TTF AUSTRALIA
Tourism & Transport Forum

PASSENGER MOVEMENT CHARGE

TTF 2016 ELECTION SPOTLIGHT #2

Introduction

The visitor economy provides $11 billion in taxes to the Government bank account on the products it sells. The most obvious of these in the Australian context is the Passenger Movement Charge (PMC), a $55 'holiday' tax imposed on all travellers departing Australia – domestic and international – over 12 years of age. The PMC is a direct hit on the visitor's hip pocket and is artificially constraining demand, especially as international competition for visitors continues to intensify.

Australia's PMC is a $1 billion tax hit on our visitor economy, imposed on both Australians and international visitors departing the country. While originally introduced as a cost recovery levy for passenger processing, numerous price hikes and a growing number of travellers means that the PMC has now become a 'cash cow' for Government – collecting three times more than what the cost to process passengers at international borders.

Unnecessary travel taxes have real impacts on demand for travel to a destination and spending by visitors. Recognising the gains to be made in capturing the visitation of close neighbours, our competitors have taken steps to abolish travel taxes. This is why the industry welcomed the Federal Government's commitment to freezing the PMC at $55 for the current term of Parliament.[1]

Recognising that visitor taxes can damage a destination's price competitiveness, the industry very much hopes to see the current freeze on the PMC continue for the next term of Parliament, and for a commitment from all political parties to implement a timetable of phased reductions of the PMC to return it to a genuine cost recovery levy.

Australians and visitors to Australia should not be used to prop up consolidated revenue. The PMC represents an unfair tax and industry would like it reformed to reflect the actual costs of passenger processing.

TTF PMC Reform Plan

1. Continue the current **freeze on the PMC** for the next term of Parliament.
2. Commit to a **timetable of phased reductions of the PMC** to return it to a genuine cost recovery levy.
3. Establish an **industry reference group** to oversee visitor processing costs and ensure the PMC does not depart from the principle of cost recovery.

[1] 'Minister for Trade and Investment Andrew Robb (2013) Win for tourism with freeze on passenger movement charges, media release, 11 October, Canberra

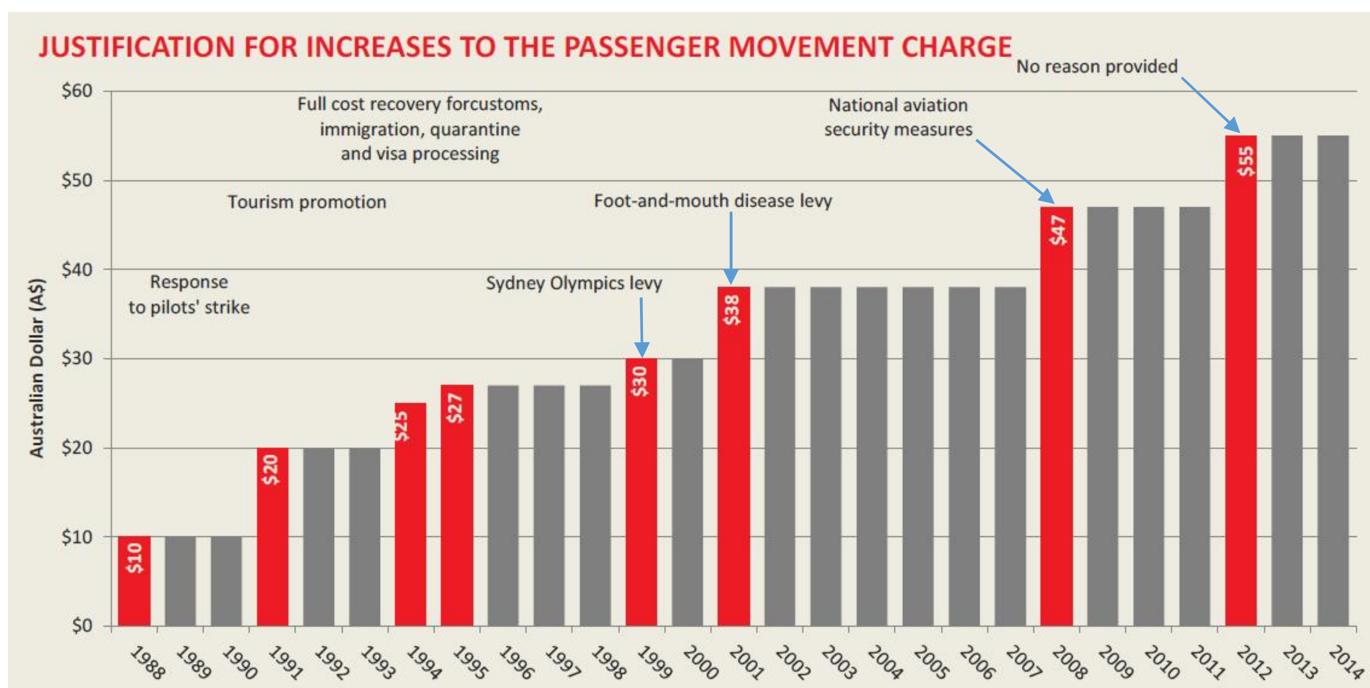
The rise of the PMC

The PMC – Passenger Movement Charge – was introduced in 1995 replacing the departure tax to recover the cost of customs, immigration and quarantine processing of travellers and to fully offset the cost of issuing short-term visitor visas.

Since its introduction, the cost of the PMC has more than doubled, making it the second highest departure tax among the member countries of the Organisation for Economic Cooperation and Development (OECD) after the United Kingdom's Air Passenger Duty (APD).

However unlike the APD, the PMC is not distance-tiered, making it the highest in the developed world for journeys under 3,220 km. For example, a passenger flying from London to Istanbul – about 2,500 km – would pay around $22 in tax under the APD, whereas a passenger on a comparable journey from Sydney to Auckland (2,200 km) pays $55.

This means the PMC has a particularly large impact on visitors travelling relatively short distances, including the trans-Tasman market travelling to the east coast of Australia and South-East Asian markets travelling to Northern Australia. For a family of four, this is an additional cost of $220, and of this, $165 goes directly to Government consolidated revenue.



The tax is also more of a deterrent to inbound travel than outbound, since the tax applies equally to all destinations to which Australians may wish to travel, but for international travellers, Australia is $55 more expensive than other destinations.

Modelling by the International Air Transport Association (IATA) suggests that holiday visitors (as distinct from those travelling to visit friends or relatives) are most sensitive to departure taxes such as the PMC, with every price increase of 10 per cent estimated to generate a decline of five to seven per cent in the number of leisure passengers travelling globally.[2]

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[2] International Air Transport Association (2013) IATA Economic Briefing: The Economic Benefits of Abolishing the Passenger Movement Charge in Australia

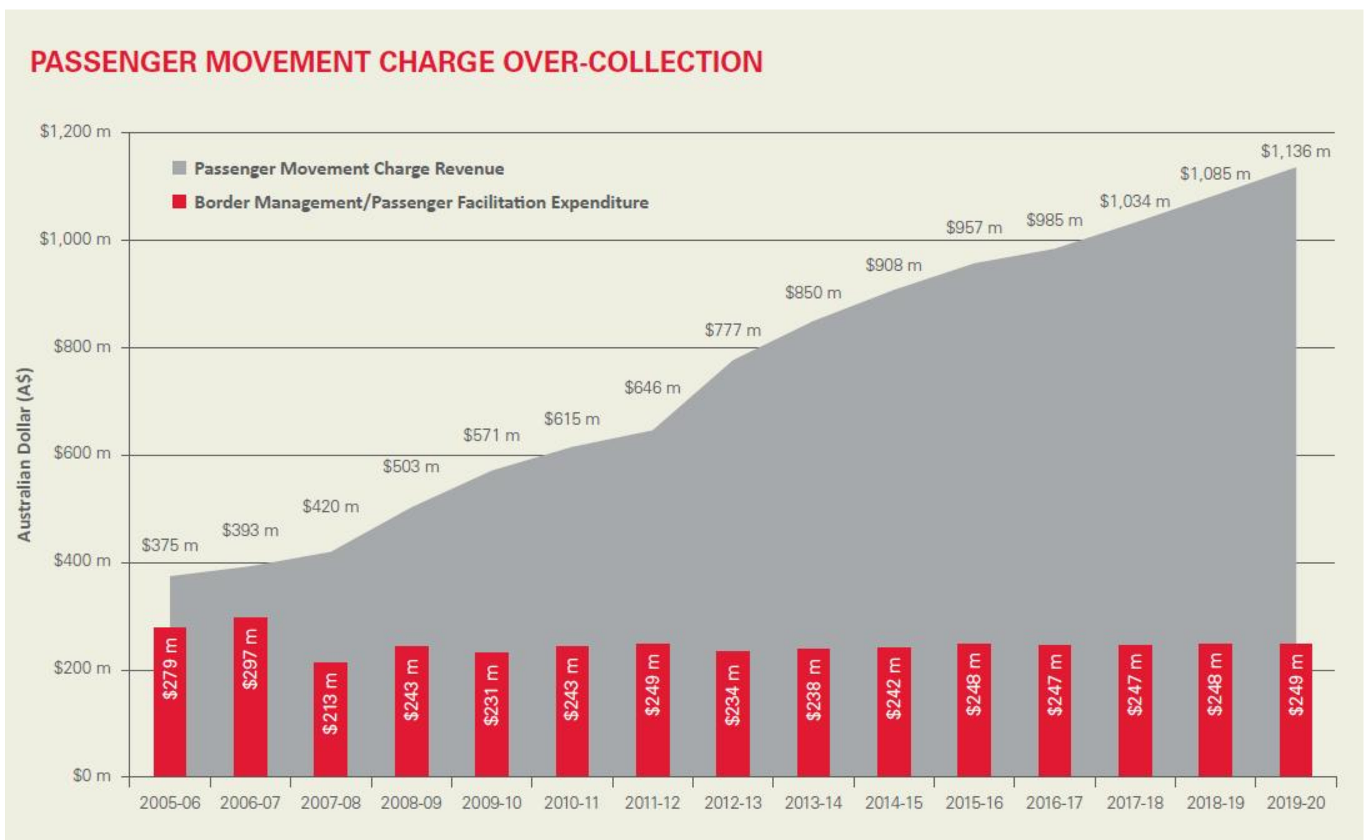
Tourism-dependent destinations such as those in Northern Australia are within short-haul aircraft range of many Asian cities. Yet despite their proximity to South-East Asia, the rate of the PMC is a significant barrier to attracting new international passenger services as every additional dollar is highly noticeable when added to low-cost, short-to-medium haul flights within the region. Add to the PMC the high visa costs and complicated visa processes applied to visitors from our key Asian markets, and Australia becomes less attractive compared to other destinations.

The Government's tourism 'cash cow'

While originally introduced as a cost recovery mechanism, numerous rises in the PMC and growing passenger volumes means that considerably more revenue is now collected than is needed to cover the costs of processing both Australians heading overseas and international visitors to Australia.

This has been the case since 2001, when the Federal Government conceded that the PMC had moved beyond cost recovery and was a contributor to consolidated revenue. Successive Governments have since raised the PMC rate, often using aviation security or health pandemics as justification. None of the rate rises has been reversed, with the only concession offered to industry being a commitment to freeze the PMC at $55 for the current term of Government.

Government revenue from the PMC is now significantly more than the amount required to fund Australia's passenger facilitation program. PMC revenue is forecast to be $985 million in 2016/17, rising to over $1.1 billion by 2019/20. This dwarfs the just under $250 million needed to facilitate passenger movements at international airports.[3]



[3] Based on TTF analysis of past Federal Government Budget papers where data is available

Global comparison

While Australia continues to hold onto its PMC, 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.

- **Ireland:** abolished its Air Travel Tax in 2014 after economic modelling showed 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.

- **Mexico:** Mexican legislators voted down an increase to their departure tax, mindful of the decrease in US travellers the move would provoke.[4]

- **Germany:** Germany's Parliament resisted calls to raise the country's departure tax, the Luftverkehrsabgabe, after Finance Ministry modelling showed it would cost the aviation industry over two million lost passengers through its 2.3 per cent increase in flight prices.[5] Immediately after the tax's introduction in 2011, low-cost carrier Ryanair closed over 400 services from its German bases at Hahn, Berlin, Weeze and Bremen.[6]

- **United Kingdom:** announced that from 1 May 2015, its Air Passenger Duty (APD) would not apply for young children on flights that depart from the United Kingdom. The APD costs £13 for short-haul flights, covering all of Europe, plus Turkey and North Africa. It can be as much as £97 for longer journeys. While the abolition of the tax initially only applied to children under 12, from March 2016 it has been extended to all children under 16.

- **Netherlands:** undertook the most comprehensive review of the market depression that departure taxes exert, particularly looking at the impact of its short-lived Air Passenger Tax, levied at €11.25 for European destinations and €45 for long-haul routes. For the period of one year, Amsterdam Airport Schiphol recorded a net loss of approximately two million origin-destination passengers, leading the Dutch Government to repeal the tax. Although half of the two million chose to fly from airports in neighbouring countries, the remainder opted not to travel.[7] Following its removal, air transport grew rapidly, with the country's main airport Schiphol recording record passenger figures in 2011 of almost 50 million. In total, despite the effects of the GFC, total air passenger figures rose from 22.8 million in 2010 to 25 million in 2011.

Within a competitive tourism environment, the Australian Government should be looking at policies that facilitate travel and further enhance the overall visitor experience. Travel taxes achieve just the opposite: they have a real effect on travellers at the decision-making stage of a journey, which in turn impacts the tourism and travel industries. The Australian Government needs to have a strong policy reform agenda to better capture the potential economic benefits that stem from international travel, and removing factors that inhibit demand, such as the PMC, should be a top priority.

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[4] J. A. Román, "Reprueba sector aéreo posible aumento al DNI," La Jornada, 5 October 2011
[5] Bundesministerium der Finanzen, "Monatsbericht - die Luftverkehrsabgabe," Die deutsche Bundesregierung, Berlin, 2011
[6] H. Gordijn, "One year later: The German Ticket Tax," Aerlines Magazine, 26 March 2012
[7] H. Gordijn and J. Kolkman, "Effecten van de vliegbelasting – Gedragsreacties van reizigers, luchtvaartmaatschappijen en luchthavens / Effects of the Air Passenger Tax – Behavioral responses of passengers, airlines and airports," Ministerie van Infrastructuur en Milieu, The Hague, 2011