equitable fee structure
- Introduce a fee-for-service premium option for faster processing of visitor visas
- Explore common visitor visas with New Zealand to encourage multi-country itineraries

These reforms are needed in the short and medium term for Australia to keep up with competitors and not continue to lose market share.

Longer term, TTF would call on the government to reopen the expansion of the Electronic Travel Authority (ETA) programme, dormant for over a decade.

The benefits to the economy would be immediate. A recent study by the World Travel and Tourism Council found that from the G20 countries, those who had moved from traditional visa applications to electronic visa waivers enjoyed additional visitor growth of 8.9 per cent per year for each of the three years after the change[9].This analysis takes into account not only the current leisure visitor numbers but also estimates the positive impact a drop in visa costs would have on visitor arrival numbers.

Set in the Australian context, Tourism Australia is focusing the majority of its global marketing resources on markets which represent the greatest potential for tourism growth to the year 2020 (see Table 2). Of these markets, only China, Indonesia, India, Brazil and the Middle Eastern countries still require traditional visas. It would make sense to focus expansion of the electronic visas on these countries. If a similar growth rate to the 8.9 per cent experienced in other G20 countries were repeated as the result of an expansion of the ETA to Tourism Australia priority markets, we could expect to see an additional 140,000 Chinese tourists, 37,613 additional Indian visitors and 22,300 additional visitors from Indonesia.

[9] WTTC (2012) - The impact of visa facilitation on job creation in the G20 economies

Table 2: Tourism Australia priority markets and visitor visa product eligibility

TOURISM AUSTRALIA PRIORITY MARKETS AND VISITOR VISA PRODUCT ELIGIBILITY							
Tourism Australia global market resourcing categories 2013-14 (by visitor visa class eligibility)							
Category 1 **2020 expenditure potential: $5bn**		**Category 2** **2020 expenditure potential: $2.5bn**		**Category 3** **2020 expenditure potential: $1bn**		**Category 4** **Fast emerging / high priority**	
Greater China China Macau Hong Kong	 Tourist visa (600) Tourist visa (600) ETA	**New Zealand**	Special category	**Japan**	ETA	**Brazil**	Tourist visa (600)
North America (USA and Canada)	ETA	**South Korea**	ETA	**Indonesia**	Tourist visa (600)	**France**	visitor
UK	eVisitor	**Singapore**	ETA	**India**	Tourist visa (600)	**Italy**	eVisitor
		Malaysia	ETA	**Germany**	eVisitor		
				Middle East Bahrain Kuwait Qatar United Arab Emirates	Tourist visa (600)		
Source: Tourism Australia Corporate Plan 2014-16							

RECOMMENDATION

- Roll the pilot programme of online visa applications out to all Chinese citizens.
- Follow the Chinese roll-out with online lodgement for all priority tourism markets.
- Continue to review and simplify documentary requirements of visitor visas.
- Offer visa applications in languages other than English.
- Reduce visitor visa application charges to produce a more equitable fee structure.
- Introduce a fee-for-service premium option for faster processing of visitor visas.
- Explore common visitor visas with New Zealand to encourage multi-country itineraries.
- Commit to a reopening of the ETA expansion programme.

c. Working Holiday visa fees

The cost of Working Holiday Maker (WHM) visas has increased significantly in recent years. The visa fee was $280 per application in 2011-12, $360 in 2012-13 and is now $420. In 2013-14, following the most recent rise, applications fell by 8.7 per cent or 23,000 visas.

In total, the visa fee has more than doubled in the past nine years (see Table 3).

Whilst these changes have had a positive impact on visa fee revenue for the government, they have had flow-on effects throughout the economy. People who come to Australia on these types of visas tend to stay for longer and, as a result, spend more overall than regular tourist visa visitors. They also tend to travel around more than other visitors, thus spreading the benefits of tourism over a larger area, including into regional areas.

Table 3: Working Holiday Maker visa fees

WORKING HOLIDAY MAKER VISA FEES			
Year	Fee	Increase	Percentage
2005	$180	-	-
2006	$185	+$5	2.7%
2007	$190	+$5	2.7%
2008	$195	+$5	2.6%
2009	$230	+$35	17.9%
2010	$235	+$5	2.2%
2011	$270	+$35	14.8%
2012	$280	+$10	3.7%
Jan 2013	$365	+$85	30%
Sep 2013	$420	+$55	15%
Source: Department of Immigration and Border Protection			

When coupled with a rise in the value of the Australian dollar, the rise in cost of Australian WHM visas in key markets has been dramatically steep.

This repeated increase is counterproductive when set against Tourism 2020 goals. Working holiday makers are particularly valuable as visitors, since the visa stipulates a minimum savings level, which is invariably spent in Australia, together with any earnings from work over the course of the stay. The Australian Tourism Export Council found in 2012 that the gains in gross domestic product from the WHM schemes are conservatively estimated at $85 million or up to $700 million over 10 years[10].

RECOMMENDATION

- Reform Working Holiday visa fees.

2. Creating more entry points into Australia

The combination of a growing mass of travellers, a strong preference for direct flights and the lower operating costs for new long-range aircraft, means point-to-point traffic is set to be a growth area in aviation globally[11]. In Australia, the opportunity presented by this trend is in opening up regional airports to direct services from neighbouring countries such as New Zealand and Indonesia, where the operating economics of opening new short-haul routes are favourable.

One of the main barriers to this expansion is the cost associated with upgrading the infrastructure and agency staffing for customs, immigration and quarantine facilities at these regional airports. These costs, however, assume that the same level of facilities is required at each international airport.

This could, however, be avoided by undertaking two reforms:

1. Introduce a new limited international airport designation – this would particularly suit those airports seeking to focus on flights only to and from New Zealand. These sites would not require the same level of staff as needed at full international airports.
2. Improve cross-training of border agency staff – at smaller airports with only a few international flights per day from a low risk country such as New Zealand, it would be possible to have staff trained in customs and quarantine procedures. In most instances these would be straightforward and technology could be used to deal with more difficult cases.

[10] Australian Tourism Export Council (2012)
[11] Bronski, Peter & Ruskc, Greg (2013) - *Getting to the Point: Why air travel is ripe to migrate from hub-and-spoke to point-to-point,* Outlet Rocky Mountain Institute

These reforms would be an important first step in opening access to regional airports for a wider range of markets.

In the decade to 2012, European airports with fewer than five million passengers saw traffic jump by 79 per cent, while larger airports grew by just 29 per cent.

The potential for this growth also exists in Australia. As an example, Newcastle Airport has the potential to service a large part of regional NSW where local passengers currently have to travel to Sydney or Brisbane to fly internationally. Modelling done by TTF indicates that allowing just four flights per week between Newcastle and New Zealand could generate an additional 18,900 visits by New Zealand residents. Spread across the ten east coast airports with international potential identified in a 2012 Federal government study, some 120,000 additional visitors from New Zealand would fly to Australia if secondary airports were opened[12].

While this would require funding from the Federal government in additional border agent staffing at regional airports, the benefits to regional Australia would far outweigh these costs. For example, border agency expenses charged $120,000 for a 20-week trial of direct New Zealand services to the Sunshine Coast in 2012. This was dwarfed by the contribution to the local economy that these flights created, with some $14.5 million in additional tourism expenditure in 2012 rising to $24 million in 2014. This contributes over $2 million in GST receipts.

RECOMMENDATION

- Introduce a new limited international airport designation.
- The Federal government funds small, mobile teams of border agents to process arrivals at regional airports accepting international flights.

[12] GHD (2012) - Trans-Tasman Final report for the Department of Infrastructure, Transport and Regional Development

Boosting visitor economy investment

1. Research as a business intelligence tool

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.

Another key tool for the tourism sector is the Survey of Tourist Accommodation (STA) conducted by the ABS. This survey provides extremely valuable information on accommodation, including occupancy rates, room rates and revenue, as well as a measure of accommodation supply for destinations across Australia. This has delivered a comprehensive picture of Australia's accommodation sector performance since 1998 that has been critical to enabling informed tourism investment decisions.

The ABS reduced the survey from a quarterly to an annual collection and report, and then discontinued the STA altogether, to meet budgetary targets. While the Federal government has provided funding to produce the STA for 2013-14, the future of the STA moving forward is uncertain and this is an unacceptable level of uncertainty for Australia's $110 billion tourism industry.

TTF is calling for the Federal government to commit to permanent, continued funding to maintain this very valuable dataset, and reinstate its collection on a quarterly basis, to provide the industry with timely accommodation information. Reinstating the funding for the STA would also demonstrate the government's commitment to supporting tourism as a growth industry that can help to deliver prosperity as mining investment and heavy manufacturing decline. TTF is also calling for additional funding to support the industry's tourism research agenda, enabling TRA and the tourism industry to address the identified gaps in research.

RECOMMENDATION

- Federal government to maintain research funding to support the continuation of tourism-specific statistical programs conducted by the ABS and TRA.
- Federal government to commit to permanent and continued funding for the Survey of Tourist Accommodation to support accommodation investment decisions.

2. Australian National Parks

Australia's international brand appeal is greatly enhanced by 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[13]. Capitalising on the potential benefits of nature-based tourism requires a supportive legislative framework and strategic public investment in critical visitor infrastructure. In addition, consistent funding for Parks Australia is required to ensure continued visitor engagement in national parks.

The 2014-15 Budget allocation for Parks Australia saw an increase of 6.9% from $56.1 million the previous year, however this allocation decreases over the forward estimates, reaching $53.6 million in 2017-18. 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[14], funding for Parks Australia should be increased to at least the 2014-15 level in real terms in the forward estimates to 2017-18.

RECOMMENDATION

- Parks Australia funding is increased in real terms to at least the 2014-15 level over the forward estimates to 2017-18.

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

Improving the visitor experience

1. Invest in 21st century passenger processing

Attracting international visitors to Australia is not just about competing on price. It is also about providing a high level of customer service, particularly for high-wealth visitors who value premium-level service.

TTF has identified two opportunities for Australia to improve its offering of premium processing services at Australia's international airports. Other destinations in Asia and the Middle East are already offering these services, making it critical to adopt them to ensure Australia does not fall behind its competitors.

These services are currently provided on an ad-hoc basis, but without any cost recovery process in place. Implementing a more structured program of premium processing services that are fully cost recoverable could also have a net positive impact on the Budget and generate a revenue stream for government.

a. Customs, immigration and quarantine clearance within premium lounges

Several destinations, including Singapore and Dubai, offer high-wealth visitors the opportunity to clear customs, immigration and quarantine from premium lounges rather than via normal queuing channels. This is done via either existing airline member lounges or in dedicated premium lounges. Airlines either charge members for this service or cover the costs themselves as a way of attracting high-wealth individuals to their airline program. The separate dedicated lounges are operated by private companies that recoup their costs through service charges.

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, offer 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.

Using similar pricing models in Australia for these premium services, 600 passengers paying the $120 service fee would be needed to cover the cost of a customs officer's annual salary of around $80,000. Under the $800 service fee, only 100 passengers would be needed to cover the same salary.

There are currently 36 million passengers passing through Sydney Airport per year[15], suggesting that with the lower service fee only 0.002 per cent of all passengers would need to be willing to pay for this service to cover the annual salary of a customs officer. While any private business would have additional costs associated with this service provision, this simple example, together with proven track-record of businesses such as JetQuay, indicates that such services would be viable to meet this type of demand at major Australian airports such as Sydney and Melbourne.

b. Off-terminal clearance for private jets at fixed base operations

Similar premium services could also be implemented at jet terminals that receive private planes. Under this model, a private jet terminal company would be able to offer its arriving or departing passengers off-terminal clearance for customs, immigration and quarantine. This is likely to be attractive for operators at terminals that have a larger volume of international arrivals through private facilities, such as Sydney, Melbourne and Brisbane.

[15] Deloitte Economics (2012) - *The economic value of Sydney Airport*

As with the premium lounge processing model, customs, immigration and quarantine staff are provided on a contract basis to the jet terminal operator with full cost recovery for government and a potential revenue stream that is currently not utilised.

RECOMMENDATION

- Work with private operators to deliver premium processing services, at terminals and off-terminal locations.

2. Reform the 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 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.

TTF believes that if the TRS scheme was easier and more heavily marketed to international tourists, total spend in Australian stores would rise. Economic modelling, undertaken by KPMG on behalf of the Tourism Shopping Reform Group, estimates that by 2017 such a reform could attract an extra 18,000 international visitors to Australia[16], increasing international visitor shopping spend by $226 million.

TTF believes that opening up the Australian TRS to a private provider would deliver even greater benefits, including promotion of Australia as a shopping destination in key source 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.

RECOMMENDATION

- The Federal government commits to allowing private operators to provide refunds through the Tourist Refund Scheme.

3. Priority visa application

Introducing a user-pays premium visitor visa processing model into the Australian visa application process would provide a faster option for passengers willing to pay for this service. A number of competitor destinations are introducing this service responding to shifts in trip planning behaviour and visitor demand. Australia already has priority visa application product for the Skilled Migration class of visas. This could provide the model for a new, similar product in the visitor visa space.

[16] KPMG (2012)

Responding to growing demand from China, already their largest visa market, the UK government recently announced that 24-hour Super Priority Visas would be available to potential visitors from Beijing, Shanghai and Guangzhou[17]. The fee for this service is £600 (AUD$1090) and is in addition to the 3-day Priority Visa application process costing £ 150 (AUD$271), thus creating a three-tier visa product that responds to consumer demand. Similarly, the New Zealand government is aiming to introduce three-hour visa processing for high net worth individuals by the end of 2015, starting in China[18].

RECOMMENDATION

- The Federal government introduces a user-pays premium visitor visa processing model into the Australian visa application process for key source markets, including Asia.

4. Joint visitor visas

New Zealand is often viewed as a complementary destination to Australia, particularly among long-haul travellers. In total, around 40 per cent of all non-Australian visitors to New Zealand are dual-destination visitors to both Australia and New Zealand[19]. For the Chinese, this rises to 54 per cent of visitors cross the Tasman when the two are brought together, despite Asian visitors requiring separate visas for each country.

The tourism industry on both sides of the Tasman welcomed the announcement by Prime Ministers Abbott and Key in February 2014 to allow Cricket World Cup visitors to apply once for a visa to visit both countries.

Replacing two visa applications with a single process represents the major reform that would induce demand for dual destination itineraries in the trans-Tasman context. The inducement could be greater if the cost of this common visa were also significantly cheaper than the $270 applicable today through the two sets of visa processing fees.

A conservative estimate by TTF of the impact of a move to an affordable common electronic travel authority valid in both countries shows such a product would lead to an additional 132,000 Chinese arrivals to Australia and New Zealand by 2020, and 190,000 additional visitors from all target Asian countries whose citizens currently require a full visa to complete a trans-Tasman itinerary[20].

Once the formal evaluation of the Cricket World Cup visa experience is completed by both governments, TTF would like to see a permanent joint visitor visa partnership established.

RECOMMENDATION

- The Federal government publishes the formal evaluation of the Cricket World Cup visa experience and investigates the establishment of a permanent joint visa partnership with New Zealand for key source markets.

[17] UK Government (2014) - Home Office, "Immigration fees and charging Consultation 2013 - responses", London
[18] Bickle, N. (2014) - "What are government agencies doing to enable Tourism 2025," in Tourism Industry Association New Zealand Summit, Wellington
[19] Carboni, A. and Schiff, A. (2010) - "NZ Aviation Operational Environment: Selected Analysis" Covec, Auckland
[20] Tourism & Transport Forum (2014) - *Bringing our neighbour closer*

Improving the visitor transport experience

1. Public transport infrastructure projects

The relationship between public transport and the visitor economy

The visitor market is not the primary target of public transport services, which largely focus on the commuter. However, the relationship between the visitor economy and public transport is often under-estimated.

With the exception of those using the car hire sector, international tourists and business travellers frequently do not have access to personal vehicles when visiting Australian capital cities. Public transport, taxis 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, starting with the arrival at Australian international airports.

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 enhance 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 and are not funded for the planned second Sydney airport at Badgerys Creek. 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's satisfaction of 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 offer. 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.

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. In short, 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. To distinguish between classes of transport infrastructure neglects the role that all modes play in the functioning of our cities and our economy. Federal funding, if directed just to roads, will inevitably skew state priorities to major motorway projects, regardless of their importance.

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.

In relation to the visitor economy, 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 to be completed within acceptable timeframes. These projects include:

- Sydney second harbour rail crossing (Sydney Rapid Transit)
- Extension of the rail network to Western Sydney Airport
- New Melbourne CBD rail line
- Melbourne Airport rail link
- Brisbane's new CBD rail line
- Extension of the Gold Coast light rail
- Perth light rail

It is acknowledged that the Federal government's asset-recycling fund can be utilised by the states 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.

The Federal government should be prepared to fund public transport infrastructure projects alongside its support for urban road projects where Infrastructure Australia identifies such projects as being important to the national economy and our major cities.

RECOMMENDATION

- That the Federal government, in consultation with state and territory governments, develops a mechanism and allocates capital funding for public transport infrastructure projects that have the support of Infrastructure Australia. Funding should commence in the 2015-16 financial year.

2. Cutting red tape in the rental vehicle industry

The car hire sector plays a critical role in visitor mobility. Whether for domestic or international travellers, or residents who don't own a car, it is often the favourite transport mode to escape the city and visit regional destinations. However, red tape is impeding the efficiency of the rental vehicle industry.

The rental car industry is a unique and often overlooked component of Australia's transport and tourism sectors. Generating more than $3 billion in economic activity, the industry serves more than 400,000 international customers and purchases up to 40,000 new vehicles every year[21].

[21] Figures derived through consultation with TTF rental vehicle members and Ibis World Australian Industry Report, Motor Vehicle Hiring in Australia, 2012

In 2013, ten per cent of inbound visitors used a rental vehicle during their trip to Australia[22]. The domestic market also represents a large share of the rental vehicle market with 73 per cent of vehicle hires.

However, the full potential of the industry is not being realised due to inconsistent and inadequate regulatory frameworks. The rental industry abides by eight different state and territory regulatory and tax regimes. Of these jurisdictions, only Tasmania has regulation specifically designed for the rental car industry. In other jurisdictions, rental vehicles are often inappropriately categorised with other services such as hire cars and taxis, which have little resemblance to rental vehicles in terms of vehicles type, regulation, risk profile or vehicle working life.

With regulation working solely at a state and territory level, the current regulatory framework is only effective for operators who act within jurisdictional boundaries. With 70 per cent of annual turnover in the sector generated by national operators, this framework impedes the growth of the industry nationally.

TTF advocates tax and regulatory reforms to reduce inefficiencies and improve the customer experience. These critical changes can be implemented through one of two mechanisms:

> **Option 1** – Harmonisation of state and territory taxes and regulation through an intergovernmental agreement; or
> **Option 2** – The introduction of national regulatory regime administered by a single national body.

TTF believes the Federal government, through the Department of infrastructure and Regional Development, should undertake a comprehensive cost benefit analysis of both options, assessing the most viable option in regards to the cost impact on government and industry against the status quo.

Reform in the rental vehicle industry will involve transition costs and requires political will, arising from the possible transfer of powers from state and territory governments to the Federal government. However, the success of the Standing Committee on Transport and Infrastructure and the Council of Australian Governments in delivering outcomes for national transport reform provides a strong foundation for conducting this much needed reform.

There is a considerable weight of evidence, both in Australia and abroad, demonstrating that national harmonisation of transport regulation delivers significant economic benefits. Building on the success of the introduction of national regulators for heavy vehicles, rail and maritime safety, the rental vehicle sector is a logical next step in the push to build a more productive and integrated transport sector.

RECOMMENDATION

- That the Federal government leads tax and regulatory reforms to harmonise the car rental regulation framework nationally.

[22] Tourism Research Australia (2014) – International Visitor Survey, December quarter 2013 edition

3. Increase cruise ship access to Garden Island

Cruising is the fastest growing part of the tourism industry. In 2013, the direct economic contribution of cruise tourism in Australia consisted of $1.72 billion in direct expenditures, $826 million in value added and 8,378 full time equivalent jobs paying $577 million in employee compensation. The indirect and induced economic contribution was estimated at an additional $1.49 billion in output and 5,590 full time equivalent jobs[23].

As NSW accounts for approximately 75 per cent of the national economic contribution of the cruise ship industry, the Federal government should ensure NSW is equipped with the best possible cruise ship infrastructure to support this fast-growing industry.

Sydney Harbour is one of the world's most popular destinations for cruise ships and this has placed serious constraints on the harbour's cruise ship berthing facilities. This is exacerbated by the worldwide trend towards larger cruise ships. 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. In addition, the Overseas Passenger Terminal is now at capacity for much of the summer cruising season.

To ensure the growth of the lucrative cruise ship sector is not curtailed, the Federal government needs to provide regularised and increased shared access for large cruise ships to Garden Island. TTF recommends increasing cruise shipping access from three visits to a base of 20 visits per year, in the peak of the cruise season.

The Federal government should also develop the ability to process passengers at Garden Island rather than ferry passengers from Garden Island to the 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.

RECOMMENDATION

- That the Federal government increases cruise shipping access to a base of 20 visits per year and implements passenger processing facilities at Garden Island.

[23] CLIA (2014) - The contribution of Cruise Tourism to the Australian Economy in 2013

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