



National Tourism Alliance

**SUBMISSION TO THE HOUSE OF
REPRESENTATIVES STANDING COMMITTEE ON
ECONOMICS REVIEW OF THE TAX LAWS
AMENDMENT (2012 MEASURES NO. 2) BILL 2012
AND THE PASSENGER MOVEMENT CHARGE
AMENDMENT BILL 2012**

MAY 2012

CONTACT:

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Ms Julie Owens MP
Chair, House of Representatives Standing Committee on Economics
House of Representatives
Parliament House
Canberra ACT 2600

Dear Ms Owens,

**SUBMISSION TO THE HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS
REVIEW OF THE TAX LAWS AMENDMENT (2012 MEASURES NO. 2) BILL 2012 AND THE PASSENGER
MOVEMENT CHARGE AMENDMENT BILL 2012**

On behalf of the members of the National Tourism Alliance, I write in regard to the proposed increases to the Passenger Movement Charge (“**PMC**”) as announced by the Government as part of the 2012 Budget.

The National Tourism Alliance (“**NTA**”) and the broader tourism industry are concerned that increases to the PMC will harm Australia’s tourism and business events industry. Increased costs create a disincentive towards attracting more international visitors to Australia, and will likely have an unintended, but drastic and negative impact on international overnight visitor expenditure within Australia.

The NTA and its members urge the Members of the House of Representatives Standing Committee on Economics to recommend that the Passenger Movement Charge Amendment Bill 2012 not proceed.

About the National Tourism Alliance:

The NTA represents the many national and state industry associations on issues of common interest for Australian tourism and hospitality. The members below represent almost 60,000 tourism businesses across Australia.

- AAA Tourism
- Accommodation Association of Australia
- Australasian Casino Association
- Australian Federation of Travel Agents
- Australian Regional Tourism Network
- Australian Tourism Export Council
- Board of Airline Representatives of Australia Inc.
- Bus Industry Confederation
- Business Events Council of Australia
- Caravan, RV & Accommodation Industry of Australia
- Queensland Tourism Industry Council
- Restaurant & Catering Australia
- Tourism and Transport Forum
- South Australian Tourism Industry Council
- Tourism Accommodation Australia (AHA)
- Tourism Council ACT and Region
- Tourism Council Western Australia
- Tourism Industry Council NSW
- Tourism Industry Council Tasmania
- Victorian Employers’ Chamber of Commerce and Industry (VTIC)
- Winemakers' Federation of Australia

Background

The PMC is a federal tax measure, introduced in the 1995 Budget, on international passengers departing Australia, replacing the departure tax. The then-government initially introduced the tax as a cost-recovery measure to recoup the full accrual costs of Customs, Immigration and Quarantine (“CIQ”) processing for international passengers and the cost of issuing short-stay visitor visas. The rate at which the tax is levied is provided under the *Passenger Movement Charge Act 1978*.

The charge was initially \$27. However, there has been no subsequent reduction in the rate of the tax, to reflect the introduction of electronic visas (which reduced the costs of issuing short-stay visas) or the reduction in CIQ processing costs. Indeed, this tax has only seen sustained increases. The history of the rate increases is as follows:

\$27	1 January 1995
\$30	1 January 1999 (<i>to cover additional processing costs of the 2000 Sydney Olympic Games</i>)
\$38	1 July 2001 (<i>to cover costs of quarantine services associated with foot and mouth disease</i>)
\$47	1 July 2008
\$55	1 July 2012

Most recently, the Gillard Government announced its intention to increase the rate of the PMC from 1 July 2012 by \$8 per international departure, to a rate of \$55. From 2013 onwards, the PMC will also be subject to indexation.

Tourism in Australia

Tourism delivers economic wealth, cultural understanding, business opportunities, appreciation of our natural assets and hundreds of thousands of jobs for Australians of all ages and skill levels.

Tourism contributes over \$34 billion to Australia’s GDP and employs over 500,000 Australians. Tourism is Australia’s largest services export industry, providing 9.0 per cent or \$22.8 billion of Australia’s total exports in 2009-10. Australia is also a significant beneficiary of global tourism spending, ranking 8th globally and receiving 3.3 per cent of global tourism receipts.ⁱ

For many regions, tourism provides the heart and soul of their communities – the local business leaders, the passion and colour, and the jobs. Tourism is a highly dispersed sector, in which over 47 cents of every tourism dollar is spent in regional Australia.

Over 93 per cent of businesses within the sector are small and medium enterprises. For more than 100,000 Australians, owning a profitable and innovative tourism business provides a livelihood for them and their employees. For those who choose tourism as a career - and that is nearly 500,000 Australians – tourism provides mobile, challenging, ever-changing employment opportunities.

Tourism also has significant flow-on effects to other areas of the Australian economy.ⁱⁱ For every additional dollar of value added generated by activity in the tourism industry, a total of \$1.91 of value added is created, ahead of other industries such as mining, retail trade, and education and training.

The past decade has been a challenging period for Australian tourism. Since 2000, our global competitiveness has declined and Australian tourism has suffered:

- Domestic overnight trips have declined by more than 10 per cent, from 72 million to 64 million
- Australia's share of global international arrivals has declined by 17.3 per cent
- Share of capital expenditure has decreased from 3.5 per cent to 3.0 percentⁱⁱⁱ
- Australia has fallen from 9th position in 2009 to 13th position this year in the World Economic Forum Tourism & Travel Competitiveness Index^{iv}

A range of factors, particularly tourism's exposure to external shocks, have driven this relative decline. Further, recent global economic conditions have not been favourable for the Australian tourism sector. The global economic crisis has resulted in significant declines in visitor numbers from traditional markets (such as the United Kingdom, the United States and Japan) that have faced difficult economic circumstances, whilst the strong Australian dollar has provided strong incentives for Australian travellers to look abroad for travel options.

While Australian tourism has shown significant resilience to recover from these external shocks, the sector is undergoing a period of significant structural adjustment. Australia also faces an increasingly competitive environment, with competitor destinations investing heavily in marketing and product development. The increase proposed to the PMC will further compound the adverse impact of the high Australian dollar and weak global economic conditions on tourism spending in Australia. The ongoing increase through annual indexation will be damaging to Australia's international competitiveness.

Impact of the Proposed Increase of the PMC on Tourism

Tourism is an open economy industry, with production and consumption being highly mobile and subject largely to consumer preferences. Insofar as leisure tourism is a discretionary consumer service, a significant part of the tourism sector is dependent on a highly price-sensitive market. Additional costs imposed on tourists have a significant impact on the competitiveness of Australia's tourism sector. Tourism exports are particularly impacted by narrow-based taxes on key tourism services, such as the PMC.

There is significant industry concern that these increases will harm Australia's tourism industry by increasing costs for international visitors and reducing their potential expenditure in Australia. The PMC increase will have a disproportionate effect on international visitation from 'shorter flight' markets such as New Zealand and South East Asia. This is counterproductive to proactive efforts to stimulate increased visitation, such as streamlining border processing arrangements between Australia and New Zealand.

Prior to this proposed increase, there was significant industry disquiet about this tax, given that it collects revenue over and above the cost of passenger processing at international airports. The PMC contains both a justified cost recovery component and an unjustified general taxation component. The cost recovery component covers the various costs identified earlier, including passenger processing. However, collection from the PMC exceeds these costs, and it is the amount of over-collection that represents an unjustified tax.

Whilst the benefits of airport-based border protection accrue to all Australians (and the benefits of quarantine services accrue primarily to the primary industry sector), the burden of cost recovery falls primarily on travellers, including business, academic and cultural visitors, leisure tourists (both Australian and foreign) and international students. The NTA acknowledges that the Government will invest a proportion of PMC revenue towards a new *Asia Marketing Fund*. Whilst additional marketing funding is welcome, this is a proportionately small investment of total forecast PMC

revenue – 10 per cent only. The ongoing increase, through annual indexation, will be damaging to Australian tourism's international competitiveness.

Increases to the PMC through the initial proposed increase and the ongoing annual indexation will only further increase the cost burden on travellers and damage the Australian tourism industry.

Recommendation

The NTA members urge the Members of the House of Representatives Standing Committee on Economics to recommend that the Passenger Movement Charge Amendment Bill 2012 not proceed.

The NTA supports the submission put forward by its member organisation the Tourism and Transport Forum.

Please contact the National Tourism Alliance on (02) 9264 2185 for any further information that could assist the Committee in its deliberations.

Yours sincerely

Juliana Payne
Chief Executive

ⁱ *Tourism Satellite Account (cat. No. 5249.0)*, Australian Bureau of Statistics

ⁱⁱ *State of the Industry Report 2011*, Tourism Research Australia

ⁱⁱⁱ *Tourism Investment and Regulation Review*, L.E.K. Consulting

^{iv} *Tourism and Travel Competitiveness Index Report*, World Economic Forum