21 October 2016 By email: economics.sen@aph.gov.au

Senate Standing Committee on Economics
PO Box 2620
Parliament House
ACT 2600
Ministry of Transport

**Re: Inquiry into Working Holiday Maker Reform Package**

Dear Sir/Madam,

Thank you for the opportunity to comment to the Senate Inquiry into the Working Holiday Maker (WHM) Reform Package. As the peak body for the tourism industry in New Zealand, Tourism Industry Aotearoa is dismayed by the intention of the Australian Government to raise what is already an unjustifiable high charge on all trans-Tasman passengers.

Please note: Our submission is solely intended to address the increase in the Passenger Movement Charge, not the overall issue of the Australian Working Holiday Maker Reform Package.

**Background**
Tourism 2025 (www.tourism2025.org.nz), an industry-led, government supported economic growth framework was launched in New Zealand in 2014 and has set an aspirational goal of reaching NZ$41 billion in annual tourism revenues by 2025. The industry's focus is on growing value faster than volume. The Tourism 2025 framework is based around five key themes which are: Insight, Connectivity, Productivity, Visitor Experience and Target for Value.

This framework has recently been reviewed (Tourism 2025-two years on). While the emphasis in some focus areas has shifted, the five themes of the framework remain unchanged. Continual improvement to the visitor experience – including removing impediments to travel - remains a key focus.

**General Comments**
TIA considers that border services clearly have a public good purpose and should therefore be funded from general taxation.

The TIA-led growth framework Tourism 2025 has identified enhancing the visitor experience as a key requirement for growing the value of the visitor economy. It is essential that we do everything possible to lower barriers and enhance the overall experience for our visitors. Increasing a border tax goes firmly against this principle, particularly when it will do nothing to support an improved visitor experience at the border.

This year, in an 'if you can't beat them, join them' decision, the New Zealand Government has also imposed a charge at the border. While unwelcome, there is an important difference: the levy is fully hypothecated to paying for border services. It is not simply a revenue grab, as has become the case in Australia.

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**Impact of Border Taxes**
Tourism is a crucial contributor to both the New Zealand and Australian economies. Border taxes are an unwelcome handbrake on growing the visitor economies of both countries.

The Asia Pacific region is currently enjoying strong tourism growth. As the attached graphs show (Appendix 1), New Zealand and Australia are doing okay but are very much in the middle of the pack. We aim to do better; but there is plenty of international evidence that border taxes have a negative impact on propensity to travel to particular destinations.

Modelling by the International Air Transport Association (IATA) suggests that holiday visitors are most sensitive to departure taxes such as the Australian Passenger Movement Charge (PMC), with every price increase of 10% estimated to generate a decline of 5-7% in the number of leisure passengers travelling globally.[1]

The PMC on trans-tasman flights is already the highest border tax in the world for short haul flights (under 2,000 miles). The PMC increase will be a barrier not only to travel but also to establishing new trans-tasman passenger services.

This aviation market is very elastic – airlines have internal data that shows that small price increases in the past have resulted in reduced loadings.

In a survey commissioned in February 2015 by TIA and Australia's Tourism and Transport Forum (TTF), the cost of travel was identified as the number one barrier for those considering travelling across the Tasman to attend a major sporting event.

Earlier research carried out by TTF in 2014 found that New Zealanders travelling to Australia are extremely price sensitive. For every 1.5% increase in ticket prices to Australia, demand drops by around 1%.

It is unlikely that trans-tasman carriers, in particular low-cost carriers, will be able to absorb this latest increase. On some low-cost fares available, taxes and other non-airline charges will now comprise up to 40% of the total ticket price.

Any policy initiative, in particular a new tax, should include a thorough analysis of the likely and possible consequences, in order to measure the negative impacts against the positive benefits. There needs to be an evidential basis to justify any tax before it is imposed. This has not occurred in this case. The planned implementation of the increase in the PMC therefore needs to be put on hold to allow the proper impact analysis to be done by Government, through proper engagement with airlines, airports and other tourism interests.

This proposed increase adds weight to the long-held concern of the tourism industry that once these types of taxes are in place, there is an irresistible opportunity for governments to raise the level and increase their income, from a cohort that is in no position to complain, and in the case of overseas visitors who are not able to vote.

**An ANZAC Rate**
With the existing charges and taxes, the Australia-New Zealand border crossing is the most heavily taxed in the world and the increase in the PMC makes it worse. This is completely counter to the goals of the Closer Economic Relations (CER) agreement between Australia and New Zealand.

According to analysis by TTF[2], with sensible border reforms actual processing costs incurred by Australia for trans-tasman travellers could be reduced to as low as $6 per passenger, far below the proposed $60 per passenger charge.

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[1] IATA Economic Briefing 2013: The Economic Benefits of Abolishing the Passenger Movement Charge in Australia.
[2] TTF publication August 2014: Bringing our Neighbour Closer - Four reforms to maximise tourism from New Zealand.

There already existed a strong case, which is only reinforced by the latest proposed increase, to have a much lower PMC for trans-tasman travel.

**Conclusion**
The New Zealand tourism industry is alarmed by the Australian Government proposal to again increase its border tax, the PMC.

The PMC is a serious disincentive to trans-tasman travel in both directions and contradicts the spirit of CER.

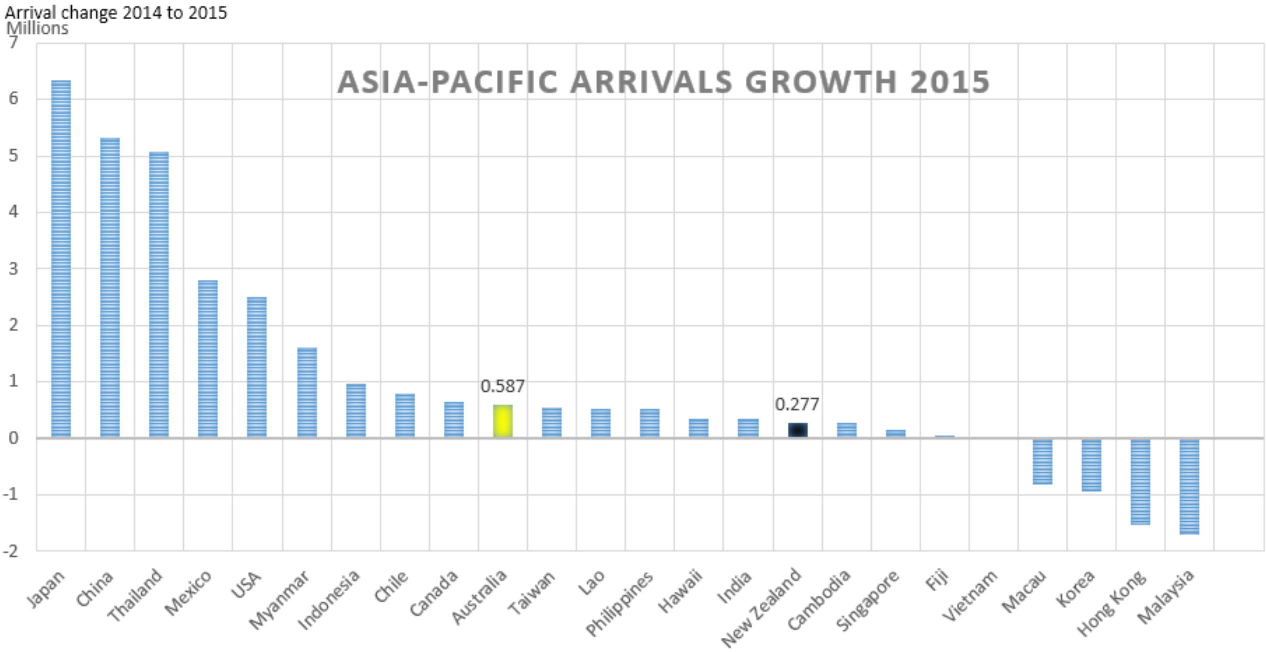
Rather than frequent increases, there should be a medium term commitment by the Australian Government to reduce the PMC to a level that matches the actual cost of providing border services to air passengers.

Thank you for providing TIA with the opportunity to provide feedback on this proposal. Please do not hesitate to contact me for more information or clarification.

Yours sincerely

Chris Roberts - **Chief Executive TIA**

**Attachments:** Tourism arrivals growth 2014 to 2015 in top 24 Asia Pacific destinations.




Source: PATA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