31 May 2012

Ms Julie Dennett
Committee Secretary
Senate Standing Committee on Legal and Constitutional Affairs
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Parliament House
CANBERRA ACT 2600

BY EMAIL: legcon.sen@aph.gov.au

Dear Ms Dennett

AAA SUBMISSION: PASSENGER MOVEMENT CHARGE AMENDMENT BILL 2012

Thank you for the opportunity to provide a submission to the Committee's Inquiry into the Passenger Movement Charge Amendment Bill 2012.

The Australian Airports Association (AAA) is the national industry voice for airports in Australia. The AAA represents the interests of more than 185 airports and aerodromes Australia wide – from local country community landing strips to major international gateway airports. Our Members include Adelaide, Brisbane, Cairns, Canberra, Darwin, Gold Coast, Hobart, Perth, Melbourne and Sydney Airports.

The AAA's main request of the government is that they remove the CPI indexation attached to the 17 per cent Passenger Movement Charge increase, and that monies received through the PMC be directed to funding Customs staff and technology at the primary line.

Reasons for these requests will be addressed within this submission.

The AAA requests the removal of indexation attached to the PMC increase

The Passenger Movement Charge Amendment Bill 2012 in Item 1 - Section 6 proposes to "introduce automatic annual indexation to the amount of PMC from 1 July 2013. Indexation will be based on movements in the Consumer Price Index (CPI)."

The AAA is most concerned about this indexation due to the impact it will have on Australian tourism. The significant increase to the PMC with indexation attached comes at a time when the industry is incredibly vulnerable.

Tourism Australia acknowledges that over the past decade, growth in international visitor arrivals has slowed and Australians are increasingly opting to travel overseas rather than in Australia. Although overall visitor arrivals continue to increase, holiday travel to Australia specifically has shown weak growth since 2001, growing 0.9 per cent on average each year (Tourism Research Australia, *Tourism Industry Facts and Figures May 2011*, p21). The Tourism Research Australia Scorecard highlights that:

- ***Tourism expenditure** is around 3 per cent lower in real terms;*
- ***Total holiday travel expenditure** in Australia (international and domestic) is around 9 per cent lower, reflecting a 7 per cent fall in domestic holiday travel expenditure and double-digit declines in international holiday package and non-package travel expenditure;*
- *The indicator for the **2020 Tourism Industry Potential**, total overnight spending by tourists, is up 1.6 per cent in nominal terms to $70 billion in 2010–11, compared to 2009 estimates. Taking into account the 4.6 per cent increase in inflation over the 2009 to 2010–11 period, this measure is down 2.8 per cent in real terms;*
- *Growth in the biggest contributor to tourism exports, **education travel**, is flat. This sector has contributed around 45 per cent of the growth in tourism export earnings over the 1999–00 to 2010–11 period; and*
- *Volume indicators for **international tourism** trips and nights have increased modestly, compared to 2009 estimates. While international nights have continued their upward trend, domestic overnight travel activity indicators are stabilising following sharp decreases in the mid-2000s. In combination with declining average trip expenditure, sustainable returns for some sectors remain under pressure* (Tourism Research Australia*, State of the Industry 2011*).

Based on this information from Tourism Research Australia's Scorecard, the national tourism industry is under pressure and requires the government's support - not additional costs.

Specifically, the increase passenger movement charge will see short-haul international visits heavily impacted. As a result of the increase New Zealand visitors alone are forecast to pay an additional NZD $12.4 million in 2012-13 creating an unnecessary and damaging impost on tourism between the neighbouring nations.

Regional Tourism is also expected to suffer considerably from the PMC increase. Significant challenges already exist in dispersing international tourists to regional areas. The PMC increase will place regional airports and tourism operators into a more desperate situation. The Tasmanian tourism industry is a case in point, which is already suffering from a decline. For the year ending December 2011 Tasmania saw the arrival of 862,400 visitors (international and domestic), down 5% from 904,000 for the previous year. The average spend per international visitor (including package expenditure) in Tasmania decreased by 14% to $1,696 (was $1,965) during the year ending December 2011, while spend per night decreased by 5% to $89 (was $94) (Tourism Tasmania, *Tasmanian Visitor Survey 2011 Q2*). The 17 per cent increase to the PMC combined with CPI indexation is yet another government-imposed hurdle for the Tasmanian tourism industry, and the Australian tourism industry as a whole, to overcome, in an already challenging economic climate.

Europe's current volatile economic condition is also a constant source of concern for the industry. Airports are increasingly conscious of the impact Europe's current economic state will have on Australian tourism if financial stability is not returned. Australia's constant high exchange rate also compounds these issues, with the Australian dollar having increased more than 50 per cent in trade-weighted terms over the past decade.

In addition to the global economic conditions impacting on Australian tourism, the PMC works as a deterrent for overseas visitors who are comparing Australia to its competitors. The cost of an airline ticket for passengers will already increase significantly considering increasing fuel prices and the carbon tax.

A clear example which demonstrates the impact of a heavily increased departure tax on tourism can be seen when reviewing the case of The Netherlands. The Netherlands introduced a departure tax called the 'Air Passenger Tax' in the beginning of July 2008. The result was a steep decline in passenger traffic at the main Dutch airports of between eight to 10 per cent. In June 2009 the Dutch government repealed the departure tax after research concluded the $142 million they gained in additional tax revenue was dwarfed by a $1.6 billion cost to the national economy. Following the abolishment of the tax, in 2010, Amsterdam Airport Schiphol reported traffic growth of 3.8 per cent, while the regional airports at Eindhoven and Maastricht reported passenger number increases of 25.2 per cent and 30.6 per cent respectively (Netherlands Government, *Effects of the Air Passenger Tax*, February 2011).

Increasing the PMC by 17 per cent and adding a yearly CPI increase will only further inhibit Australia's already struggling tourism industry. As a result, if the PMC must be increased by 17 per cent on 1 July 2012, the AAA requests for the removal of the proposed annual CPI indexation increase.

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The AAA requests that monies received through the PMC be directed to funding Customs staff and technology at the primary line

In 2008 the Passenger Movement Charge Act was amended to allow for an increase of $9 from $38 to $47. According to the outline of the Passenger Movement Charge Amendment Bill 2008, the increase was intended towards funding national aviation security.

"The increase, announced by the Treasurer in the 2008-09 Budget, will partially fund national aviation security initiatives that are funded by the Australian Government" (*PMC Amendment Bill 2008*, p2).

Currently, this tax goes to consolidated revenue rather than directly towards the costs of international passenger processing – which is lacking in funding. If the PMC must exist, funds should be directed towards the cost of international processing as originally intended when the PMC was increased in 2008.

The previous Federal budget (2011/12) included cuts of $34 million over four years from the Australian Customs and Border Protection Service, resulting in a reduction in 70 staff across the primary Customs line at Australia's eight international airports in the past financial year. Airports are already short-staffed and need more Customs officers. In line with these budget cuts, the regulated passenger processing targets were adjusted, resulting in: Customs' target to clear 95% of inbound within 30 minutes adjusted to 92% in 30 minutes; the Departures target to process 95% of passengers within 10 minutes moves to 95% in 15 minutes; an extra 5 minutes on average nationally to Customs clearing both in and outbound; an increase of up to 24 minutes extra at Sydney, Brisbane, Melbourne and Perth at peak periods for inbound processing (see attached: AAA, *Customs and Border Protection Discussion Paper 2011*).

In 2010/11, Commonwealth expenditure on staffing costs for the Australian Customs and Border Protection Service (ACBPS) and Australian Federal Police (AFP) at Australian Airports was approximately $215.5 million (answer to House of Representatives Question No. 739, published in House of Representatives Hansard, 16 February 2012). Revenue generated from the PMC in 2010/11 at $47 per passenger was $630.6 million (Federal Government Budget Papers, 2009 to 2012). Consequently the PMC already generates approximately three times the amount spent on staffing for Customs and Federal Police, with the surplus accruing in consolidated revenue.

In addition, the PMC increase was linked to the 2012-13 Budget to a four-year allocation of $61 million for a new *Asia Marketing Fund* for Tourism Australia, amounting to a 10 per cent hypothecation of the expected additional income streams delivered by the $55 rate of the PMC. As a result the AAA believes therefore there is no requirement to add an indexation increase onto the PMC as well as the large increase of $8 per passenger from 1 July 2012.

Furthermore, the AAA requests that the revenue generated from the PMC be directed to funding much needed Customs staff and technology at the primary line as opposed to consolidated revenue.

The Federal Government has also placed additional pressure on airports and border security agencies through this year's budget measures by cutting the duty free allowance for tobacco products from 1 September 2012, which is expected to result in significant impacts and delays for passenger processing times at the primary line. Moreover, this year's budget outlines the government's intention to introduce a 'partial cost recovery' measure, taxing airports $118 million over four years for Federal Police services.

It is important to note that industry was not consulted on any of these issues prior to the budget being released in May. Since then, the AAA and its airport members have made a clear statement to the government: the rapidly increasing security costs, combined with the impacts of the duty free tobacco cuts and the largely increased PMC on the tourism industry, will significantly constrain the airports' ability to invest further money in aviation infrastructure development and improvements.

Australia's airports are some of the most successful in the world. They are commercial enterprises which paid the Commonwealth Government billions of dollars for their leases. The Australian economy currently enjoys a direct contribution of $17.3 billion per annum from the airport industry. Furthermore, over $9 billion in investment is planned at our major airports alone in the coming decade. This infrastructure development is crucial to local economies around Australia that rely on airports as the gateway to their cities and towns for business, trade and tourism, in what without airports and aviation would be an isolated island nation.

The government's intention to increase taxes and costs on the airports and tourism industry, such as the PMC increase, now threatens this $9 billion future aviation investment.

The AAA implores the Senate Standing Committee on Legal and Constitutional Affairs to consider these consequences and asks the government for the removal of the CPI indexation attached to the 17 per cent PMC increase, and that monies received through the PMC be directed to funding Customs staff and technology at the primary line.

Sincerely,

Caroline Wilkie
Executive Director