TTF AUSTRALIA
Tourism & Transport Forum

31 May 2012

Committee Secretary
Senate Standing Committee on Legal and Constitutional Affairs
Parliament House
CANBERRA ACT 2600
Via email: legcon.sen@aph.gov.au

Dear Secretary

Passenger Movement Charge Amendment Bill 2012 Inquiry

The Tourism & Transport Forum (TTF) is a national, Member-funded CEO forum, advocating the public policy interests of the 200 most prestigious corporations and institutions in the Australian tourism, transport, aviation & investment sectors.

I write in regards to the *Passenger Movement Charge Amendment Bill 2012*. TTF opposes the proposed increase and future indexation of the Passenger Movement Charge (PMC) and urges the Senate Standing Committee on Legal and Constitutional Affairs to recommend that the Senate reject the Bill.

The PMC is a flawed and ill-defined tax, having a negative impact on tourism demand, and with little clear relationship to any defined outcomes in relation to its stated purpose. The proposed increase and future indexation of the Passenger Movement Charge threatens to damage the international competitiveness of Australia's visitor economy.

As Australia's most significant services export, the tourism sector is highly exposed to global competition. Tourism businesses have been preparing for the impact of the carbon tax, which TTF had estimated would lead to the loss of up to 6,400 tourism jobs; the International Air Transport Association estimates that the proposed increase in the PMC will result an additional 3,700 job losses across both tourism and aviation.[1] This double taxation hit on the tourism and aviation sectors will therefore cost up to 10,000 Australian jobs.

Introduced in 1995, the Passenger Movement Charge (PMC) replaced the Departure Tax as a cost recovery measure for the cost of customs, immigration and quarantine processing of passengers entering and leaving Australia. However, the PMC is no longer hypothecated against its stated purpose of funding the border agencies at the primary line, including customs and border protection, quarantine and immigration. Across the forward estimates, the PMC is forecast to raise $3.676 billion in revenue, while passenger facilitation services will cost less than $860 million over the same period.[2]

Given the complete delinking of the PMC from the provision of passenger facilitation services, the PMC is simply a tax on travellers, rather than a fee for service. TTF is particularly concerned about the proposed indexation of the PMC, and, in our view, indexation represents a revenue grab by Treasury that will simply make a poorly designed tax worse.

[1] *International Air Transport Association*, Submission to the House Economic Economics Committee, 31 May 2012.
[2] *Australian Customs and Border Protection Service*, Portfolio Budget Statement, Budget 2012-13.

The visitor economy plays a critically important economic and social role in Australia, with benefits spread across industries and all areas of the country. The proposed increase in the PMC will damage the competiveness of Australian tourism, increasing the cost of Australia as a destination and reducing our competitiveness with other destinations in our region. At a time when the rise of Asia's middle classes is being recognised as a key growth driver for the Australian economy in the coming decades, it is imperative that policy settings across government are calibrated to maximise industry competitiveness. The proposed increase in the PMC will damage opportunities for Australian tourism in the Asian market at a critical development phase.

While the rise of Asia, and China in particular, represents a significant opportunity for Australia's visitor economy, tourism in Australia's regions has been in decline. Increased costs to travel, limited transport availability and the rise in the Australian dollar which has seen overseas travel increase dramatically have all impacted on the demand for regional visitation and the proposed increase in the PMC will only exacerbate these issues. Regional Australia is not set to gain from the anticipated growth in international visitors from Asia, with the share of Asian travellers' leisure visitor nights in Australia spent in regional Australia at a worryingly low rate – only one night in ten by Chinese leisure visitors and one night in eight by Indian leisure visitors is spent outside the key gateway cities of Sydney, Melbourne, Brisbane/Gold Coast and Perth.

The visitor economy is a critical component of the Australian economy

The visitor economy plays a critically important economic and social role in Australia, with benefits spread across industries and all areas of the country. Expenditure by international and domestic visitors makes a significant contribution to the Australian economy. The value of the visitor economy is measured by the ABS's Tourism Satellite Account in parallel to the national accounts.

In 2010-11, international and domestic visitor consumption in Australia was $95.7 billion[3]. This consumption includes $23.7 billion in export earnings, which represents 8.0 per cent of total Australian exports and is Australia's largest services export. Tourism also generated $7.2 billion in net taxes on products in 2010-11. When combining direct and indirect tourism contributions, tourism makes a contribution of $73 billion, or 5.2 per cent of the Australian economy, and employs more than 900,000 people or 7.9 per cent of employment in Australia.

The flow-on effects of tourism are significant, with every dollar of tourism expenditure addition 92 cents to other parts of the economy.

Recognising the importance of the visitor economy, the Australian Government, with all the states and territories, has endorsed a higher target for spending from the visitor economy by 2020 than the official forecast from the Tourism Forecasting Committee. This aspirational goal, to double overnight visitor spending in Australia between 2009 and 2020, is a cornerstone of *Tourism 2020*, the policy update of the National Long-Term Tourism Strategy (NLTTS), announced in December 2011.

The proposed increase in the PMC is not aligned to the federal government's goal of doubling overnight visitor expenditure to $140 billion by 2020, its targeting of specific high-growth Asian source markets or its aim to widen geographical dispersal of tourist spending within Australia.

[3] Australian Tourism Satellite Account, cat. no. 5249.0, ABS, 2010-11.

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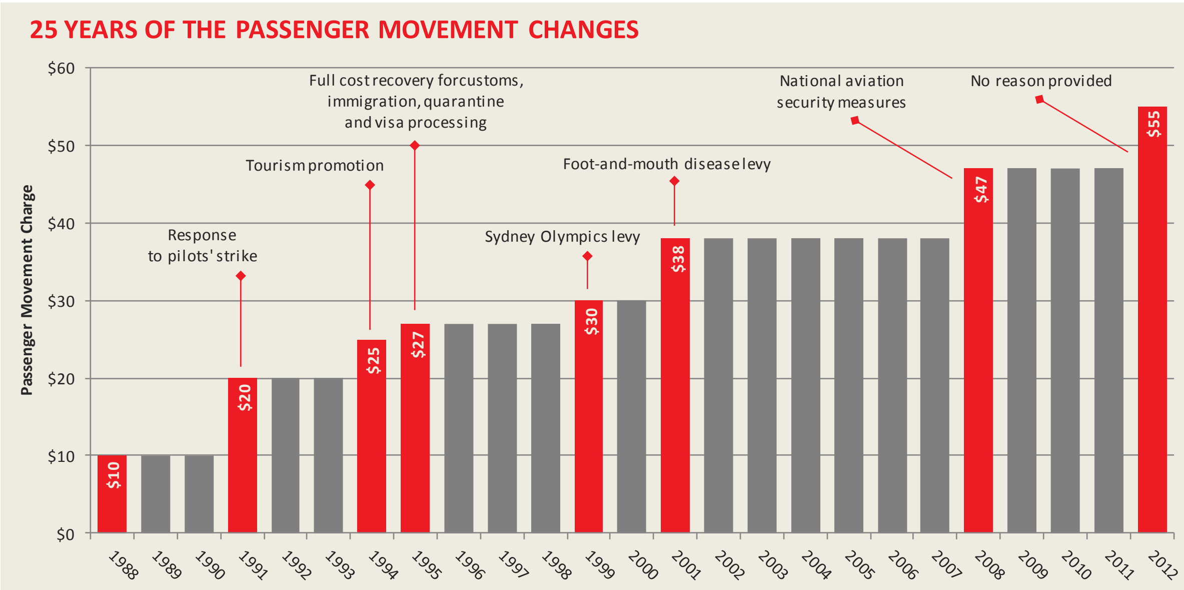
Background to the Passenger Movement Charge

A Departure Tax was first introduced for persons departing Australia in 1978 under the *Departure Tax Act 1978* to recover the costs associated with processing international passengers by customs immigration and quarantine. The initial levy was set at $10 per departing passenger until it was doubled to $20 in 1981, only to be returned to $10 in 1988. Since then it has been subject to a process of creeping augmentation - the following graph illustrates the increases to the Departure Tax and PMC since its introduction.



In 1995, the Passenger Movement Charge replaced the Departure Tax as a measure to recover the cost of customs, immigration and quarantine processing of passengers entering and leaving Australia.

However, the PMC is no longer hypothecated against its stated purpose of funding the border agencies at the primary line, including customs and border protection, quarantine and immigration. Tax receipts from the PMC flow to the Consolidated Revenue Fund and in 2000 the Australian National Audit Office noted that the PMC "…is now applied partly as a general revenue raising source. As a consequence, the PMC is no longer solely linked to cost recovery of Customs, Immigration and Quarantine services."[4]

Even prior to the proposed increase, the PMC has been one of the fast-growing sources of tax with revenue to Treasury growing by $100 million, or 20 per cent, in the two years to 2011.[5] Across the forward estimates, the PMC is forecast to raise $3.68 billion in revenue, whilst passenger facilitation services will cost less than $860 million over the same period.[6]

[4] Commonwealth of Australia, Australian National Audit Office, *Passenger Movement Charge—Follow-up Audit,* Audit Report No. 12, 2000-2001, p13.
[5] *Australian Customs and Border Protection Service*, Portfolio Budget Statement, Budget 2012-13.
[6] *Australian Customs and Border Protection Service*, Portfolio Budget Statement, Budget 2012-13.

The PMC is a poorly designed tax

The PMC is a flawed and poorly designed tax, having a negative impact on tourism demand, and with little clear relationship to any defined outcomes in relation to its stated purpose. The Henry review noted:

> *As the PMC does not provide meaningful price signals related to the costs or risks associated with border protection, and is on a relatively narrow base, other sources of tax revenue would be more efficient.*[7]

Furthermore, the community in general, rather than international travellers specifically, benefit from and value strong border security measures. The benefit derived by the general public is more akin to other public goods such as national defence. If the PMC is justified on border security grounds, those paying the charge cannot be said to be the sole consumers of that security – all Australians benefit. On this basis, and using the Henry review criteria for setting pricing of government-supplied services, border security costs cannot be charged for and should be funded out of general revenue.

In this context, TTF is particularly concerned about the proposed indexation of the PMC. In our view, indexation represents a revenue grab by Treasury that will simply make a poorly designed tax worse. Given the complete delinking of the PMC from the provision passenger facilitation services, the PMC is simply a tax on travellers, rather than a fee for service.

Where a Government proposes to increase taxes on an industry, it should be required to seek the approval of Parliament for that increase. The proposed permanent tax increases are not subject to any future review by the Parliament and, unlike decisions made by Ministers through Regulations, are not subject to disallowance motions by Members or Senators.

Although the Government maintains that the stated purpose of the PMC is to recover the cost of passenger facilitation services, the revenue generated by the PMC continues to escalate while the expenditure on passenger facilitation has remained stagnant. The Australian Customs and Border Protection Service forecasts the number of passenger processed to increase by almost 26 per cent from 30.055 million passengers in 2011-12 to 37.826 million in 2015-16.[8]

Despite this forecast increase in passenger numbers, the Government has failed to invest in increased passenger facilitations services, resulting in reduced service provision standards and performance indicators. The previous federal budget included savings of $34 million over four years from the Australian Customs and Border Protection Service, resulting in a reduction in staff across the primary Customs line at Australia's eight international airports.

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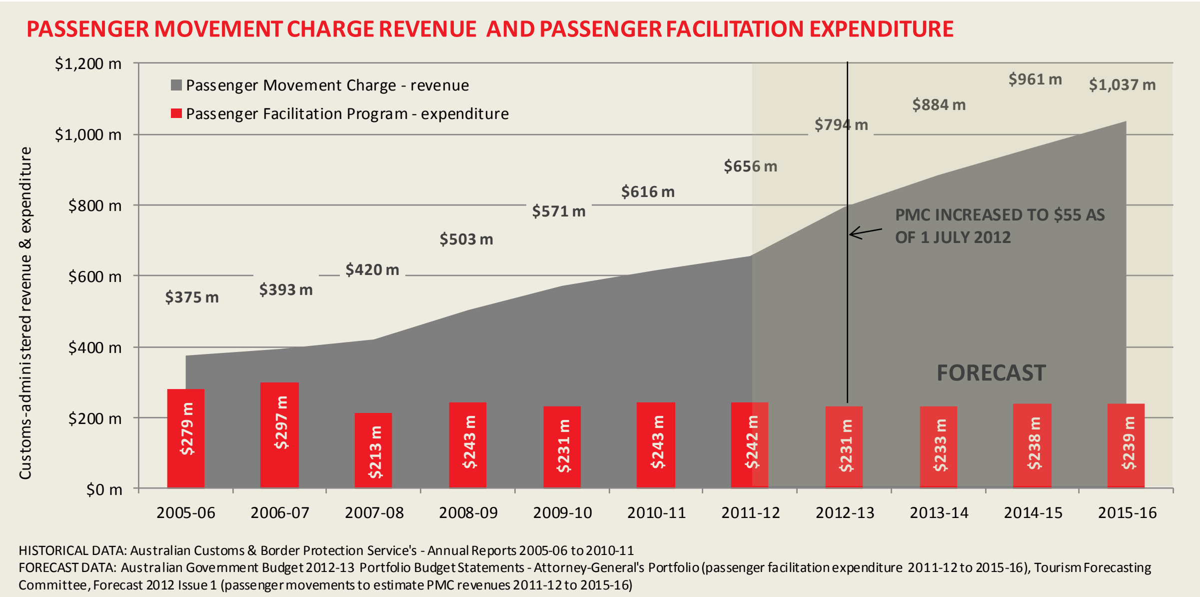
[7] Commonwealth of Australia, Attorney-General's Department, *Australia's future tax system Report to the Treasurer*, December 2009, p336.

[8] *Australian Customs and Border Protection Service*, Portfolio Budget Statement, Budget 2012-13.

In the past, every increase in the PMC has been accompanied by a rationale, whether to improve protection from the risks of foot-and-mouth disease, to improve facilitation during the Sydney Olympics or for greater promotion of the tourism industry. While the Minister for Home Affairs' Second Reading Speech claims that "the increase will fund the establishment of the Asia Marketing Fund", in fact only 10% of the revenue generate by the proposed PMC increase will be dedicated to that Fund.[9]



The other 90 per cent of this tax increase remains unexplained. The only logical reason for this increase is to contribute to the Government's forecast surplus – a political decision rather than an economic necessity. Over the forward estimates, the increase to the PMC comprises less than six per cent of the surplus on average.

Reducing Australia's tourism competitiveness

The proposed increase in the PMC will damage the competitiveness of Australian tourism. At a time when the rise of Asia's middle classes is being recognised as a key growth driver for the Australian economy in the coming decades, it is imperative that policy settings across government are calibrated to maximise industry competitiveness. The importance of developing this market has been recognised by the Government in the establishment of the Asian Marketing Fund; however, the increase in the PMC increases the cost of Australia as a destination and reduces our competitiveness with other destinations in our region.

As a result of the proposed increase in the PMC, analysis undertaken by the International Air Transport Association (IATA) estimates that there will be significant immediate negative impacts to the Australian economy.[10] IATA estimates the following impacts:

1. Direct: reduction of $45 million in GDP; a loss of more than 500 jobs, and reduced tax receipt of about $17 million

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[9] Minister for Home Affairs, Second Reading Speech, *Passenger Movement Charge Amendment Bill 2012,* 23 May 2012.

[10] *International Air Transport Association*, Submission to the House Economic Economics Committee, 31 May 2012.

2. Indirect and induced: reduction of $65 million in GDP, a loss of about 600 jobs and reduced receipts of about $15 million
3. Tourism: reduction of $225 million in GDP; a loss of 2600 jobs, and lower tax receipts by $53 million.

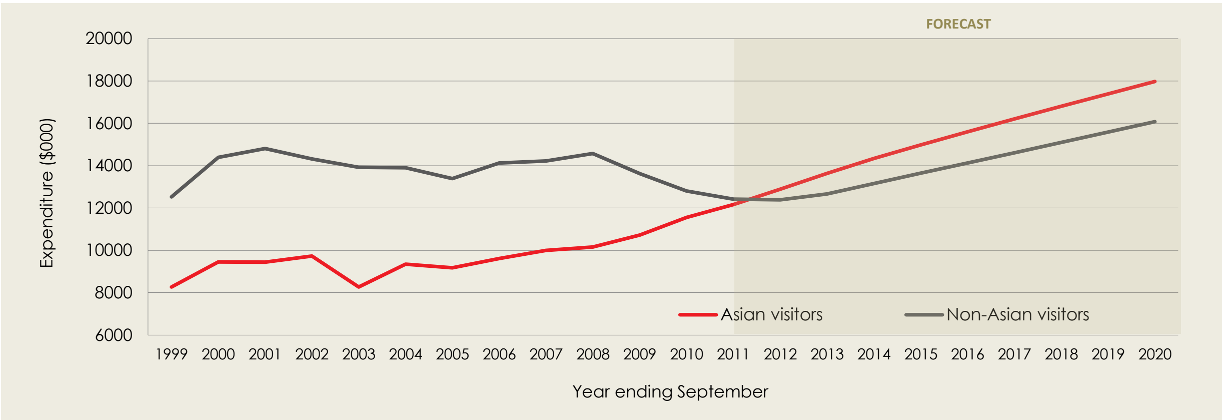
IATA therefore estimates that the proposed PMC increase will result in GDP being lower by about $335 million, 3,700 job losses and other tax receipts being lower by $85 million. In addition, IATA estimate that there will be a loss to consumer surplus of over $200 million as well as negative impacts in wage income in the Australian economy.

This reflects the experience of a number of European countries, including Ireland and the Netherlands, that have recently repealed taxes on aviation after research data illustrated a higher cost than benefit to the broader economy from these taxes. In Ireland, the additional $165 million in tax revenue was offset by $594 million in cost to the economy, while in the Netherlands, $142 million in additional tax revenue was dwarfed by a $1.6 billion cost to the national economy.[11]

The visitor economy has seen strong growth from Asian markets in the past decade. Australia welcomed more than 2.4 million visitors from Asia in 2010 with total export earnings of almost $12 billion[12]. This is an increase of 40 per cent compared to 1999, while growth in export earnings from non-Asian source markets was up only two per cent over the same period.

In particular, very strong growth in Asian visitor spending, the fastest growing segment of Australia's visitor economy, underpins this target of doubling nominal overnight visitor spending from $70 billion in 2009 to $140 billion by 2020. Export earnings from Asian visitors surpassed export earnings from non-Asian visitors in 2011 for the first time and are officially forecast to continue growing far more quickly to 2020 (see chart below).

Because it is levied at a flat rate, an increase in the Passenger Movement Charge will have a more significant impact on shorter and lower cost routes, including those from Asian countries, than on long-haul routes, where the tax represents a much smaller proportion of the total airfare.



Sources: International Visitor Survey, TRA, 1999-2011; Forecast 2011 Issue 2,Tourism Forecasting Committee

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[11] Ministry of Infrastructure and the Environment, *Effects of the Air Passenger Tax – Behavioural responses of passengers, airlines and airports*, February 2011.

[12] Tourism Forecasting Committee, Forecast 2011, Issue 2, TRA. Results for Total Inbound Economic Value (TIEV). TIEV is an estimate of total export earnings for Australia from the visitor economy designed to closely approximate the Australian Tourism Satellite Account estimates, which are not available by source market.

The PMC will adversely impact regional tourism

While the rise of Asia, and China in particular, represents a significant opportunity for Australia's visitor economy, tourism to Australia's regions has been in decline. Increased costs to travel and limited transport availability have all impacted on the demand for regional visitation and the proposed increase in the PMC will only exacerbate these issues. The federal government has repeatedly identified and acknowledged the vulnerability of the tourism sector in the face of weak global economic conditions and strong competition from near Asian markets. These challenges have been particularly acute in regional Australia.

With 46% of tourism expenditure in Australia occurring in regional areas, tourism is also of considerable importance to many of Australia's regional communities. The economic importance of tourism in Australia's regions varies across Australia; however large parts of eastern Australia and the Northern Territory depend more on tourism than other areas of the country.

In Central Australia, for example, more than 24 per cent of economic output is derived from the tourism sector. In The Whitsundays, tourism produces almost 18 per cent of output. This is well above the Australian average of 3 per cent. Tourism regions whose economies are dependent on tourism are more likely to be vulnerable to shocks that affect the tourism industry, and unexpected shocks could impact on the entire local economy.

However, regional Australia is not set to gain from the anticipated growth in international visitors from Asia. Australia's key tourism growth markets are less likely to travel to Australia's regions. The share of Asian travellers' leisure visitor nights in Australia that are spent in regional Australia is worryingly small – only one night in ten by Chinese leisure visitors and one night in eight by Indian leisure visitors is spent outside the key gateway cities of Sydney, Melbourne, Brisbane/Gold Coast and Perth. With Asian leisure visitors set to grow far more quickly than non-Asian leisure visitors, this highlights a major challenge for maintaining tourism expenditure and the share of employment in the visitor economy in regional Australia.

There have been significant declines in visitation to iconic National Parks in 2010-2011, including Kakadu (16 per cent decline) and Uluru Kata Tjuta (19 per cent decline). These declines come on top of longer-term declines over the past decade to iconic national parks in the Northern Territory. The recent announcement by Qantas of cuts to services to Uluru and other regional non-mining centres further demonstrates the decline of regional Australian tourism and makes the sustainability of the industry an even greater challenge.

TTF recommendations

Given our concerns outlined above, TTF therefore requests that the Committee recommend to the Senate:

1. That the *Passenger Movement Charge Amendment Bill 2012* be rejected;
2. That indexation of the Passenger Movement Charge be opposed.

Regards

John Lee | Chief Executive Officer