Standing Committee on Economics, Finance and Public Administration

Inquiry into Australia's Service Industries

Submission by the Australian Hotels Association

July, 2006

1. Background

The Treasurer Peter Costello has requested the House Standing Committee on Economics, Finance and Public Administration to undertake an Inquiry into the current and future directions of Australia's Service Industries.

The Terms of Reference for the Inquiry is to examine where the service export sector now sits in Australia's export (and import competing) environment, focusing on but not limited to:

- The tourism and education service sectors
- The impact of the resources boom on the service sector
- Future global opportunities for Australian service Exports;
- Policies for realising these opportunities

2. The Australian Hotels Association (AHA)

The Australian Hotels Association (AHA) is recognised as the leading hospitality and tourism industry body in Australia. It represents over 8500 pub-style and 3, 4 and 5 Star accommodation hotels throughout the nation.

Our members provide a range of accommodation and hospitality services that are a key component of the tourism product mix. These are dependent on, and contribute to, the broader range of products and services that combine to provide the tourism experience.

The AHA welcomes the Inquiry and believes it is an opportunity to draw attention to the important role that international visitors play in generating export income.

It strongly supports the thrust of the Commonwealth Government's Tourism White Paper and the goal to establish Australia as a Platinum Destination.

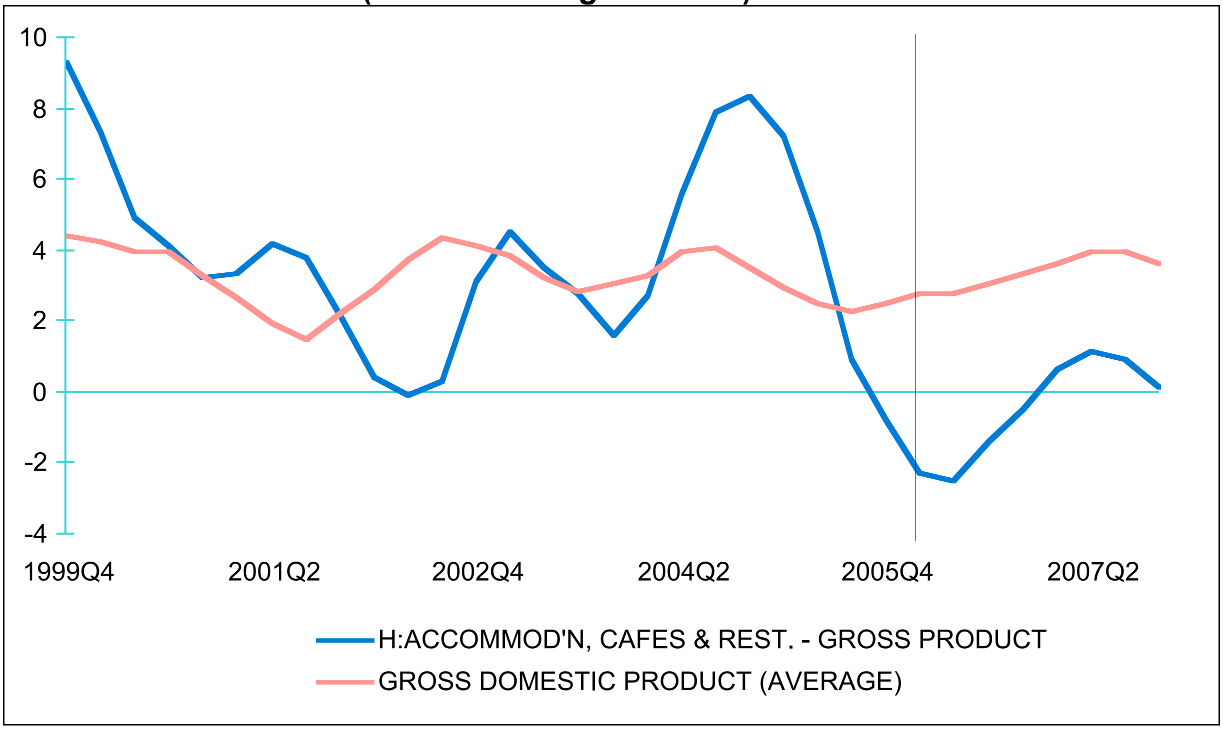
It also believes that the promotion of Australia as the regional base for the Asia- Pacific operations of international companies and continued recognition of Australia as a high quality provider of professional and educational services will generate increased business opportunities for our members.

3. Current State of Play

The Australian economy has been performing well of late as it has benefited from the minerals boom. The strength in the Australian economy is expected to continue to gain momentum over the next few years. In stark contrast, the Hospitality industry has been struggling as consumers pull back on discretionary spending due to historically high fuel prices and international tourism stagnates. Output in the Accommodation, Restaurants and Cafes industry sector fell 2.2 per cent in the year to March 2006. The outlook for the industry is for growth to continue to struggle as the high exchange rate and high fuel costs impact on both international tourism and discretionary spending. Chart A shows the recent trend and outlook for output growth in the industry compared with the national outlook.

Chart A:

Output Growth: National and Hospitality Industry (Annual Average Percent)



4. The AHA and the Service Industry

The interest of the AHA in this Inquiry extends beyond Tourism and the accommodation market for international visitors and our 4 and 5 star members.

General hotels, particularly in regional communities, are, or have the capacity to become, an integral component of the visitor experience in a range of destinations.

The AHA believes the Inquiry needs to address the misconception that tourism businesses cater solely for overseas holiday makers. Traditional demarcations are no longer relevant and the AHA therefore encourages the Committee to look broadly in investigating the economic impact and needs of the "Tourism" industry.

Greater effort is required to ensure that the full economic value of visitors on tourism, hospitality and related services is understood in the community. The review conducted by the Productivity Commission in 2005 is evidence that we still have a long way to go to dispel the traditional view that tourism is primarily about leisure visitors. This is inconsistent with the agreed international definition of tourism and greatly understates the true economic impact and investment potential of attracting visitors to a country, region or town.

The AHA therefore recommends that the Inquiry focus its attention on the broader concept of **Visitor** and the implications for export earnings.

5. Who Comes – Who Goes?

Reference to the ABS Overseas Arrival and Departures Survey released in July, 2006 provided the following breakdown of the 5 million plus international visitors that came to Australia in 2004 and 2005. It also showed the numbers of Australians that left for overseas.

Table 1

	Outbound 2004 000s	**Outbound 2005** 000s	**Inbound 2004** 000s	**Inbound 2005** 000s
Conventions	171.4	193.7	150.8	170.6
Business	649.4	697.1	494.8	564.8
VFR	1107.1	1206.3	1036.2	1116.3
Holiday	2032.4	2283	2685.1	2951.2
Employment	101.4	108.4	100.1	107.3
Education	54.3	53.8	253.5	261.4
Other	252.7	266.4	494.6	325.4
	4368.7	4754	5215	5497

ABS Cat 3401

These figures show that only around 50% of the international visitors came here for a holiday. More importantly business, convention and education visitors generally stay longer and/or spend more than holiday makers.

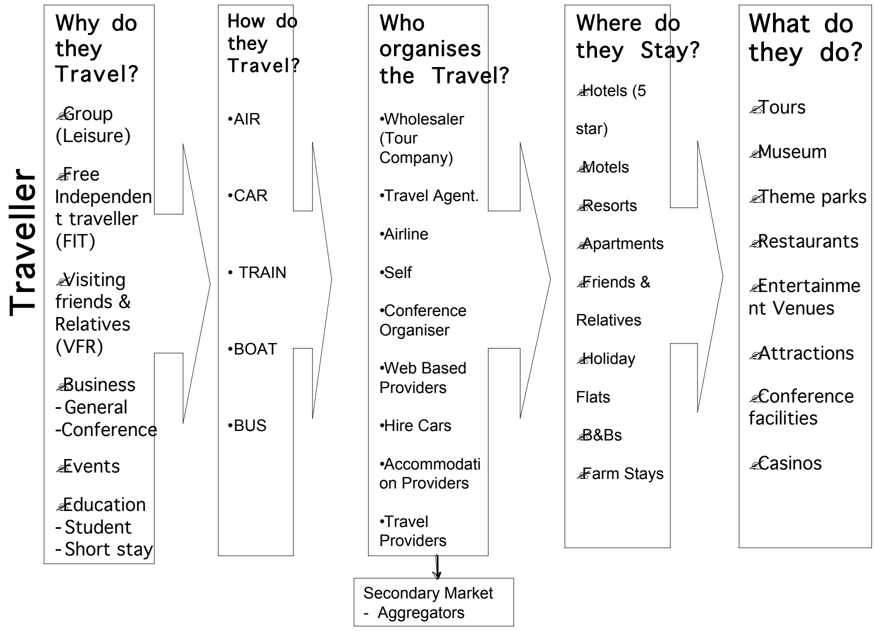
6. Tourism – What does it involve?

The Inquiry also needs to also take account of the complexity, volatility and competitiveness of the tourism market.

Tourism is increasingly seen as "a total experiences" rather than a set of independent services. It has the following features:

- Unlike most products and services tourism depends on the consumer going to the product.
- It includes a number of discrete yet highly interdependent operators that need to effectively combine to deliver the consumer experience (eg: travel agent – wholesaler-airline-airport-hotel- restaurant-attractions. See Diagram 1).
- The tourism experience is subjected to a complex range of taxation requirements and government charges, needs to meet challenging regulatory obligations and is dependent of the availability of publicly funded services and infrastructure.
- A "tourism destination or product" is competing for the discretionary spending of consumers with a range of other international or domestic "destinations" and alternative purchasing options.

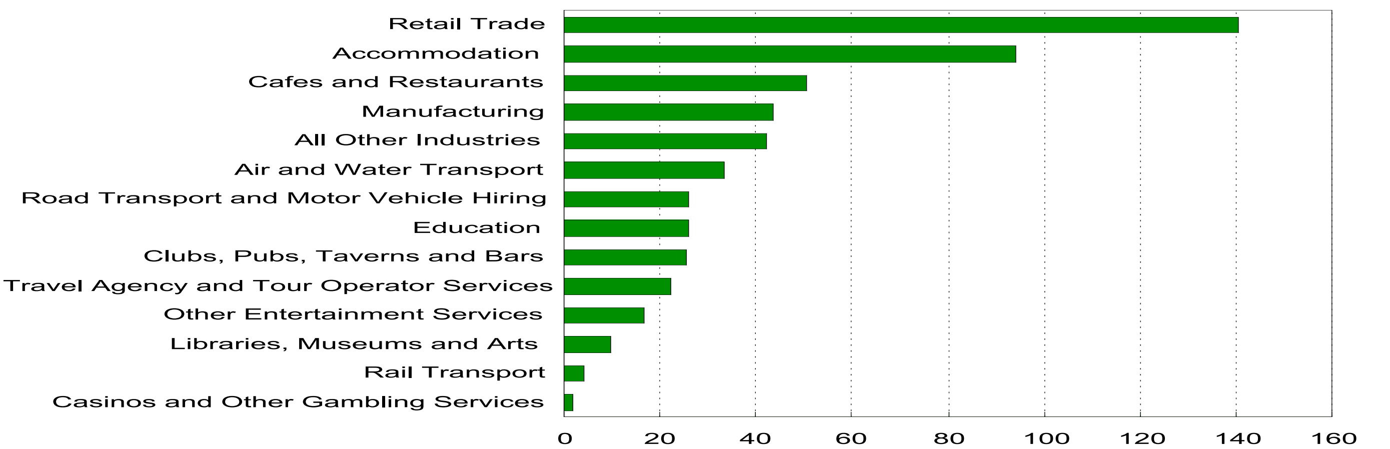
THE TOURISM SUPPLY CHAIN



7. The Economic Importance of the International Visitors

Overseas visitors generated over $18 Billion in export earnings last year and this is predicted to grow to $35 Billion in 10 years. The industry accounts for over 500,000 direct jobs and 397,000 indirect jobs. Nearly 200,000 of these are in regional communities. The relevance of the industry is reflected in the distribution of jobs generated by tourists

Employment in tourism by industry 2003-04 ('000) – Source ABS 5249.0



8. Issues for Consideration

8.1 Building Brand Australia

Bryce Courtney tells the apocryphal story of a conversation between President Clinton and the great Australophile Edward de Bono. The President asks" What would be the elements of an ideal country in the 21st century? De Bono is supposed to have replied: " well – it would have a population of less than 25 million people, it would have to use the English language, it would be located on the Pacific rim, it would have to possess a well-entrenched democracy, and would have a strong tertiary education system. Oh – by the way – it already exists – it's called Australia" (Intelligent Leadership – Alistair Mant – page ix)

"The entire Australian World Cup Campaign has been a showcase for all the things the English person loves best about Australia – that is to say, a total rejection of the conventional dominance hierarchy, a complete inability to bow the knee to anyone, no matter how exalted, the exaltation of bloody –mindedness to a point of ethical perfection and when it comes to sport (or anything else) a relish for the process of combat. Young and free – how we envy the boast" (Simon Barnes London telegraph – July, 2006)

Australia has a reputation for punching above its weight for a small country in a distant land away from the great centres of power. The recent success of Australians in running major international corporations, the organisation of events such as the 2000 Olympics, our cosmopolitan population and our close proximity to the emerging economic powerhouses of India and China places Australia in a unique position to capitalise on the unique natural advantages and the quality of our human capital.

More importantly Australian expertise in business and financial services, property management, medical and environmental sciences will find a growing market in the economies to our north. The tyranny of distance will not be such a significant disadvantage in competing for work.

The hotel industry will benefit if people visit Australia irrespective if it is to attend a convention, take part in a meeting at a regional headquarters, undertake a program at a prestigious educational institution, or to have a holiday.

The Inquiry needs to consider how we protect and build on the international respect for Australia and our capacity to provide high quality services. This respect comes from the intellectual rigour that underpins our professional work, the robust regulatory environment which governs operations, and a proven willingness to operate as part of a team.

8.2 All in the One Boat

The building of Brand Australia will need consultation and collaboration between the private and public sector and across all tiers of Government. Much has been said about partnerships and joined up government but there still remains a significant gap between the rhetoric and the reality.

In recent years the Government has commissioned some exceptional work in exploring economic and social options for the future – the Intergenerational Report by Treasury, the Keniry review into Regional Development and the work of Warwick Smith's Tourism Investment Committee provide important insights as to how we can prepare for the future. The answer is not about more reviews but more about how we establish effective organisational arrangements and generate the commitment required to turn recommendations into reality.

There is a need to break down the silos that exist within Government agencies. A good starting point would be improved collaboration on business related programs delivered by DoTARs, DITR and DFAT.

8.3 First Things First – The need for a Strong Domestic Base

70% of tourism related expenditure comes from the domestic market. There is a general principle that export growth comes off the back of a vibrant domestic industry.

The recent rise in the value of the Australian Dollar resulting from the commodities boom has (i) reduced the number of overseas travellers to Australia and (ii) made overseas travel more attractive for Australians.

More needs to be done to ensure Australian destinations and tourism products are attractive to overseas visitors and encourage Australians to take a break at home.

Greater collaboration is required between the Commonwealth and the States to promote Australia internationally. Some State Governments need to show greater commitment to supporting tourism related development and promotion.

The AHA is impressed with the implementation of the recommendations of the Tourism White Paper and the work of Tourism Australia in international marketing and promotion and DITR on domestic destination development through the ADTP program.

However, domestic tourism still remains primarily the responsibility of state governments and more needs to done to create a 'destination Australia" that delivers on the promise offered in marketing campaigns. This could be achieved by:

Promoting private investment in tourism

Tourism is no different than any business in relation to the drivers of investment. Investors must ensure an appropriate ROI.

The anticipated ROI will depend on a range of factors such as the level of funds employed, the cost of capital, alternative options for investment, the level of risk and likely payback period.

Large scale tourism investment in hotels, resorts and other accommodation facilities requires the commitment of a large amount of capital for an extended period of time.

Tourism investors are usually confronted with a long pay back period at a time when the movement of capital is increasingly fluid and constantly seeking high rates of return. This may diminish the attractiveness of tourism assets as an investment option.

This is further compounded by the nature of the tourism market. The market for international visitors is highly competitive, subject to unpredictable and unavoidable external shocks (SARS, 9/11) and impacted by economic factors (rising A$).

In addition the attraction of visitor requires the integration of a number of discrete yet interrelated functions and services. Each of which is subjected to their own business and investment processes.

Diagram 1 provides an overview of the various elements of the Tourism supply chain. Our members rely on travel wholesalers, airlines and travel agents to promote and acquire visitors. A change in one element of this chain may have a dramatic impact on associated activities. For example the introduction of cheap airfares in Australia has changed travel patterns and reduced the number of car trips in regional communities, with a subsequent decrease in the demand for tourism services.

Investment in tourism facilities is not a one off cost. Facilities need to be of a high standard and therefore require regular maintenance and upgrades. The marketing of an individual accommodation facility must complement campaigns to promote a specific country or particular destinations.

Our members need to be informed of, and be involved in the development of tourism marketing strategies. These need to establish customer requirements, identify potential markets, clarify core marketing messages and develop promotional activities that raise destination awareness and cultivate interest.

Once a traveller makes the decision to visit a particular destination then operators need to ensure that expectations are met and hopefully exceeded.

The challenge for tourism investors in Australia is further exacerbated by our small domestic population and our distance from major international markets, although this could change with the growth of the Chinese and Indian markets.

Enhancing the capabilities of Operators

More could be done to inform operators and communities on the commercial realities of the tourism market. The tourism and hospitality industry is dominated by small operators who often lack the skills, knowledge and start up capital to establish themselves as viable long term businesses.

Low barriers to entry make business start ups relatively easy. Often this occurs without adequate market analysis and business planning. This can lead to a "build it and they will come mentality".

The tailoring of business support programs provided by bodies such as AusIndustry to meet the specific needs of the Tourism and Hospitality industry may improve this situation.

Better Market Information

Investment decisions could be improved if there was a more sophisticated understanding of the actual and potential market for tourism products and services. The large number of small operators in the industry increases the challenge of meeting this need.

The recent incorporation of the Commonwealth's tourism research and forecasting functions into Tourism Australia should assist in providing more up to date market information. However further opportunities exists to mobilise the significant amount of information that sits within Tourism Australia, State Tourism Organisations (STOs) and research bodies linked to the CRC to provide operators with more relevant market reconnaissance.

The market would benefit from improvements in the timeliness, accessibility and usability of the large amount of data that is collected and disseminated on tourism.

Improved Tourism Planning

There needs to be an acceptance that not every location will provide a commercially attractive visitor experience. Local communities and government bodies need to be realistic when they assess their tourism potential and link this analysis to their broader economic and social development planning.

There are significant differences in the tourism potential of coastal and country regions. While both have unique characteristics, coastal regions generally offer a broader range of appealing experiences, are closer to large population centres and are more accessible through better airlines and road/rail services.

It is only natural that investment is more likely to occur in these coastal regions because of available demand and likely higher returns. Investors in country regions must be conservative in assessing the size of the potential market and build facilities that make a realistic projection of anticipated demand.

State Tourism Master Plans and Regional strategies should provide a blueprint for future planning. The quality of these plans varies as does their impact on day top day decision making. There is increasing recognition that STOs need to focus their attention away from marketing strategies and work with regions, communities and other government agencies to develop effective destination development strategies.

Destination plans should enhance the quality of investment decision making by assessing current and projected demand, clarifying community expectations, identifying access issues and infrastructure needs in order to achieve a more integrated assessment of tourism opportunities.

The AHA believes that the Inquiry should consider how to promote the concept of Destination Management Plans recommended in the recent Report of the Tourism Investment Committee.

Reducing Uncertainty

Investors require greater certainty in the regulatory and commercial environment in which they make long term decisions.

The current Planning laws across the country do not take full account of changes in the market for short stay accommodation. Attempts to retrospectively change planning laws to enable surplus residential building stock in some cities to be used as short stay, serviced apartments provide an example of where well researched investment decisions can be undermined by unforseen and unfair competition. A further area of concern is the use of residential housing stock for short stay accommodation for certain groups like backpackers.

State and local governments need to revisit their current processes for defining, approving and enforcing Short stay accommodation and facilities. Approvals and enforcement need to take account of the "big picture" and the long term needs of the community.

Consideration should be given to introducing measures to reduce the market volatility in which tourism and hospitality businesses operate. This could be achieved by providing the industry with access to accelerated depreciation allowances and income averaging. These are available to other industry sectors.

A Competitive Business Environment

All Australian Governments have made a commitment to reduce the level of "red tape" confronting business. The tourism industry is predominately made up of small operators and they suffer disproportionately from unreasonable compliance obligations. The Committees attention is drawn to the recent review on Regulation Chaired by Gary Banks. This review highlighted many of the cultural problems within Government agencies in reducing the level of regulation.

One area of frustration for the hospitality sector is the anomaly that continues to exist in relation to the obligation of business operators to pay FBT for staff having business meals outside the workplace. Large companies, with in house dinning facilities do not pay this and also gain a range of other tax advantages. This situation removes a significant number of potential customers from the public dinning market and undermines the revenue base required to support the emergence of international class restaurants in major centres.

9. A Great Place to do business – Promoting Business tourism

Studies show that visitors attending a convention, meeting or conference generally spend double the amount of a holiday tourists. Australia has an enviable record on business tourism with Sydney being one of world's most preferred conference and convention destinations.

State Governments have realised the potential of this market and have invested heavily in new facilities. Major centres have been developed in Perth and Melbourne.

The strength of this market has also led to the growth of significant international competition with a number of Asian countries developing world class convention facilities.

The establishment of Business Events Australia reflects the Commonwealth Government's recognition of this key driver of international visitors. However more needs to be done to ensure a co-ordinated national approach to this market. The rise of international competition suggests that many of the parochial practices of the past need to be reconsidered. Greater effort is required to target international business first and worry about where the event is held in Australia second.

The MICE market also should be a major focus area for attracting people from China and India to Australia. The current spending power of holiday visitors from China and India is still relatively low and does not enable access to "a five star" visitor experience. This could be detrimental to the long term growth of these markets.

The potential market is evidenced by the Amway Incentives Conference that brought 12,000 people from China to Sydney in early 2005. This provided the delegates with access to better hotels and visitor experiences.

10. Where will the Staff come from?

Like all industries the Tourism and Hospitality sector is experiencing difficulties in recruiting skilled and motivated staff. We recognise this will get worse with the demographic changes that will result from an aging population.

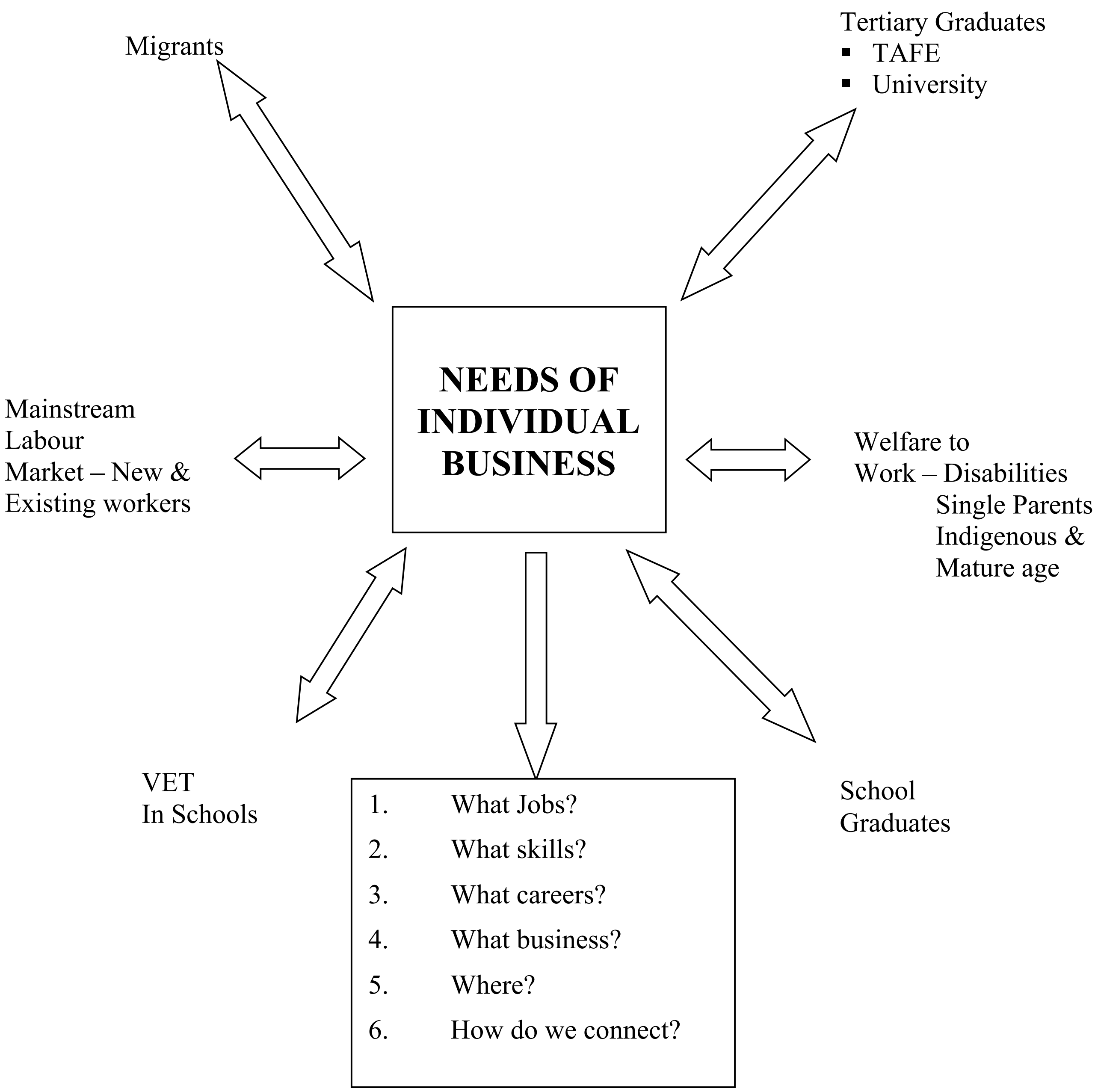
The AHA believes there needs to be an integrated approach to address this problem. Our future staff will come from a range of areas as outlined in Diagram 2.

We welcome the recent reforms to workplace relations laws introduced by the Australian Government. These will enhance the ability of operators to develop employment arrangements that suit the needs of their particular business while still providing an effective safety net for workers.

The AHA believes that many of the elements required to effectively address labour shortages are in place. We are working with DITR and other industry bodies to ensure improved communication across Government agencies. One area that requires attention is the provision of more robust information on the immediate and long term labour requirements of a particular region. While data exists in a range of agencies further work is required to ensure this is analysed and reported to business in a way that enables operators to make the strategic staffing decisions that be required in a "full employment" environment.

Diagram 2

Providing the Tourism and Hospitality Industry with an adequate supply of appropriately Skilled and Credentialed staff.



Need for Robust Labour Force mapping at Regional, State – Territory, and National level

A more strategic approach would address any community concerns about overseas workers. The AHA supports a continuation and expansion of immigration arrangements to meet labour needs. We believe this will be necessary to address looming labour shortages in a range of areas.

The industry appreciates the recent changes to visa entitlement for holiday workers> However, we believe the additional benefits accorded to people working in the agricultural sector in regional communities should be extended to work undertaken in the tourism and hospitality sector.

The Industry also have raised concerns about the current process to define "skilled occupations" under the MODL and believes it unfairly restricts the industry's capacity to access skilled hotel and food and beverage managers from overseas.

It is evident that the visitor of the future will be "value seeking" consumers with high service expectations. The future of the industry will therefore depend on the quality not just the quantity of workers. For example it is already evident that Chinese visitors expect to deal with Mandarin speaking service staff. It is essential we address this expectation if the opportunities afforded and predicted from the Chinse market are to be realised.

11. Education – Are the Golden Days Coming to an End?

Over the last 15 years the Australian Government has supported the development of highly successful international market for educational services. This market generates in excess of $5 Billion in "export" earnings in catering for in excess 100,000 overseas students in school and higher education.

A number of factors are placing this market at risk. These include:

1. High Australian exchange rate
2. Growth of reputable institutions in Asian Countries
3. Establishment of campuses in Asian countries by overseas Universities
4. Concerns about the quality of Australian qualifications.

The Australian Government is committed to ensuring that our tertiary education sector is strong, confident, diverse and high quality and plays a vital role in our economic, cultural and social development. The *Backing Australia's Future* reforms, including additional funding of $11 billion over 10 years, have gone a long way towards achieving this goal. International student are now a key component of achieving this goal because they comprise over 18% of students enrolled in tertiary institutions.

The future of higher education in Australia must be considered in the broader international context. Many other countries are increasing their investment in higher education. In addition our Tertiary Institutions will need to take account of the Bologna Process to ensure that our programs meet the requirements of the broader international community.

Australia has a number of highly regarded International Hotel Schools. These Schools operate in a range of states and have a high percentage of overseas students. The programs at the Schools include a substantial level of work placement in major hotels and they are highly regarded source of casual labour for AHA members. Students pay in excess of $60,000 to enrol in the courses. Many are from China, India and growth markets for Australian tourism.

The current Immigration arrangements provide for students to remain in Australia to work after they have completed their programs but this is determined after they have decided to enrol here. The AHA believes that this group of students could provide an increasing pool of high quality staff if they had greater certainty in being able to stay in Australia when considering which country to undertake their tertiary studies. I am sure that there are other industries that would have a similar view.

Educational visitors have a significant direct and indirect impact on the Australian economy. Innovative thinking is required to ensure that the current market is maintained and grows.

The AHA recommends that consideration be given to guaranteeing overseas students with permanent residence status if they (i) successfully complete a tertiary course in an area of demonstrated labour shortages (ii) the course includes an appropriate level of work placement eg 50%.

12. Conclusions

This paper has covered a broad range of issue related to the important role that the service industries, and tourism in particular play in generating export income.

The high Australian dollar resulting from the resources boom is affecting the competitiveness of Australia as a tourism destination and leading to a loss of domestic expenditure as people travel overseas.

It is essential that the Commonwealth Government maintains the increased funding commitment to international tourism promotion and marketing resulting from the White Paper beyond the initial four year funding period.

State Governments also have to pull their weight and apply some of the significant GST revenue generated by international visitors to fund the development of attractive tourism products and destinations, particularly in regional communities.

This submission also highlights the need for greater collaboration and co-operation between the public and private sector in co-ordinating the significant funding devoted to the myriad of business, tourism and regional programs in a more constructive way.

The AHA has advocated that overseas students undertaking certain courses in the tourism and hospitality area be guaranteed permanent residency status if they successfully complete their course. This will address looming labour shortages in our industry and increase the attractiveness of Australia as an education provider.