

Submission to the

Productivity Commissioner

on the

**INTERNATIONAL TOURISM
PRODUCTIVITY COMMISSION**

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ABOUT US

As the peak industry body for tourism in Queensland, the Queensland Tourism Industry Council (QTIC) represents the interests of the industry through partnerships with operators, government agencies, industry bodies and tourism stakeholders at a local, state and national level. This includes our formal partnership with the Queensland Government under *DestinationQ*.

Our membership comprises more than 3,000 regional members (individual and corporate) alongside 13 Regional Tourism Organisations (RTOs) and 18 industry sector associations.

Industry has trusted us for more than a decade to advocate for a business environment that delivers on current and future tourism needs. Similarly, decision makers have sought our industry knowledge and networks to influence policy and budget decisions to create a competitive business environment.

QTIC remains committed to working with government and industry through the following national and state strategies:

- Australian Government, National Long-Term Tourism Strategy
- Tourism Australia, 2020 Tourism Industry Potential
- *DestinationQ* Industry Partnership Agreement and 12 Month Action Plan

INTRODUCTION

The Queensland Tourism Industry Council (QTIC) welcomes the opportunity to provide feedback to the Productivity Commissioner on the research project examining Australia's international tourism industry. QTIC strongly supports the inclusion of international tourism as a topic of significant national interest.

While international tourism is indeed a significant national interest, the work and efforts undertaken individually by each of the states and territories will contribute significantly to its success. Therefore, this submission herein aims to assist by way of providing trends, drivers and barriers to growth in the international tourism industry, from both a national and state level perspective.

The Queensland Government and the Queensland tourism industry share an ambition to restore Queensland's leadership position as Australia's tourism state. The State Government recognises tourism as one of 'the four pillars of the economy', and has declared a goal of doubling overnight visitor expenditure to \$30 billion by 2020.

The tourism industry in Queensland employs over 220,000 people, or 9.9% of all people employed in Queensland¹. This is substantially more than the mining sector (43,800 direct jobs) or even agriculture, forestry and fishing combined (81,900 direct jobs)².

Tourism is a key economic driver in many Queensland regions, supporting regional employment and community growth. The tourism industry in Queensland contributed \$17 billion to Queensland's Gross State Product (GSP), representing 7.7% of total GSP. A total of \$3.8 billion was generated in exports in 2010, making it the second largest export earner behind coal³.

Queensland's tourism industry has undoubtedly supported the success of Australia's international tourism economy, which hit the six million mark in international visitors for the year ended June 2014 (up 8%). Tourism

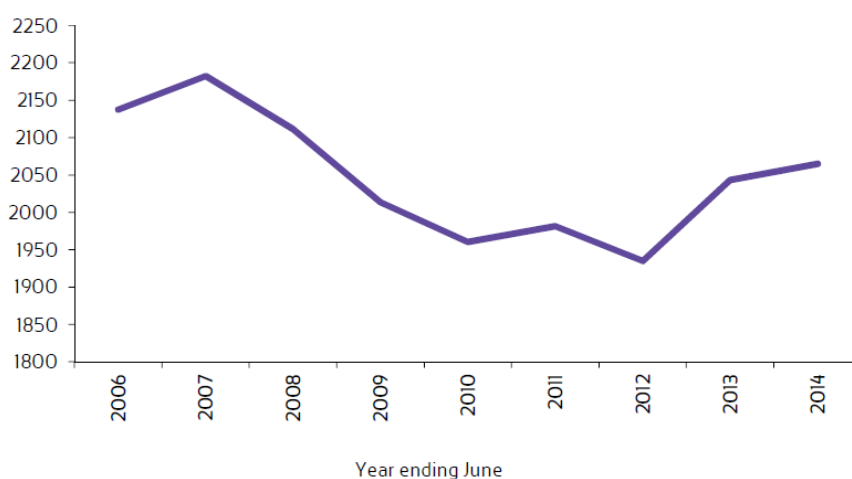
Research Australia reports that visitors stayed a total of 216 million nights (up 1%) and injected \$30.1 billion (up 7%) into the Australian economy.

INTERNATIONAL TOURISM IN QUEENSLAND

Queensland's economy has benefited from a strong international tourism presence until the slowdown of Japanese inbound tourists and the Global Finance Crisis, but has stabilized and recovered since then. Recent data is showing that growth is set to continue on an upward trend, with Asia, currently Queensland's largest source market, growing by 2.6% in the year ending June 2014 with numbers reaching 829,900.

For the year ending June 2014, the number of international visitors to Queensland increased 1.1%, overnight international visitor expenditure remained stable at \$3.9 billion, and holiday visitor expenditure increased by \$44.8 million⁴.

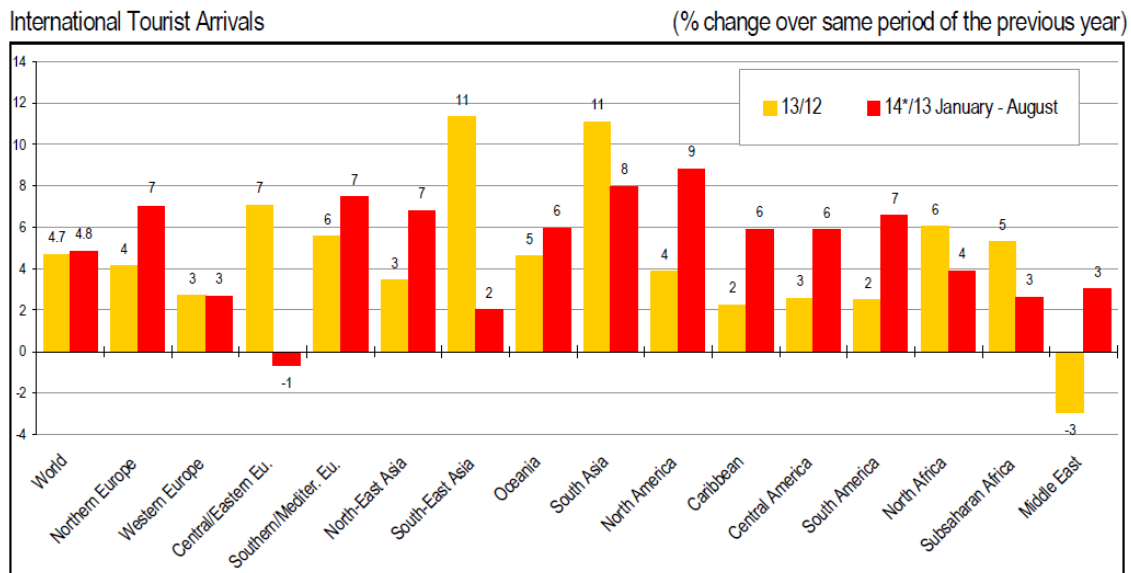
International Visitors ('000) to Queensland



TRENDS

Globally, tourism is a booming industry with international tourist arrivals growing 5% during the first eight months of 2014 according to the latest United Nations World Tourism Organisation (UNWTO) World Tourism Barometer. International tourists (overnight visitors) travelling the world between January and August 2014 reached 781 million, 36 million more than in the same period of 2013. International tourism continued to grow well above the long-term trend projected by UNWTO for the period 2010-2020 (+3.8%).

While the Americas led growth (+8%) during the first eight months of 2014, international arrivals in Asia and the Pacific came in second with a 5% increase. The Oceania region, to which Australia belongs, grew by 6%.



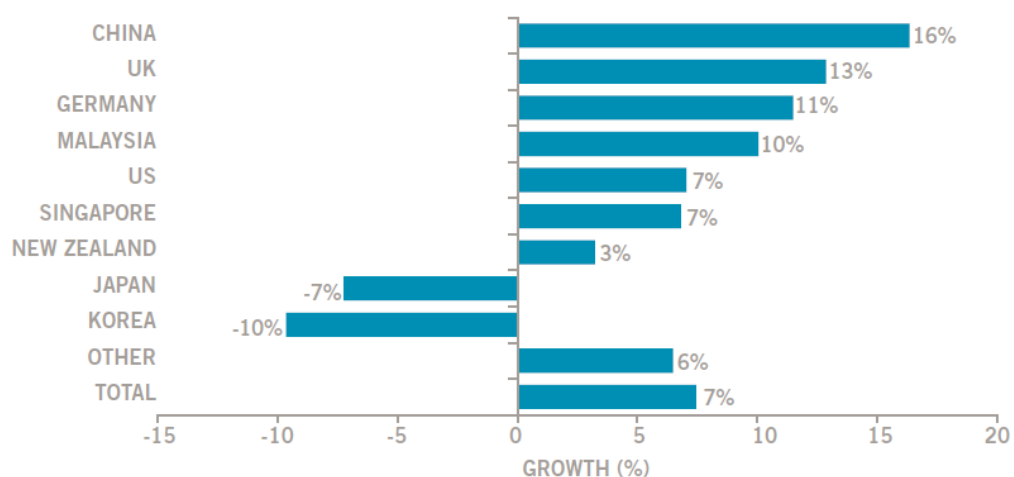
China reinforced its position as the leading source market with an increase of 16% on expenditure for the first six to nine months of 2014.

The Tourism Research Australia publication “State of the Industry – October 2014” showed results of a continued trend observed over the past five years—that of tourism continuing as a key contributor to the Australian economy, generating \$102 billion in tourism expenditure, contributing 2.8 per cent to Australia’s Gross Domestic Product, employing almost 5 per cent of the Australian work force and contributes \$27 billion to Australian exports.

The value of internationally-based investment interest in projects supporting tourism infrastructure in Australia must also be recognised. The State of the Industry report shows that prospects for future supply growth and investment attraction remain solid, and are likely to broaden the tourism investment pipeline which is estimated at almost \$50 billion.

Last financial year saw a return to solid arrivals growth from most traditional markets, reflecting improved global economic conditions in these markets. Expenditure growth was very strong from most western European markets and the US. Growth in expenditure was driven by increased spending on international airfares and package tours (up 11.5 per cent to \$2,187 per person and 16.6 per cent to \$6,983 per person, respectively). Asian markets continue to be the largest contributor to Australian tourism exports, accounting for 47 per cent of international visitor expenditure in 2013–14 (or \$14.1 billion).

FIGURE 6: GROWTH IN TOTAL INTERNATIONAL VISITOR EXPENDITURE BY MARKET, 2013-14



Source: TRA, *International Visitor Survey*

DRIVERS

NEXT WAVE OF PROSPERITY

The Deloitte report in 2013 titled *“Positioning for prosperity: Catching the next wave”* has listed Australia’s edge – a source of comparative advantage that’s hard for other nations to match – as follows:

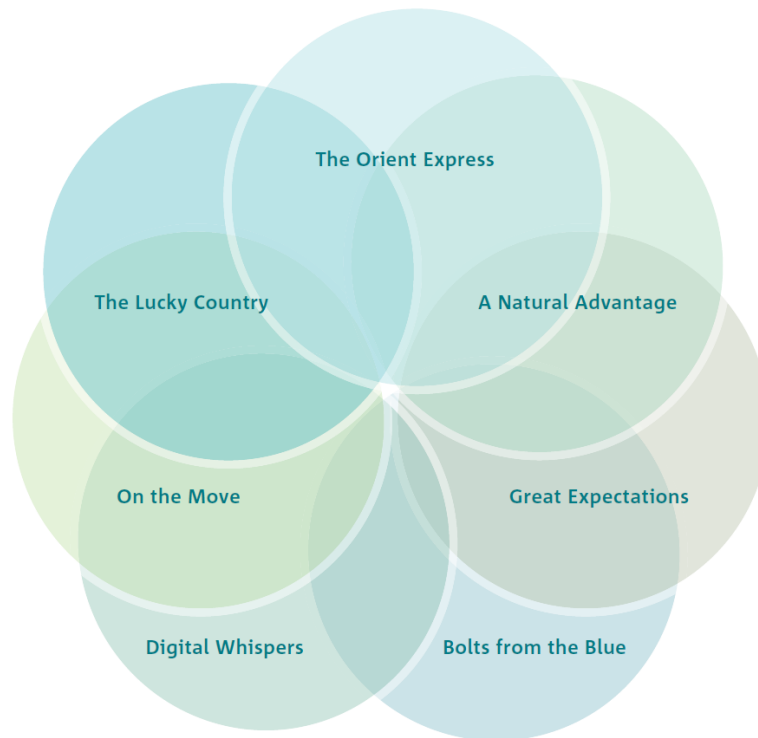
- World-class resources in land, minerals and energy
- Proximity to the world’s fastest growing markets in Asia
- Use of English, the world’s business language (and the global *lingua franca*)
- A temperate climate
- Well-understood tax and regulatory regimes.

All these five big-picture advantages for Australia are intrinsically associated with tourism and are drivers of international tourism, as well as encouraging global investments to be made in the industry. The tourism industry’s specific role in positioning Australia for prosperity is discussed in detail in the “Barriers” section below.

MEGATRENDS

Looking at the global drivers that will affect the future of tourism in Queensland and no doubt Australia, it is critical to look at the CSIRO 2013 document titled *“The future of tourism in Queensland: Megatrends creating opportunities and challenges over the coming twenty years”*. The purpose of the report was to identify and describe important trends impacting Queensland’s tourism sector over the next two decades, to inform the development of a long-term tourism plan.

This report explores possible opportunities and challenges for tourism in Queensland. The narrative of the future is built upon trends and megatrends. A **trend** is a pattern of social, economic, environmental, political or technological activity; a **megatrend** occurs at the intersection of multiple trends. Megatrends represent particularly important and far-reaching events that will substantially impact the tourism sector in Queensland. The megatrends are shown in the interlinked Venn diagram below.



The summaries below detail the implications for tourism in Queensland from the identified megatrends:

The Orient Express: The new and rapidly expanding growth market within the developing Asia region also means that the wealth generated by Asian countries will be reinvested back into their economies and tourism sectors. The challenge for the Queensland tourism sector is to identify the niche markets where it has comparative advantage and achieve product differentiation from competitors.

A Natural Advantage: Queensland is endowed with world class natural assets that will continue to attract tourists in greater numbers. The trends collated here show natural beauty and pristine wilderness will hold greater value to tourists of the future. Effective management and promotion of natural assets will help Queensland to fetch a price premium in global tourist markets.

Great Expectations: Tourism experiences will need to be personalised, authentic and involve social and cultural interaction. The ambience, ethical (fair trade) production, friendly service and opportunity to interact with customers and staff are important. To be successful the industry needs to understand and deliver on the experience factor. People will have much greater expectations for this in the future.

Bolts from the Blue: On the world stage Queensland and Australia are politically, environmentally and socially stable with excellent health and hygiene standards. Natural disasters such as floods, bushfires and cyclones are serious and do have major impacts, but they are well managed. Early warning systems, building designs and recovery plans are effective. The stability of Queensland will be a major drawcard for international tourists.

Digital Whispers: New systems will be needed to provide people with information relating to their travel choices. The world of social media is already very much upon us, and the ways by which people access information and make choices will change considerably. An ability to enter these conversations and provide useful and accurate information will be of benefit to the Queensland tourism sector.

On The Move: Technology advances will continue to see increased capacity for people to travel. Travel modes will diversify and travel cost is unlikely to rise considerably above current levels. People will have

more reasons to make a trip as education, business, trade, conferences and healthcare will all be drivers. The increased mobility of people represents an opportunity for the Queensland, Australian and global tourism sectors.

The Lucky Country: Queensland is not likely to win the price war against alternative, nearby destinations and air ticket prices have fallen with the rise of low cost carriers. Queensland's best option for competition is quality differentiation - to offer a clean, green, safe and friendly experience with developed world services. If tourist expectations are met then they may be willing to accept higher prices and make return visits.

EVENTS

Numerous other drivers of growth are also evident within Queensland's tourism industry. The presence of many sporting, cultural and historical events such as the G20 Summit, the 2018 Commonwealth Games on the Gold Coast and the 2015 Asian Football Cup, will boost the appeal of the state's tourism image. QTIC's support for events and the impact on Queensland's economy was outlined in a submission on the Major Events Bill 2014. QTIC reaffirms its position that successful events are beneficial to a region and its tourism industry through:

- Increased awareness of the region as a tourism destination
- Increased knowledge concerning the potential for investment and commercial activity in the region
- Creation of new accommodation and tourist attractions
- Increase in accessibility
- Increasing visitor length of stay in region
- Increasing visitor expenditure in region

A report by Foresight Partners showed Queensland's major sport and entertainment venues pump hundreds of millions of dollars into the Queensland economy. The combined value of Stadiums Queensland's nine facilities (including Suncorp Stadium, Brisbane Entertainment Centre, The Gabba and Queensland Tennis Centre) alone was approximately \$1.3 billion as at 2009.

BARRIERS

Looking at the global growth trends and Australia's areas of advantage, Deloitte have identified Australia's next waves of prosperity which are likely to come from five sectors – gas, agribusiness, tourism, international education and wealth management. Collectively, they have the potential to be as big as mining.

While Australia looks set to enjoy outsized gains in tourism aided by our attractions, a fall in the Australian dollar and a conscious growth strategy across the tourism industry and our governments, there are a number of obstacles that the industry will face.

TRANSPORT INFRASTRUCTURE

Queensland's – and Australia's - geographical size requires efficient, connected and accessible transportation infrastructure. Unfortunately, tourism infrastructure has not always kept pace with changing demand. The government projects that by 2020, domestic aviation capacity will have to grow by up to 30% and international

aviation capacity by up to 40% to handle increased visitor numbers. Furthermore, ports will need to be upgraded to accommodate the world's biggest cruise liners, and roads and highways will need to be upgraded to handle the demands projected to be placed on them.

Industry has prioritised for 2015, plans to accelerate investment in major infrastructure assets such as the Bruce Highway, both Queensland international and domestic airports, and multimodal transport systems that support connectivity and dispersal to regional communities, and delivers mutual benefits with other industries. Upgrades to these assets must account for future demand, rather than meet the current needs, which in turn will also provide the necessary capacity for accelerated investment in the short term.

ACCOMMODATION

Ageing and limited accommodation infrastructure, particularly in regional areas, is another barrier facing Queensland's industry. Research by Deloitte has found that the supply of new rooms is far below its projected target with only a 2% tracked increase towards the 2020 target. The preexisting accommodation is considerably more aged than most of global competitors with the median age of rooms being 20-29 years old. These aged assets increasingly fail to meet the requirements of modern visitor, which includes most notably the accessibility and cost of Wi-Fi internet. Queensland's accommodation supply is also dominated by small private owners (80%), considered to be a major drawback as these properties are more likely to exit the sector at the end of their business life⁵.

REGULATORY BARRIERS

Legislative constraints are also holding the industry back. Industrial relations policies severely hinder the international competitiveness of Queensland's tourism sector, most notably award wages, penalty rates and operating hours which inhibit the flexibility needed by the tourism industry. As the below graph demonstrates, the rate of wage increases is far exceeding the average costs of revenue sources making it increasingly harder for operators to remain viable.

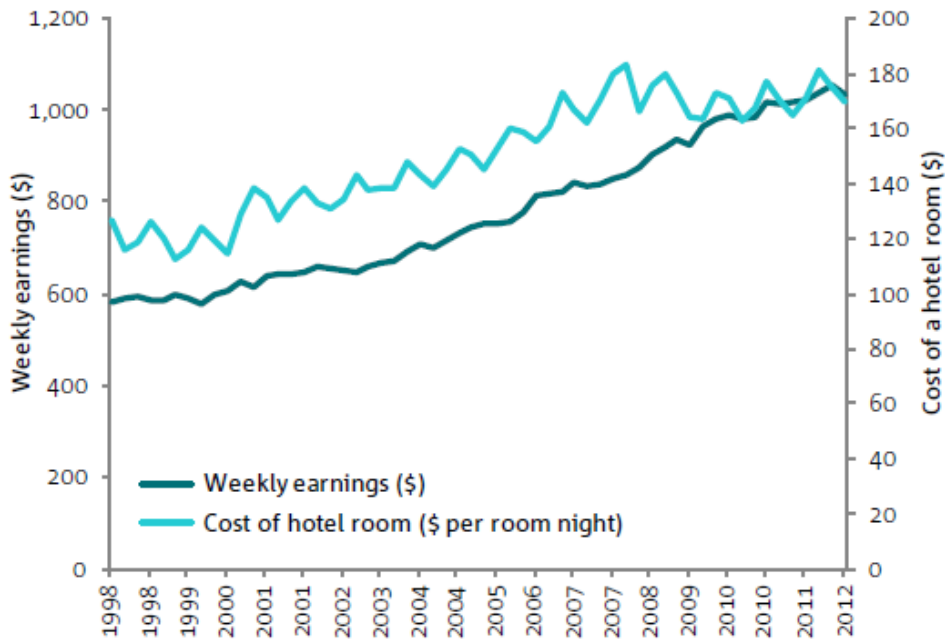


Figure 24. Average weekly earnings (salaries) for Queensland workers and the average cost of a hotel room night, 1998 to 2012
 Data source: Australian Bureau of Statistics (ABS, 2013a, 2013f).

The biggest issue regarding penalty rates is the rate awarded for working on Sundays, which currently is almost double the normal hourly rate. Sunday is often the busiest day for many businesses in the tourism industry however crippling penalty rates means that the tourism sector is losing competitiveness. Making Sunday’s penalty rates the same as those on a Saturday would also reduce red tape for business, and increase employment opportunities as employers would be encouraged to open on Sundays or extend trading hours, and subsequently hire more staff for Sunday shifts.

VISA POLICY AND PASSENGER FACILITATION REFORM

Tourism has long championed the need for reform in visa policy and passenger facilitation, and QTIC recognises the work currently being undertaken by the Australian Customs and Border Protection Service on this issue. It is critical that we position ourselves to be internationally competitive, visionary, accessible and efficient. In order to achieve the tourism 2020 targets, we must consider the current impediments to growth in conjunction with the opportunities to drive demand.

Tourism is also the only export industry to be directly taxed. Border fees and charges represent a demand dampener at the decision-making phase of a trip. The most obvious of these in the Australian context is the Passenger Movement Charge (PMC). When any new tax on airline tickets is introduced it is added to the price of the ticket, impacting demand. This in turn makes government-funded promotion of Australia as a destination harder and will lead to a reduction in the potential growth of the industry.

The additional \$55 (PMC) charged by the Australian government is a serious demand inhibitor. In economic terms, the PMC is a per-unit tax on a price-elastic good, passed through and thus the burden is borne by consumers. The savings to airlines of any removal of the PMC could translate into a 13 per cent additional yield which could underwrite new route development, reduce fares or boost seat capacity on existing routes.

The impact of visa application fees and processes on decision to travel is also high. If the cost of obtaining a visa (including both the fee and associated costs) exceeds a threshold, potential travellers are simply deterred from making a particular journey or choose an alternative destination with less hassle. This threshold is also relative, meaning Australia can gain a competitive advantage by making it easier and cheaper to visit than rival destinations.

TTF studied Australia's visitor visa system as a barrier to greater travel. It found, inter alia, that although Australia's visa regime is on par with other advanced economies in some respects, a more ambitious reform agenda is required if Australia is not to lose market share further in key Asian markets, including to reduce the cost of visas for key growth markets like China, India and Indonesia.

Finally, the existing border fees model does not allow for innovation in product delivery. There are several new initiatives the tourism industry believes our border agencies should be priorities, such as:

- Premium processing including off-terminal clearance
- Automated departures control including digitized departure and arrival cards
- Reduced visitor visa fees
- Priority visa application
- Joint visitor visas
- Small, flexible border processing teams
- Passport cards
- Tourist refund scheme reform

ENVIRONMENTAL MANAGEMENT

QTIC has received overwhelming feedback from industry and the general community that there is a desire for economic development and growth for Queensland, but not at the cost of the state's natural assets such as the World Heritage listed Great Barrier Reef. QTIC affirms its strong position that the interests of the tourism industry must remain significant and a priority alongside other government interests.

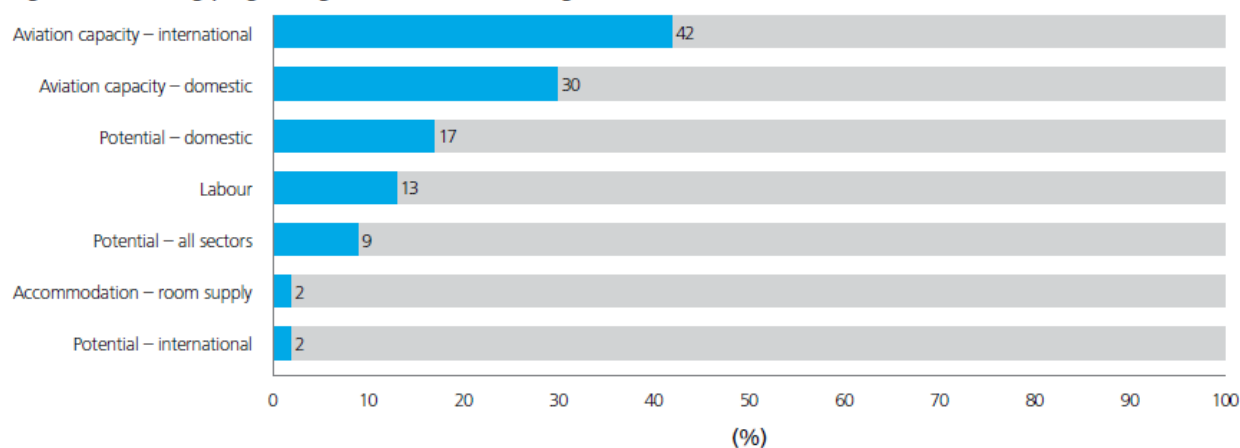
Tourism activity associated with the Great Barrier Reef contributed \$5.7 billion dollars to the national economy in 2012–13. Such success can be largely attributed to the effective tourism planning and management processes in place, which have resulted in a successful balance between reasonable human use and the preservation of this world-class natural asset. However, changing policies and the use of the GBR for incompatible activity, as well as other factors such as climate change, are having a significant impact on the health of the GBR.

Regarding the impacts of different uses of the Great Barrier Reef, these commercial and non-commercial uses overlap and are concentrated inshore, particularly next to developed areas. Some uses have only minor and localised effects, for example defence activities, research and educational activities, and traditional use. Cumulative effects of tourism and recreation activities are localised around popular locations. Port activities and their flow-on impacts are generally in areas that are already under pressure from an accumulation of impacts. There are concerns about overfishing of some fish stocks, and the effects of fishing on some species of conservation concern (Great Barrier Reef Outlook Report 2014).

THE ROLE OF GOVERNMENTS

Governments at all levels play an important role in promoting the drivers and removing the barriers this submission has outlined if it wishes to achieve the Tourism 2020 targets it set the industry. The progress of supply components and the areas which governments and industry must focus on is in the below graph.

Figure 23: Tracking progress against Tourism 2020 targets



Source: Tourism Research Australia

FUNDING

With global tourism becoming increasingly competitive, governments must invest into marketing Australia tourism assets, as well as in assisting product development within the industry, to ensure Australia builds on its market share of international tourist arrivals. The following table demonstrates the high export earnings of the tourism industry, compared to the amount of government assistance that industry receives.

GOVERNMENT ASSISTANCE (\$ MILLION)		AUSTRALIAN EXPORTS 2004-05 (\$ BILLION)	
1. Motor vehicles	670	1. Mining	41
2. Grain, beef and sheep	357	2. Tourism	17
3. Business services	274	Average Exports	13
Average government assistance	232	Grain, beef and sheep	12
4. Mining	208	Refined petroleum	9
5. Tourism	154	5. Education	9
6. Refined Petroleum	136	6. Transport	8
7. Transport	33	7. Motor Vehicles	4
8. Education	22	8. Business services	3

The National Tourism Alliance recognises within their submission that Government funding for Tourism Australia is paramount if Australia is to remain competitive. Tourism Australia plays a vital role in coordinated, cooperative marketing and campaign partnership with the State and Territory Governments, driving a consistent and coherent 'one voice' message internationally about Australia as a destination.

Many studies over the years have shown that the marketing investment made by Tourism Australia has a positive effect on international tourism demand. More particularly, given the recent focus on the potential for growth from the Asian visitor market, a dollar of additional marketing to Asia may be expected to generate greater visitor expenditure than a dollar of marketing into traditional tourism source countries. The return per

dollar invested in Asia is 17:1. This means that tourism receipts generated from Asia are potentially \$17 million per \$1 million spent on tourism promotion.⁶

The tourism marketplace is crowded and highly competitive, and a strong national marketing agency helps Australian businesses to compete. The improvements in recent years in tourism infrastructure in the Asian region have increased the competitive pressure on Australian businesses for the global tourism spend. As of late 2011, there were 140 destinations around the world that signed the bilateral tourism agreement with China, called the Approved Destination Status Scheme (ADS). There are 100 active national tourism marketing bodies in China, and, in one of Australia's strongest performing 'traditional' markets, the UK, there are 25 national marketing bodies operating. In particular, the USA is marketing directly into China with an initial budget of \$30 million, more than other national marketing agencies.

There remains the need for such a high level coordination and communication role between industry, State and Territory tourism marketing organisations and Tourism Australia, on domestic campaigns. In the past Tourism Australia has undertaken this function, and industry believes there is still scope for them to continue to do so without compromising their focus on international marketing.

WHOLE-OF-GOVERNMENT APPROACH

A key to ensuring that tourism and hospitality remain competitive and viable and can continue to deliver strong economic outcomes is a whole-of-Government approach, working in partnership with industry and other key stakeholders (including international governments). In 2012, the Newman Government in Queensland established a Tourism Cabinet Committee to discuss, prioritise, resolve and action, if appropriate, state-wide and cross-portfolio issues relevant to tourism.

The Queensland Tourism Cabinet Committee has to date proven to be an invaluable addition to policy and process outcomes. In its first year, it has enabled a range of initiatives at Local, State, Federal levels to be progressed in a more efficient and timely manner. This illustrates the benefit of a whole-of-government approach in improving consistency in policy and processes, cutting red tape, and encouraging innovation, investment and growth across the industry.

RESEARCH AND DEVELOPMENT

Research and development is an essential part of business innovation and economic growth, and in Australia in general it is funded by Commonwealth and State/Territory governments, businesses, higher education institutions and private not-for-profit organisations.

In most recent analysis available (2006/7), the lion's share of public sector R&D funding (from governments and higher education) is directed to health (26%), environment (13%) and agriculture (11%). In this analysis tourism was found to receive 0.25% of public sector R&D funding.

There are many positive downstream effects that accrue from publicly supported tourism R&D. Tourism Research Australia reported in 2011 that "for every dollar of value added generated by activity in the tourism industry, a total of \$1.91 of value added is created, placing tourism ahead of major industries such as mining (\$1.67), retail trade (\$1.80) and education and training (\$1.38). Further, tourism has a significant multiplier effect for employment with a one per cent increase of tourism direct consumption generating output outside tourism of \$0.7 billion (in nominal terms) and an increase in employment outside tourism of 2,800 persons"⁷.

CUTTING RED TAPE

The tourism industry in Australia primarily comprises small and medium enterprises (SMEs), who operate on modest turnovers. Over 93 per cent of businesses within the sector are small and medium enterprises. More than 100,000 Australians own tourism businesses. The overwhelming majority of businesses are labour-intensive small businesses, run by owner-operators.

These businesses are highly exposed to the volatile global economy and shifts in the Australian economy; as a result, they bear much of the brunt if demand falls for travel domestically and within mature international markets. Small businesses are also disproportionately impacted by red tape, particularly in areas of:

- Workplace regulation
- Cost of compliance
- Taxes and charges on tourism
- Land management policy and regulation

Governments are solely in a position that can improve the business environment of SMEs by cutting red tape, streamlining processes and reforming outdated and impracticable policies and regulations.

FURTHER ENQUIRIES

We welcome the opportunity for further discussion regarding Australia's and Queensland's International Tourism Industry and the content of this submission.

For all enquiries, please contact Kim Harrington

email policy@qtic.com.au.

¹ Tourism Research Australia, Tourism Key Economic Facts December 2010

² *ibid*

³ Tourism Queensland, Tourism Economic Key Fact December 2010

⁴ Tourism and Events Queensland, International Tourism Snapshot, Year ending June 2014

⁵ JLL, Queensland Tourism Product Lifecycle Study, 2014

⁶ Measuring the return from Australian tourism marketing investment in Asia / Nada Kulendran, Larry Dwyer, STCRC, 2008

⁷ State of the Industry, 2011, Tourism Research Australia