Chapter 4

Passenger Movement Charge

4.1 As noted in a previous chapter, the reform package includes a one-off $5 increase to the passenger movement charge (PMC) from $55 to $60. This chapter considers views expressed by inquiry participants regarding this aspect of the package.

Background

4.2 The PMC is a $55 cost for the departure of a person from Australia to another country. It is charged regardless of whether the person returns to Australia. The PMC is collected at the time a ticket is sold, and then forwarded by the carrier to the Department of Immigration and Border Protection.[1]

4.3 The PMC was introduced in 1995 as a replacement for the Departure Tax, and is levied on all outbound international passengers. It was originally intended to offset the cost to government of the provision of passenger facilitation at airports, including customs, immigration and quarantine functions. As the Australian Airports Association (AAA) notes in its submission, since the PMC was established at $27 in 1995, it has been increased four times, with the most recent increase in 2012 bringing the PMC to $55.[2]

4.4 In his second reading speech, the Treasurer advised that the approximately 9 per cent increase currently proposed was broadly in line with the increase in the consumer price index (CPI) between 2012 and 2017. Placing the $5 increase in context, the Treasurer further noted that in the same period since 2012 the government had:

> …already acted to lower the cost for travellers and to improve their visitor experience.
>
> We have invested significantly in improving the performance of our airports and the passenger experience through our airports.
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> We have also established the counter-terrorism units which form an important part of our border security, all funded out of the budget—all funded without making a call on the passenger movement charge.
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> We have also acted on recommendations of the Financial System Inquiry regarding credit and debit card surcharges. As a result of these changes,

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1 Certain passengers are exempt from the payment of the PMC, such as children under 12 years of age, transit passengers, emergency passengers and crew members. Department of Immigration and Border Protection, webpage, 'Passenger Movement Charge (PMC)', https://www.border.gov.au/Trav/Ente/Goin/Departing/Passenger-Movement-Charge-(PMC), accessed 31 October 2016.

2 Australian Airports Association, *Submission 33*, p. 1.

> travellers to and within Australia are no longer subject to excessive surcharging, whether booking into a hotel, booking a flight or tickets to a show—or even catching a cab.[3]

Views on the measure

The PMC in international context

4.5 Some witnesses emphasised that, even without the increase in the PMC, Australia's departure tax was already high by international standards. Indeed, according to the AAA, Australia already has the second highest departure tax in the OECD after the United Kingdom. Moreover, unlike Australia, the United Kingdom's Air Passenger Duty is a tiered charge based on distance travelled, and is thus lower for short-haul flights. Even among developing countries, only Fiji and Ghana levy higher departure taxes than Australia.[4]

The PMC as a cost-recovery mechanism

4.6 The AAA noted that whereas the PMC was ostensibly intended to offset the cost to government of the provision of passenger facilitation at airports, revenue currently raised by the PMC ($881 million in 2014–15) far exceeded the current costs to government of passenger facilitation (under $400 million for the same period)[5]:

> This latest proposed increase to the PMC is expected to further increase this revenue stream by generating an additional $260 million for the Government over the next three years. Although the PMC was originally introduced as a cost-recovery mechanism, it has now been increased on five separate occasions without even being reviewed to ensure it is meeting its originally intended purpose.[6]

4.7 Similarly, American Airlines submitted that it opposed both the 'way this increase is being implemented as well its lack of any relationship to airport improvement'. American Airlines added:

> The proposed PMC increase impacts the aviation sector by raising the cost of ticket prices by approximately 9%. And since the funds collected are not returned to airport operators, there are no off-setting benefits for the traveling public. Cost conscious travellers may not be offered a competitive or desirable airfare for travel to/from Australia due to the continuously increasing costs. Just as airlines compete for customers, airports also

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3 The Hon Scott Morrison, Treasurer, second reading speech, *House of Representatives Proof Hansard*, 12 October 2016, p. 8.

4 Australian Airports Association, *Submission 33*, p. 2.

5 Australian Airports Association, *Submission 33*, p. 1.

6 Australian Airports Association, *Submission 33*, p. 2.

> compete for customers and high fees negatively impact the airports' ability to attract new routes and commercial entities.[7]

4.8 A number of other organisations also noted that the PMC already raises more in revenue than is required to cover the costs of passenger facilitation. For example, the Board of Airline Representatives of Australia (BARA) pointed to evidence that 'supports the widely held industry view that the PMC already substantially over recovers on the costs incurred by the Australian Government in providing border clearance processes'.[8] Similarly, Cruise Lines International Association Australasia submitted that:

> …the tourism sector more than contributes to the costs of passenger movement services through the taxes and charges already levied, and believes that the PMC should be frozen at its current level.[9]

4.9 Other submitters also noted that the additional revenue raised by the PMC increase would not be used to offset the passenger movement costs. The Association of Asia Pacific Airlines (AAPA) noted that this was inconsistent with the International Civil Aviation Organisation's (ICAO) policy that 'charges are levies to defray costs of providing facilities and services for civil aviation'. Given Australia is a member of ICAO, the AAPA urged the government to reconsider the proposed PMC increase.[10]

4.10 Similarly, the Australian Federation of Travel Agents (AFTA) argued that the disconnect between the PMC and passenger movement costs represented a breach of Australia's international commitments. According to AFTA, in 2015–16 the costs of passenger facilitation were only 26 per cent ($265 million) of the revenue raised by the PMC, with the PMC thus resulting in a windfall to the government of $719 million.[11]

4.11 AFTA also noted that the disconnect between PMC revenue and passenger facilitation costs was growing—whereas PMC revenues were already increasing with increased passenger movements, passenger facilitation costs had fallen and were flat going forward. As a result, even at the current rate of $55, the PMC is expected to result in an extra $155 million per year every year over the forward estimates.[12]

Concerns about the effect of the PMC increase on the aviation and tourism sectors

4.12 Various aviation and tourism organisations argued the higher PMC would damage Australia's aviation sector and visitor economy. For example, Qantas advised

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7 American Airlines, *Submission 53*, p. 1.

8 Board of Airline Representatives of Australia, *Submission 21*, p. 4.

9 Cruise Lines International Association Australasia, *Submission 46*, p. 1.

10 Association of Asia Pacific Airlines, *Submission 42*, pp. 1–2.

11 Australian Federation of Travel Agents, *Submission 22*, pp. 6–7.

12 Australian Federation of Travel Agents, *Submission 22*, p. 5.

that it was 'strongly opposed' to the PMC increase, which it suggested was 'inconsistent with the Government's objective of strengthening the Australian economy'. Qantas further argued that the PMC increase would have a disproportionate impact on Australian airlines:

> In an intensely competitive aviation market where airlines are often 'price takers', the hypothesis that the proposed increase can simply flow down to passengers via increases in airfares does not hold true, as the 'carbon tax' experience demonstrated. For example, modelling commissioned in 2015 on a proposed $6 levy to fund Western Sydney Airport demonstrated that 50 per cent of that cost would have been unrecoverable for Qantas and 53 per cent for Jetstar. Over the last 12 months, competition has intensified on routes to and from Australia due to a significant increase in airline capacity; as a result, the 2015 analysis is considered conservative in the context of the proposed increase to [the] PMC.[13]

4.13 The Northern Territory Government advised that it opposed the increase in the PMC increase, and suggested the increase was particularly problematic in terms of its efforts to promote short-haul international routes out of Darwin.[14]

4.14 Noting that it had long advocated freezing the PMC at its current level, AFTA submitted that the PMC 'represents a significant fixed cost in a highly volatile market which affects demand for travel to and from Australia'.[15] AFTA argued that the proposed increase in the PMC, 'in extremely tight operating conditions acts to further erode any economic growth opportunities for Australian travel agents'.[16]

4.15 Mr Jayson Westbury, Chief Executive of AFTA, also argued that an increase to the PMC would place an additional burden on Australian families and could detrimentally affect the economic matrix on which the success of the tourism industry relies:

> This is a further burden on hardworking Aussie families who save hard to take their overseas holiday. It is a rite of passage that should be encouraged as, without a robust outbound travel industry, the inbound industry does not work. Planes need to be full both ways. Cruise ships will not come to Australia if Australians are not part of the consumer mix. It is an important economic matrix that creates success for Australia and its tourism industry, which will be an important industry in the future. The more the government takes in taxes from the process that lets the matrix work successfully means the more margins in this business will be very small and very tight.[17]

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13 Qantas, *Submission 48*, p. 2.

14 Northern Territory Government, *Submission 50*, p. 1.

15 Australian Federation of Travel Agents, *Submission 22*, p. 4.

16 Australian Federation of Travel Agents, *Submission 22*, p. 4.

17 Mr Jayson Westbury, Chief Executive, Australian Federation of Travel Agents, *Proof Committee Hansard*, 26 October 2016, p. 3.

4.16 ATEC was very supportive of the measures in the reform package intended to grow the WHM market (including measures not in the bills, such as increase an in the age limit for WHM visas from 30 to 35, the planned $10 million Tourism Australian promotional campaign, and so on). However, ATEC submitted that the proposed increase in the PMC:

> …puts all the other growth stimulating measures at risk. By levying the travelling population 9% more in tax, on top of existing visa fees and other charges associated with visiting Australia, you risk a contraction in visitor arrivals, with travellers potentially opting for an alternative destination. It is counter-productive and sends the clear message to travellers that Australia is using tourism as the cash cow of the Australian economy.[18]

4.17 Noting that many other countries were reducing or removing departure taxes, the TTF submitted:

> Within a competitive tourism environment, governments should be looking at policies that facilitate inbound and outbound travel; and further enhance the overall visitor experience. Travel taxes achieve just the opposite: it will have a real effect on travellers at the decision-making stage of a journey which will in turn impact the tourism and travel industries.[19]

4.18 IATA suggested that the PMC increase would lead to a reduction in demand equivalent to 30,000 fewer international passenger return journeys each year (where an arrival and departure count as one trip). IATA referred to modelling it had undertaken that showed increasing the PMC would:

> …create significant harm for consumers in the form of higher fares; and significant harm for Australian exporters through higher travel costs and reduced competitiveness; and lastly will act as a brake on the Australian aviation sector. We estimate that the reduction in aviation-related Gross Value Added (GVA) compared with a scenario where the PMC were abolished could total AUD375 million with 3,800 fewer jobs supported.[20]

4.19 The TTF also referred to IATA modelling showing the sensitivity of passenger numbers, and holiday visitors in particular, to ticket price increases. According to this modelling, every price increase of 10 per cent would generate an estimated five to seven per cent decline in the number of leisure passengers travelling globally.[21]

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18 Australian Tourism Export Council (ATEC), *Submission 45*, p. 4. ATEC reiterated this line of argument in its appearance before the committee. Mr Peter Shelley, Managing Director, Australian Tourism Export Council, *Proof Committee Hansard*, 2 November 2016, p. 21.

19 Tourism and Transport Forum Australia (TTF), *Submission 20*, pp. 4–5.

20 International Air Transport Association, *Submission 8*, pp. 1–2.

21 Tourism and Transport Forum Australia (TTF), *Submission 20*, p. 3.

4.20 According to IATA, at $60 the PMC would represent more than 9 per cent of the cost of return fare on a Trans-Tasman route and 5 per cent on routes between Australia and the rest of Asia.[22]

4.21 A number of witnesses highlighted the sensitivity of Trans-Tasman routes in particular to a higher PMC. For example, Tourism Industry Aotearoa reported that the PMC on Trans-Tasman flights was 'already the highest border tax in the world for short-haul flights (under 2,000 miles)', and the higher PMC would further increase barriers to Trans-Tasman travel.[23] The TTF also highlighted the proportionally high cost of the PMC for many Trans-Tasman flights:

> The impact is even greater on heavily discounted fares, with some one-way tickets on trans-Tasman routes as low as $130 at certain times of the year. The current PMC of $55 comprises 42 per cent of such a fare, and the proposed PMC of $60 would represent 46 per cent.[24]

4.22 Other witnesses told the committee that the increase in the PMC was a secondary issue, and that they were unconcerned about its inclusion in the reform package. For example, Mr Kevin Byrne from Advance Cairns told the committee that he had not heard concerns from his members, and businesses generally seemed 'pretty ambivalent' about the proposal. He offered that:

> …fares are so competitive now that it will be absorbed and I don't think people will really notice it. We also respect the fact that the government of the day has a requirement to essentially balance the books. We are all in business ourselves. So we do not have an opinion either way. I don't think it is really going to have a dramatic material effect on the visitation of Cairns.[25]

4.23 Similarly, Mr Ben Woodward from the CaPTA Group, a family owned tourism company in Tropical North Queensland, told the committee that he did not expect the 'relatively small increase' in the PMC to have 'much of a detrimental impact on the [tourism] industry'.[26]

4.24 Treasury advised the committee that it had not modelled the economic impact of the PMC increase, stating that its macro-economic modelling function did not

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22 International Air Transport Association, *Submission 8*, p. 2.

23 Tourism Industry Aotearoa, *Submission 15*, p. 2.

24 Tourism and Transport Forum Australia (TTF), *Submission 20*, p. 3.

25 Mr Kevin Michael Byrne, Chief Executive Officer, Advance Cairns, *Proof Committee Hansard*, 31 October 2016, p. 2.

26 Mr Ben Woodward, Director, Sales and Marketing, CaPTA Group, *Proof Committee Hansard*, 31 October 2016, p. 7.

extend to modelling changes such as a small change to a price such as the proposed $5 PMC increase.[27]

Consultation

4.25 Some witnesses expressed concern about an apparent lack of consultation regarding the proposed PMC increase. For example, AFTA submitted:

> The announcement of this increase by the Government has not followed any consultation nor has the modelling of the potential impacts been released. This is of great concern for the travel and tourism industry.[28]

4.26 Representatives from the tourism industry also voiced concerns that the proposed increase to the PMC was not raised during the government's review process into the WHM program. For example, Mr Westbury from AFTA commented:

> Within the package review process that was undertaken, I think—correct me if I am wrong—there were some 1,700 submissions made and not one mentioned the PMC. During the consultations, which we all took part in, with the consultant, not once at any of those dialogues was the PMC mentioned to any of us as a potential way of the government topping up the package.[29]

4.27 Qantas submitted that given the lack of industry consultation on increasing the PMC, it may be that the government had not fully considered its impact on Australian airlines and passengers.[30] Similarly, BARA described the lack of consultation on the PMC increase as 'extremely disappointing'.[31]

4.28 Australian Chamber – Tourism also highlighted a lack of consultation or proper assessment of the impact of the increase in the PMC on Australia's visitor economy. It recommended that any future proposals to increase the PMC should be made following consultation with the sector and a proper assessment of its impact.[32]

4.29 Mr Martin Ferguson, representing Tourism Accommodation Australia, noted that in his experience—which included being the Minister for Tourism between December 2007 and March 2013—increases in the PMC did not affect passenger

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27 Mr Robert Ewing, Acting Division Head, Tax Analysis Division, Revenue Group, Treasury, *Proof Committee Hansard*, 26 October 2016, p. 24.

28 Australian Federation of Travel Agents, *Submission 22*, p. 5.

29 Mr Jayson Westbury, Chief Executive, Australian Federation of Travel Agents, *Proof Committee Hansard*, 26 October 2016, p. 6.

30 Qantas, *Submission 48*, p. 2.

31 Board of Airline Representatives of Australia, *Submission 21*, p. 1.

32 Australian Chamber – Tourism, *Submission 19*, p. 4.

numbers. Nonetheless, he emphasised the need for government to consult with the industry before considering future changes to the PMC.[33]

4.30 Treasury confirmed that it had undertaken no departmental level consultations on the changes to the PMC.[34]

Inclusion of the PMC increase within the WHM reform package

4.31 Some witnesses questioned the logic of including the PMC increase as part of the WHM reform package. Mr Gerard Bell noted that the overwhelming majority of passengers leaving Australia and subject to the increased PMC were not WHMs. He suggested that it was inequitable that these passengers should have to face the new charge 'just so 417/462 Visa holders have a further incentive to seek temporary employment in Australia whilst on Holiday'.[35]

4.32 When questioned by the committee regarding the appropriateness of the PMC increase being included as part of the WHM reform package, Chief Executive Officer of TTF, Mrs Margy Osmond, advised that 'absolutely the two things should be separated'.[36] Mrs Osmond further explained:

> I think the other issue here is that when the negotiations were held over the backpacker tax piece PMC was never mentioned. So, to suggest that it has to be part of the package is, I think, wrong. We know that the piece will pay for itself. If the argument for increasing the PMC is wholly and solely to fill a gap, they do not need to increase it, because the package pays for itself. So, to me, it is a no-sum game. If you can pay for what it is that you needed to pay for within the reform package, why do you need to increase the PMC?[37]

4.33 TTF advised that it had engaged KPMG to review the assumptions underlying the reform package, and to consider if the PMC increase was necessary to ensure the reform package was revenue neutral (when compared against the proposed Budget 2015-16 changes). TTF reported that KPMG found that, based on average WHM earnings, a tax rate of 19 per cent would generate tax and superannuation revenues of $864.5 million between the 2016-17 and 2019-20 financial years, without the need for any increase in the PMC. TTF highlighted KPMG's finding that, in KPMG's words:

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33 Mr Martin Ferguson, Chair, Tourism Accommodation Australia, *Proof Committee Hansard*, 2 November 2016, p. 34.

34 Mrs Marisa Purvis-Smith, Division Head, Individuals and Indirect Tax Division, Treasury, *Proof Committee Hansard*, 26 October 2016, p. 27.

35 Mr Gerard Bell, *Submission 5*, p. 1.

36 Mrs Margy Osmond, Chief Executive Officer, Tourism Transport Forum, *Proof Committee Hansard*, 26 October 2016, p. 7.

37 Mrs Margy Osmond, Chief Executive Officer, Tourism Transport Forum, *Proof Committee Hansard*, 26 October 2016, p. 16.

> The inclusion of the increase in the PMC in the revised WHM policy appears to be incongruous with the remainder of the package. Under reasonable assumptions about the number of WHMs and average income per WHM it is not necessary to increase the PMC to generate tax revenue from the package that is greater than that reported in the 2015-16 Budget.[38]

4.34 Australian Chamber – Tourism also argued that an increase in the PMC charge was not required to meet the government's revenue targets.[39]

4.35 While some witnesses questioned whether the PMC increase was required to make the reform package revenue neutral, Treasury confirmed that this was the case. Mr Robert Ewing, representing Treasury, advised the committee that while he could not speak to KPMG's modelling, 'the estimates and the costings that we came up with are our best professional judgement of the changes to revenue and expenses as a result of this package'.[40]

4.36 Treasury confirmed this advice in a subsequent written submission provided to the committee. Reiterating that Treasury stood by its estimates of the various elements of the reform package, Treasury noted that other models—including modelling from KPMG and modelling undertaken by Lateral Economics on behalf of IATA and the Australian Chamber of Commerce and Industry—had arrived at different outcomes because they used more optimistic assumptions:

> By definition, if Treasury had made different assumptions then different estimates would have been generated. The KPMG and Lateral Economics reports simply illustrate this point, as they adopt more optimistic assumptions and so produce larger estimates.
>
> However, as stated earlier, Treasury's view is that its revenue estimates are appropriate. Reducing the first tax rate for working holidaymakers from 32.5 per cent to 19 per cent involves some revenue cost, meaning that the revenue from the other elements of the reform package is therefore necessary to ensure the package of changes announced by the Treasurer is revenue-neutral overall.[41]

Committee view

4.37 The committee acknowledges concerns expressed during the inquiry about the $5 increase to the PMC. At the same time, the committee notes that a range of tourism operators and bodies advised the committee that they did not anticipate this relatively small increase would have a material impact on visitor numbers or on their businesses.

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38 Tourism and Transport Forum Australia (TTF), *Submission 20*, p. 6.

39 Australian Chamber – Tourism, *Submission 19*, p. 4.

40 Mr Robert Ewing, Acting Division Head, Tax Analysis Division, Revenue Group, Treasury, *Proof Committee Hansard*, 26 October 2016, p. 24.

41 Treasury, *Submission 55*, p. 1.

4.38 This is, the committee notes, the first time the PMC has been increased since 2012, and the increase is broadly consistent with the increase in the CPI since that time. The committee is also satisfied that the PMC increase is required to ensure that the WHM reform package remains revenue neutral.

Recommendation 3

4.39 The committee recommends that the bill be passed.

Senator Jane Hume
Chair