
TOURISM ACCOMMODATION AND TRAINING

PART A

Terms of Reference and Overview

Terms of reference

Overview

Findings and recommendations

TERMS OF REFERENCE

I, George Gear, Assistant Treasurer, under Part 2 of the Industry Commission Act 1989:

1. refer tourism accommodation and tourism training arrangements to the Industry Commission as an Industry Development Reference, for inquiry and report within twelve months of receiving this reference;
2. specify that in making its recommendations the Commission aim to improve the overall economic performance of the Australian economy;
3. request that, in respect of the provision of tourism accommodation and training, the Commission report on:
 - (a) the structure and competitiveness of Australia's tourist accommodation providers and associated services, including an identification of strengths and weakness, drawing on international comparisons where appropriate;
 - (b) impediments to access to capital for industry investment;
 - (c) the appropriateness and adequacy of existing training facilities and programs and how these could be improved;
 - (d) local cost structures and how they compare with competing destinations;
 - (e) the effect of industrial awards and agreements on costs and flexibility;
 - (f) the impact of institutional, regulatory and taxation measures of governments;
 - (g) the level and effectiveness of any government support measures for tourism accommodation and training;
 - (h) any measures which could be taken to remove impediments or otherwise contribute to the long term development of the tourism accommodation sector and tourism training needs; and
 - (i) the identification of groups who would benefit from or be disadvantaged by any measures from 3(h);
4. request that, where appropriate and without disclosing material provided in confidence, the Commission report on examples of past success and failure in the industry, both in Australia and elsewhere, by way of case study or other means;
5. specify that the Commission report, where appropriate, on implementation strategies for its recommendations;
6. specify that the Commission avoid duplication of any recent substantive studies undertaken or underway elsewhere; and
7. specify that the Commission have regard to the established economic, social and environmental objectives of governments.

George Gear
28 February 1995

OVERVIEW

Tourism has become a very important industry, worldwide and in Australia.

Inbound tourism has grown rapidly from 1.0 million in 1984 to a forecast level of 4.2 million in 1996, an average annual increase of 13 per cent, and is expected to continue to grow at 10 per cent a year until the turn of the century.

The growth in overseas visitors has had a marked influence on the development of tourism accommodation. That growth has also influenced the types of services provided (for example, restaurant meals, internal transport and guided tours) and therefore, indirectly, the type of training people require to work in tourism .

However, the greater proportion of demand for tourism accommodation and services comes from Australians travelling within their own country (domestic tourism). Domestic tourism has grown on average by less than 1 per cent per annum over the last decade.

The high growth in inbound tourism suggests that Australia is an internationally competitive destination. This view is supported by a comparison of accommodation room rates and cost structures in Australia with those in several overseas destinations. Even though room rates are increasing, this is not expected to have a large dampening effect on inbound and domestic tourism because, for many tourists, accommodation is not a large component of their overall expenditure.

In the not too distant past, room rates were considerably higher than they are at present. In some key destinations room rates fell to relatively low levels in the first half of the 1990s due to significant over-supply. This caused substantial losses for many companies.

As a consequence, lending institutions now exhibit more caution towards investment in tourism properties. Some financial institutions are still not fully familiar with tourism investment but the tourism industry has recently initiated action to remedy this situation.

In response to increasing demand for accommodation, especially from overseas visitors, new accommodation is being constructed in a number of destinations. An exception is Sydney where new investment is historically low. However, any attempt to accelerate the construction of new hotels is likely to be counter-productive. That is, it will inhibit an increase in room rates to a level that enables existing hotels to be sufficiently profitable to encourage new investment. For this reason (apart from any other) it does not make sense for governments to subsidise new hotel development. However, government agencies can improve the information which underpins the analysis and forecasts which investors rely on.

Access to finance is not the only issue facing tourism accommodation providers. For example, land use planning schemes, depreciation and other taxation measures are considerations.

There is no evidence that land-use planning and other related regulatory mechanisms are significantly impeding the development of tourism accommodation. There is no evidence to suggest that taxation measures are discriminating against tourism accommodation. Also, there is no evidence that depreciation allowances are too low, or that they are lower than rates which accord with the economic life of buildings, plant and equipment and furniture and fittings.

Tourism training has been in the forefront of the recent changes in vocational training in Australia. However, this is a difficult time to be evaluating the appropriateness and adequacy of training programs. The new National Vocational and Educational Training System (NVETS) has not been in place long enough for there to be strong evidence on which to judge its efficacy.

The fact that tourism entails a large range of occupations, from the highly skilled (for example, executive chefs) to the very basic (cleaners), means that it is difficult to generalise about training. The type of staff required in a five star hotel will differ significantly from those needed in a small country motel. The skills required in a silver service restaurant will differ from those required in a fast-food cafe. Tour guides, scuba instructors and Aboriginal cultural interpreters will require different skills to those of an urban bus driver who presents a running commentary on Sydney.

Nonetheless, it is clear that on average the people employed in the tourism industry have relatively low levels of formal education and that many employers, especially small employers, do not particularly value formal education for their employees. Traditionally skills have been developed on-the-job rather than via formal education (with the exception of chefs). It seems that, in the broad, the skill levels required have been relatively low.

The industry associations, the tourism training network, and some employers have formed the judgement that skill levels are too low and a major effort needs to be made to upgrade them. And indeed such a major effort has been put in place. This view may be correct, although it is not yet reflected in the behaviour of the majority of employers. Alternatively, this view may be correct only for selected parts of the industry. The presumption that there is a high skill way of operating that is more profitable than the current low skill approach has not been demonstrated.

It is too early to tell if the training proponents are right. If they are, they will have done the tourism industry and Australia a great service. If they are not, we will see credentialism, lost job opportunities for people with low levels of formal education, waste of public money, waste of students' time and money and unfulfilled expectations.

What is clear is that the training effort in tourism will succeed only if employers find it to be useful and are prepared to pay increased wages to formally trained staff who bring the more valuable skills into the workplace.

The number of formal tertiary courses has expanded. At university level these are mainly aimed at meeting the requirements of management positions. Most have only recently started to graduate students and it is likely to be some time before

their influence is apparent. An increasing number of students are also undertaking vocational training, mainly TAFE courses. Whether or not vocational training in the tourism sector is being overly influenced by the needs of larger, capital city employers, is a matter to be considered.

Given the nature of much of the work in tourism, and given that it provides work for people wanting low skilled work, women and students wanting part-time work (as well as the highly skilled), it is important that artificial barriers are not created which frustrate the entry of these people into the industry.

Much of tourism is a seven-day-a-week operation — some of it 24 hours a day. Employers seek considerable flexibility in working arrangements. Flexibility can take a variety of forms. The key ones of concern to tourism employers are flexibility in hours worked and flexibility in work performed. In addition, employers are concerned about the requirement to pay penalty rates for what are for them normal hours of operation.

The Federal awards in the tourism industry have increased the degree of flexibility in these areas and are free of many of the problems found elsewhere, such as multiple awards, narrow job classifications, and complex and outdated provisions. The same cannot be said of many of the State awards which are yet to be reformed. Penalty rates remain an issue and few firms have made use of enterprise bargaining provisions to tailor arrangements to their own workplace.

Introduction

This is an inquiry into two aspects of tourism. The first is the provision of tourism accommodation. The second is the employment and training of personnel to work in tourism.

The report is forward-looking. The challenge has been to ascertain if there are matters which could frustrate the continued development of the type of accommodation tourists want, if the training staff receive will meet employers' needs and tourists' expectations, and whether labour market arrangements allow for the flexibility required in the tourism industry.

In looking to the future there is also much to be learnt by casting a critical eye to the past. A retrospective view provides an understanding of the evolution of tourism accommodation and the trained workforce which serves the tourist.

To understand why we have the type, style and location of tourism accommodation we have today and the type of workforce, we need to understand people who are called tourists and their reasons for travel.

The tourist

There is a common perception of what a tourist is. Any one of us is likely to be comfortable in being called a tourist if we are taking holidays in Tasmania, taking a short break in the Blue Mountains or visiting friends and relatives in Bunbury. That is, tourists are thought of as people who travel for the purpose of enjoyment and social interaction.

Those who travel for adventure, say, white-water rafting in south-west Tasmania, might think of themselves as ‘adventurers’, rather than tourists. Certainly those who travel for business purposes, or who travel to attend scientific conferences, are not likely to consider themselves to be tourists.

However, for pragmatic purposes of gathering useful data — such as the information needed by someone contemplating developing a major hotel in Adelaide or Darwin — all these travellers, and many other types, have come to be deemed tourists.

A brief history of tourism accommodation

Australia’s geography and settlement patterns have meant that, from the very early days of European settlement, travel for the purpose of business was important. Accommodation had to be provided for the large army of itinerant shearers, cane-cutters and the construction workers who built the roads and rail lines which made rural industries and mining efficient undertakings in this country. It is still possible to find evidence of the nature, if not the extent, of this early type of tourism accommodation in those country towns where the ‘pubs’ have not been demolished and replaced by motels.

Geography and demography were major determinants of holiday travel. The capital cities were located on the coast and from relatively early days Australians developed a love affair with the beach. From early this century, those who had the means and time to travel from the capital cities to relatively close beach areas established beach ‘shacks’ for Christmas holidays and/or the occasional fishing trip.

As in other industrialised countries, mass tourism did not emerge until after the Second World War and it was not until about the mid-1950s that it started to have an impact on the style, location and quality of tourism accommodation. The first motel appeared at this time as did the first Gold Coast ‘high-rise’ hotel (if only a few storeys). Now the Gold Coast is one of the nation’s major tourism destinations.

Motels spread their way along major routes, such as the Pacific Highway between Sydney and Brisbane, the Hume Highway between Melbourne and Sydney, and gradually replaced the ‘country pub’ in rural locations.

Until a decade or so ago much domestic tourism was a beach-oriented annual holiday, occasional visits to friends or relatives in other cities, visits to sporting or cultural events, and exhibitions (such as the Royal Melbourne Show) and day tripping. Camping was a popular style of low-cost accommodation.

The nature of this tourism meant that it required few highly trained personnel. There was little in the way of eating out in restaurants. This meant that, with the exception of the few high quality, capital city hotels and occasional restaurant or cocktail bars, there was relatively little demand for well-trained staff, including chefs. Most of the other occupations which are now common in the tourism industry (such as travel agents, tour guides, etc) were in very small demand.

The concept of inclusive ‘resorts’ received much of its impetus from the development of holiday-maker accommodation on a number of Great Barrier Reef islands. Being on an island meant that the accommodation provider had to cater for virtually all visitor needs. The domestic airlines developed a number of these resorts.

Another feature of modern mass tourism — the notion of an extensive area as a ‘resort destination’ — had its origins in the late 1960s and early 1970s. The gifts of nature, demography and the vision of developers and local officials determined that this destination would be what is now the City of the Gold Coast. It had previously been a string of small towns stretching for about 30 kilometres. Motels, apartments and beach-front high-rise units developed in clusters (the most obvious being Surfers Paradise) but the clusters eventually met to form a strip development like its counterparts in mainland United States and Waikiki, Hawaii.

The period stretching back to just after the end of the Second World War, through the 1950s, 1960s and well into the 1970s, was an era of substantial change in tourism in Australia. However, as population and incomes grew and tastes in holiday-making changed, the lesson from history is that the tourism accommodation market responded to meet this significantly increased and diversified demand. That is not to say that individual mistakes were not made, that some developers or accommodation owners did not lose their investments, that changes in the economic environment (such as ‘credit squeezes’ and recessions) did not cause cyclical ‘booms and busts’. Other than for government provision of infrastructure and land-use planning, the response to such changes was left to the workings of supply and demand, by and large with satisfactory outcomes.

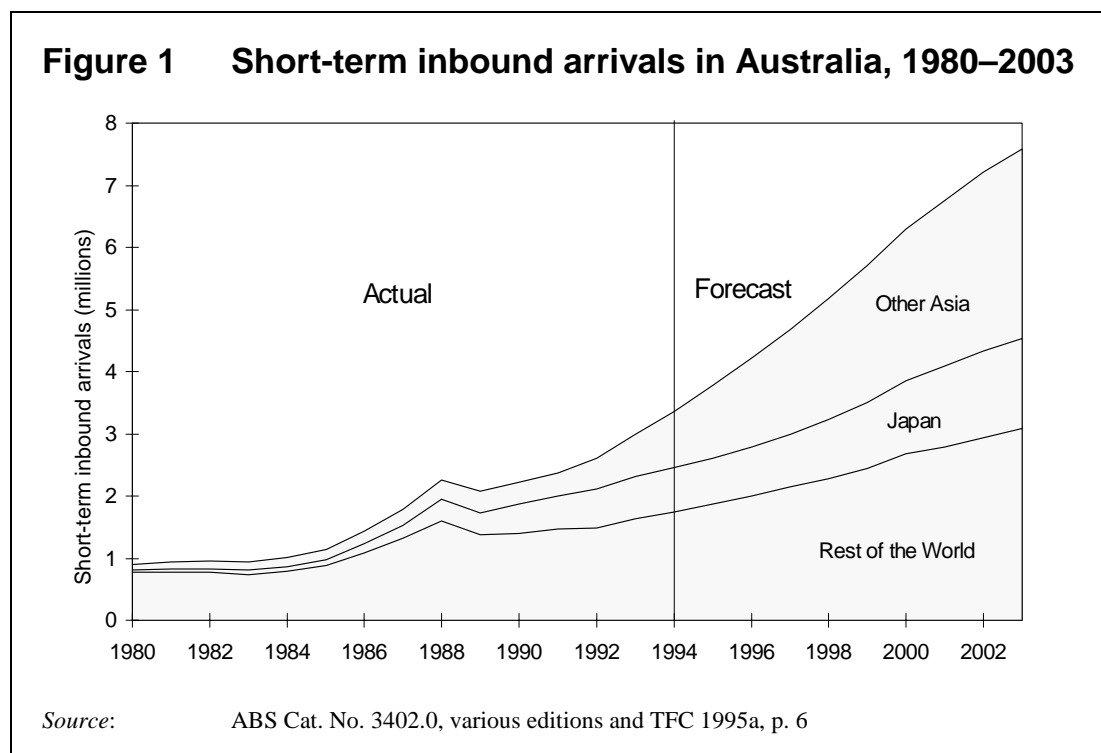
This history has left Australia with a substantial current stock of motels, hotels, holiday units, and increasingly, bed and breakfast establishments. A catalyst for changes to the style and quality of accommodation, and to the requirements for trained staff, was the recent rapid growth of overseas visitors.

Growth in overseas visitors

The migration of Europeans to Australia this century has meant that a two-way flow of visiting friends and relatives has been a dominant tourism force for those who could afford overseas travel. For example, more than 50 per cent of visitor nights from the United Kingdom are spent with friends and relatives.

A generation ago the numbers of visitors to Australia was insignificant compared to the number now. Many more Australians travelled overseas than foreigners visited. It was not until 1987 that this was reversed.

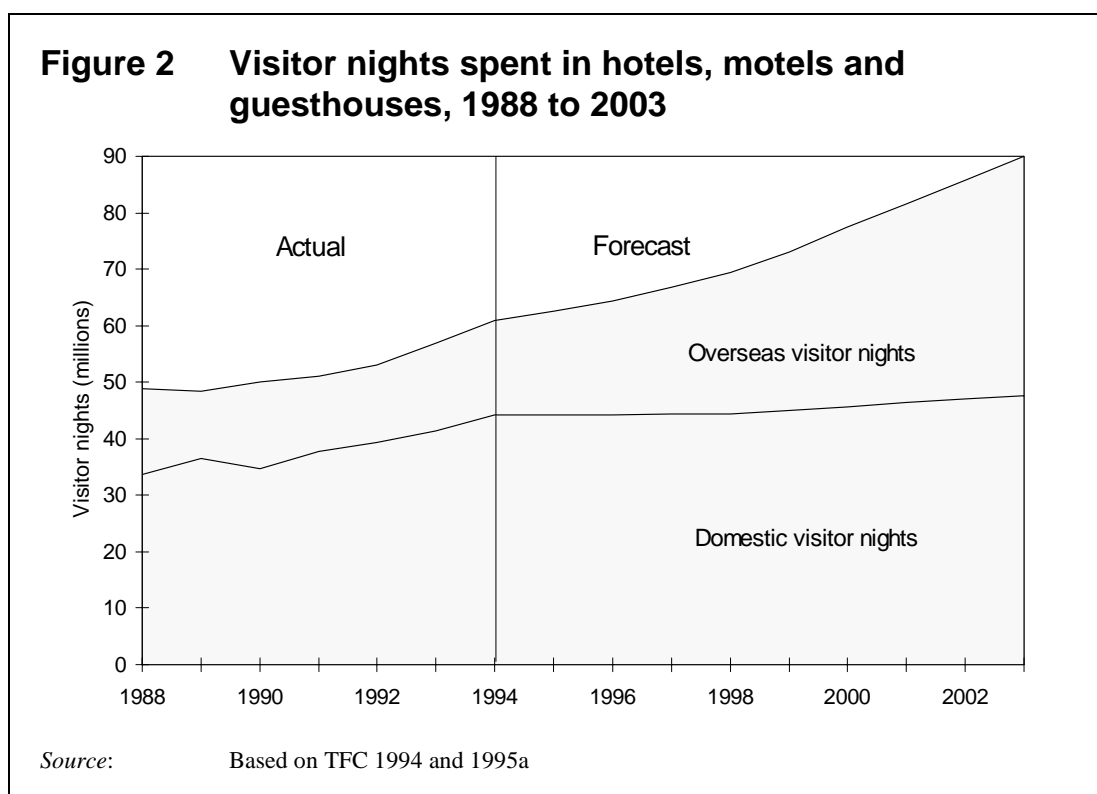
From 1971 to 1975, the annual average number of overseas visitors was just under half a million. In the following five years, the average annual number of overseas visitors was 50 per cent higher. Figure 1 shows that by 1984 it had exceeded 1 million. By 1995 this had grown to 3.7 million, representing a compound growth rate of 13 per cent per year since 1984.



In the year to September 1995, the number of visitor nights generated by inbound tourists was 79 million. Of these, 32 million visitor nights were spent in the homes of friends and relatives.

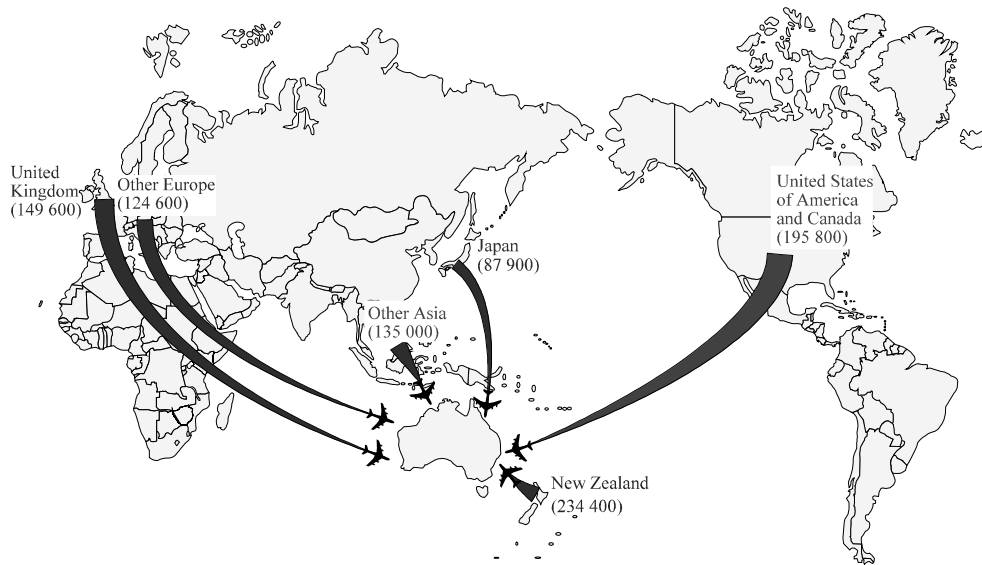
To put this inbound growth into perspective, 200 million visitor nights were generated by domestic tourists in 1985–86. By 1993–94 (the latest comparable year available) this had risen to over 208 million. Of these, 97 million were spent with friends and relatives and 43 million nights were spent in hotels, motels and guesthouses and the remainder used a vast range of commercial as well as non-commercial accommodation.

In percentage terms, in 1994, domestic tourists accounted for about 72 per cent of the demand for accommodation expressed as visitor nights spent in hotels, motels and guesthouses, with the remaining 28 per cent attributable to inbound tourists. However, inbound tourism is growing much faster than the domestic segment of the market, and the Tourism Forecasting Council forecasts imply that overseas visitors will account for 41 per cent of the demand for this type of accommodation by the year 2000 (see Figure 2).



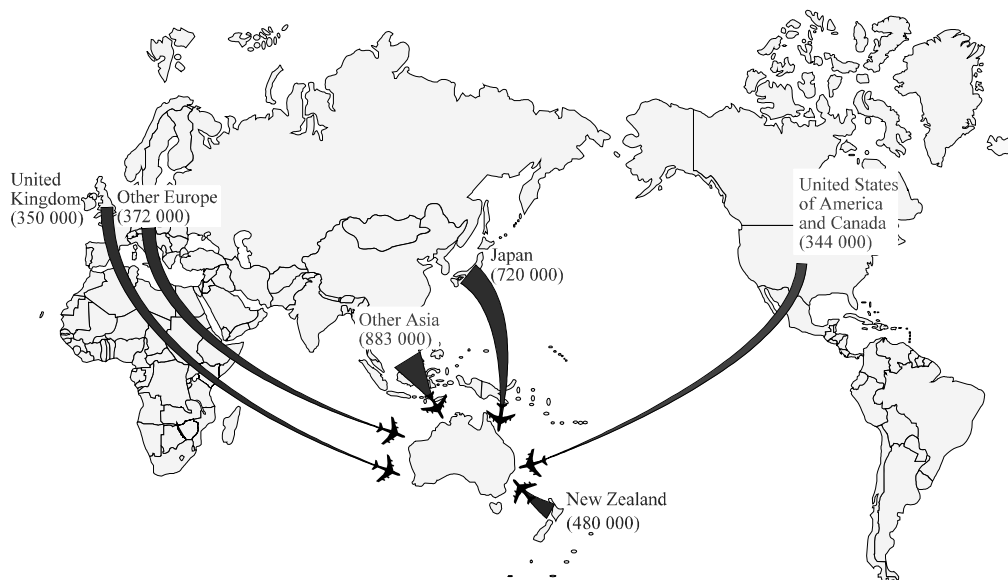
Whereas Europe, New Zealand and North America were the main sources of overseas tourists in the past, today Asia is Australia's main source. Figures 3 and 4 show the rising share of visitors from Asia, from only 23 per cent in 1984

Figure 3 Inbound arrivals, 1984



Source: ABS Cat. No. 3402.0, various editions and TFC (1995)

Figure 4 Inbound arrivals, 1994



Source: ABS Cat. No. 3402.0, various editions and TFC (1995)

to half now. This represents a major shift in the source of visitors coming to Australia. Japan is the single largest source country, accounting for nearly 20 per cent of visitors in 1995. In that year, half the overseas visitors to Australia were from Asia.

The duration of stay by overseas visitors differs markedly between countries of origin. Visitors from the traditional markets of Europe and North America tend to stay longer in Australia than visitors from Japan.

In the year to September 1995, visitors from the United Kingdom stayed an average of 43 nights, those from other European countries 37 nights, and American and Canadian visitors stayed an average of 26 nights in Australia. Visitors from Japan stayed an average of 9 nights and visitors from other Asian countries 25 nights. Note that the average figure for other Asian countries is affected by the inclusion of students from those countries who stay in Australia for less than a year. These students rarely stay in tourism accommodation. As explained later, the different durations of stay have implications for the accommodation sector.

Where tourists enter Australia, and the States and Territories visited in Australia (see Figure 5), have a direct influence on where accommodation – of the style they demand – is provided. To understand the requirements for accommodation and other tourist services, it helps to understand what motivates tourists.

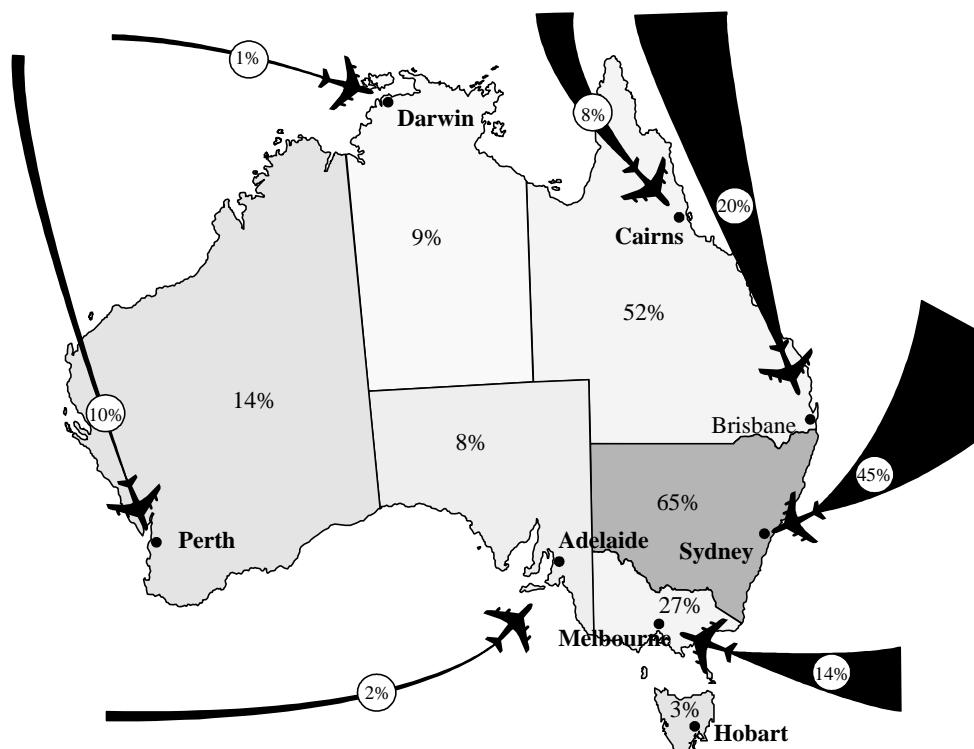
Influences on tourism demand

Tourism numbers are strongly influenced by economic factors. The number of business travellers is particularly influenced by the level of economic activity, both in Australia and abroad. For leisure tourists, incomes, the prices of airfares, exchange rates and the cost of goods and services purchased in Australia compared with alternative destinations, are all important determinants of tourism numbers.

Exchange rate changes are also likely to have had an effect on Australia's competitiveness. Between 1981 and 1995, in terms of the real effective exchange rate, the Australian dollar depreciated by 26 per cent. This increased the purchasing power of foreign tourists travelling in Australia. Exchange rates, of course, fluctuate and at the time of writing the Australian dollar was appreciating.

The fall in domestic airfares has also added to Australia's competitiveness as a destination, by making travel within Australia cheaper. Deregulation of the domestic airline industry in 1990 has resulted in a sustained fall in domestic airfares of between 20 and 30 per cent.

Figure 5 Points of entry into Australia and states/territories visited within Australia, 1994



Note: The percentages for the visits to each state total more than 100 because some tourists visit more than one state.

Source: BTR 1995d, pp. 41 and 47

The response to changing market segments

Even though the ratio of domestic to inbound tourism is changing rapidly, most of the demand for tourism accommodation still comes from domestic travellers.

Inbound tourism was estimated to contribute \$10.5 billion to the Australian economy in 1994. This figure includes an estimate of the amount of package tour expenditure which is ultimately paid to Australian providers of hotel rooms and other tourism services.

In 1992 (the most recent data available), there was \$28.6 billion of domestic tourism expenditure, of which \$10.4 billion was spent on day trips.

Tourism accommodation developers have responded to both the increased numbers of tourists in Australia and the changing types of accommodation they want.

The early 1980s onwards saw the start of a new phase of construction of international standard 4 and 5 star hotels, mainly aimed at the Asian market. In general, Asian demand (particularly Japanese demand) has been in the form of short-stay, group tours. Many destinations are visited in the time available. With short-stay, organised touring, it was inevitable that large hotels would be needed and in the most appropriate locations to meet these demands. Sydney and Cairns, to name two destinations, were popular choices.

A new trend to emerge has been the development of integrated resorts incorporating golf courses and extensive leisure facilities. These resorts include residential property and were developed, in part, to attract foreign investment.

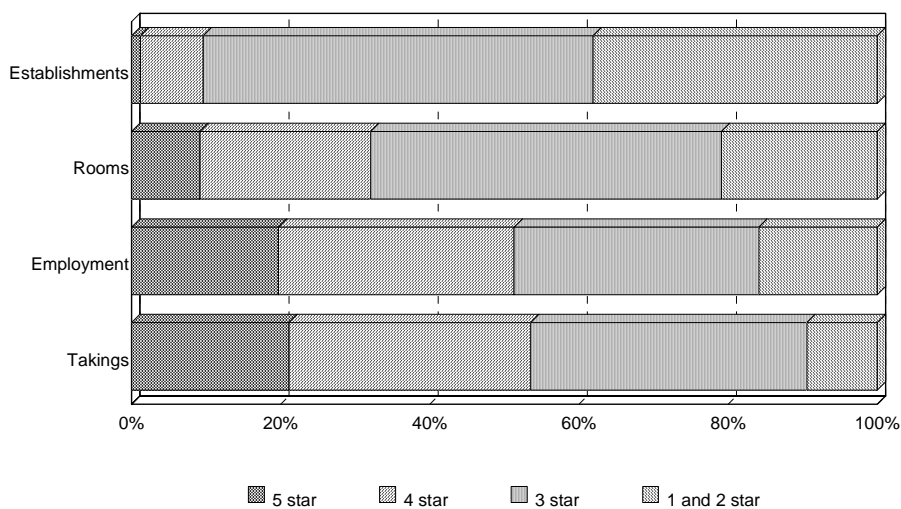
However, there is much more to the background to construction of new, international standard accommodation in Australia. For example, the growth of Asian demand did not mean that demand from other regions was displaced. Events such as the America's Cup yacht race in Freemantle, the International Expo in Brisbane and the Bicentennial celebrations provided considerable opportunity to promote Australia overseas, especially in traditional markets.

Australia's enhanced profile as an environmentally attractive and interesting destination drew increasing numbers of environmentally-aware Northern Europeans. They were likely to be so-called, 'free and independent travellers' (FITs) who would venture further afield than the main gateways and two or three icons. Consequently, international accommodation has been constructed in a number of destinations throughout the country. The increasing number of backpackers (mainly from overseas) resulted in a rather rapid, and successful conversion of existing motels, boarding houses, etc. to backpacker accommodation.

The current stock of hotels, motels and guesthouses consists of close to 5000 establishments and 170 000 rooms. There are other types of accommodation not included in these categories. The shares of establishments and rooms by star grading are presented in Figure 6. This figure also shows the shares of employment and takings from accommodation by star grading. Note that takings exclude revenue from food and beverage, and this is a much larger source of revenue for 4 and 5 star hotels than for the other grades.

On the basis of star gradings, 3 star accommodation was the largest segment in terms of the number of establishments, capacity, employment and takings in 1995. In terms of employment and takings, the next largest category was 4 star accommodation.

Figure 6 Establishments, rooms, employment and takings by star grading, 1995



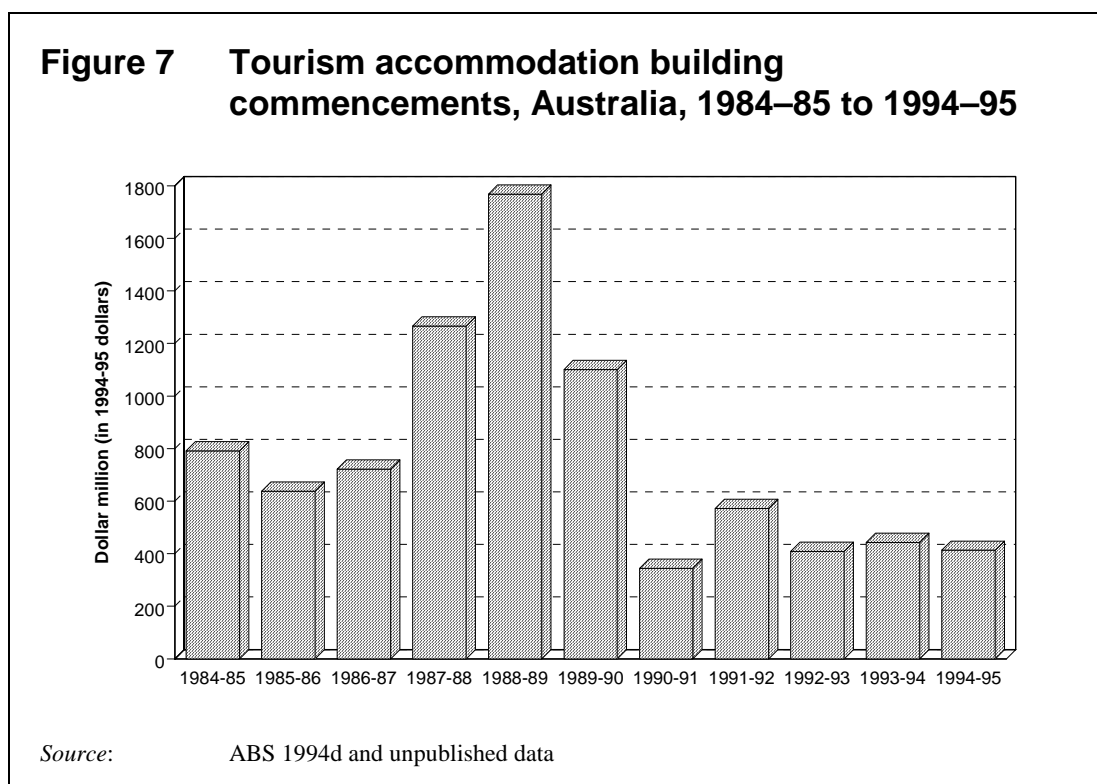
Source: ABS Cat. No. 8635.0, various issues

Investment in the past decade

The rapid growth of inbound tourism, dominated by Japanese arrivals, that has occurred in the last decade has driven the considerable changes in tourism accommodation. Large hotels, in tourist gateways, have been built to cater for group, package tourists. These hotels have to be of international standard. In some market segments (island resort tourism and other nature-based tourism), Australia has been a leader in emerging world trends.

Given the size of domestic tourism, road-side motel and beach apartment blocks have retained their importance. With some fluctuations, this type of accommodation has kept pace with the demands of domestic tourists, grown, and changed gradually in accordance with changes in tastes. The big changes in quantity and type of accommodation were mostly driven by a response to the real or expected demand by overseas visitors. The significant increase in Japanese tourists had the largest impact.

One measure of investment in tourism accommodation is the level of commencements. For Australia as a whole, commencements peaked in 1988–89 at a level of \$1.8 billion (see Figure 7). Commencements subsequently fell to \$1.1 billion in 1989–90 and then to a low of \$341 million in 1990–91. Since that year, they have remained at a relatively low level. The pattern of commencements has varied greatly between major destinations.



It is possible to consider commencements in three periods (see Figure 7). In the first period (1984 to 1987), the number of overseas visitors (including visitors from Japan) was growing steadily and economic conditions were relatively buoyant.

In the next period (1987 to 1990), the important factors which influenced investment were: further increases in the number of overseas visitors; increasing occupancy and room rates; the expectation of substantial capital gains as asset prices were rising, and the ready availability of finance. The dramatic increases in overseas visitors led to high forecasts of future growth in both overseas visitors and room rates.

After the stock market crash in October 1987, funds were transferred into the property market. Highly-g geared investors developed expensive hotels, in part, as real estate investments in the expectation of capital gains. In some cases, there was inadequate concern for the cash flow required to meet debt payments.

The increased availability of finance arose from financial deregulation, and led to the major banks, finance companies, and state banks competing aggressively for market share.

Many of the individuals involved in tourism accommodation development did not have experience in this business. Notwithstanding this, they were assisted in their aspirations by willing lenders. Some in the banking system did not appear to have the necessary expertise to assess investments in tourism. Proposals that were assessed on the prospect of capital gains, rather than sustainable cash flows, failed as asset prices fell and interest rates rose.

Changes in the availability of funds were not restricted to Australia. Japanese banks had entered world markets, seeking market share through high gearing and low margins.

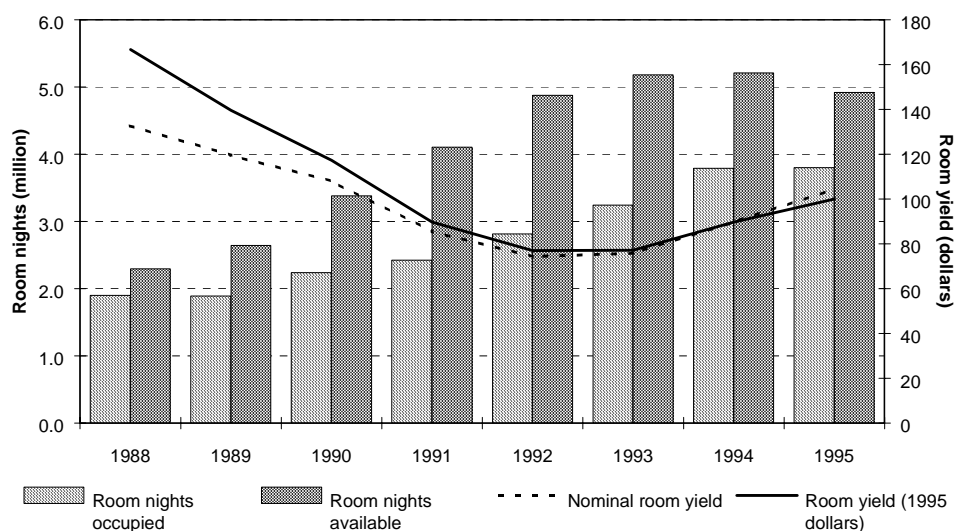
During the most recent period (1990 to 1995), the major influences on investment were: large losses as a consequence of the over-supply, a reduced rate of growth in domestic tourism due to the recession, reduced Japanese investment due to falling property and equity prices in Japan, and sales of existing properties (generally to Asian investors) at prices substantially below replacement value and often below the initial cost of construction. By 1996, investment was beginning to occur again in some destinations.

The part of the market most affected by the investment boom of the 1980s was the 4 and 5 star hotel segment. In Australia's largest tourism accommodation market, Sydney, numbers of 4 and 5 star rooms more than doubled between 1988 and 1992. Real room yields fell by approximately half (see Figure 8).

The excess capacity and falling room rates of the 4 and 5 star hotels put pressure on accommodation with lower star gradings. For example, in Sydney, 3 star accommodation recorded a substantial fall in room yields between 1988 and 1992. Other destinations were also affected by the over-supply in Sydney. As tour wholesalers and retailers were able to obtain relatively low rates in Sydney, tourism properties in other destinations were forced to offer lower rates.

In a competitive market falling occupancy and room rates led to relatively low profitability with some properties making substantial losses. This led to the sale of properties at below replacement cost and greatly reduced investment. As a result, even now, many participants claim that financial institutions are unwilling to lend for new developments.

Figure 8 Room nights available, room nights occupied and room yield for 4 and 5 star hotels and motels, Sydney, 1988–1995



Source: ABS Tourist Accommodation 8635.1 (various issues)

Other influences on investment

The preceding discussion has dealt with major factors influencing investment — mainly in the 4 and 5 star segment — particularly in the past decade. These were seen as responses to changes in the general economic environment, easy access to finance, and over-optimism based on growth rates and targets.

There have been other influences on the profitability of tourism properties.

The owner-manager relationship

Owners experienced much greater financial distress than did the management companies. These management companies handle the day-to-day management of tourism properties on behalf of owners, and until recently received payments based on revenue rather than profits. Management contracts have changed more recently, placing much more emphasis on giving the management companies the incentive to make profits for the owners.

Taxation

Taxation can influence investment in tourism accommodation. With regard to direct (income or company) tax, the tourism industry is treated no differently to others except that it has been granted differential depreciation allowances on buildings. In general, the depreciation allowances for tourism accommodation are not too low, and are at least as high as they would be if set in accordance with the concept of economic life.

Based on available data, the tourism accommodation industry as a whole pays no more indirect tax than the all industry average.

The Fringe Benefits Tax affects all industries and is not discriminatory against tourist accommodation.

At the Draft Report hearings the differential tax treatment of clubs and hotels became a major point of contention between the Australian Hotels Association (AHA) and the Registered and Licensed Clubs Association of Australia. Specifically, it was claimed by the AHA that an income tax advantage enjoyed by clubs, under the principle of mutuality, was enabling them to build accommodation from a tax-advantaged position and thereby compete unfairly with other accommodation providers.

The Commission has found that, although the principle of mutuality is soundly based, given the changing nature and scope of some large clubs, the Tax Commissioner may need to review the eligibility for access to concessions under the mutuality principle.

The competitiveness of Australian tourism accommodation

The significant increase in overseas tourist numbers is *prima facie* evidence that Australia is a competitive destination. It should be noted that growth in tourism to and within the Asia-Pacific region has been strong and Australia has at best retained its share of this growing market.

Accommodation is only a small part of the tourism experience, and it is a separate matter to establish the extent to which Australian tourism accommodation matches the world's best in terms of price and quality.

A comparison of room rates (for 4 and 5 star hotels) between the three major capital cities in Australia and three overseas competitors (San Francisco, Hong Kong and Singapore) shows that in recent years Australia has been the least expensive destination by a large margin (see Figure 9). Note that the differences in room rates are much greater than the differences in cost per room.

A comparison of room rates between two of Australia's resort destinations, the Gold Coast and Cairns, and selected overseas resorts, indicates that the Australian destinations are competitive at present room rates, but not by a large margin (see Figure 10). There has recently been considerable development of new resorts in neighbouring countries, including Indonesia, Malaysia and Thailand. This expansion will increase the competitive pressures faced by Australian resorts.

For a more complete picture, the comparisons need to take into account the relative operating costs in the competing destinations. The ideal situation would be to compare rates of return per dollar invested, but such evidence is not available and only data on gross operating profit can be used.

Data on the expenses incurred per occupied room indicate that these are similar in the Australian hotels and the overseas ones chosen for comparison (see Figures 9 and 10). Gross operating profits however, are at present lower in Australia.

Future directions

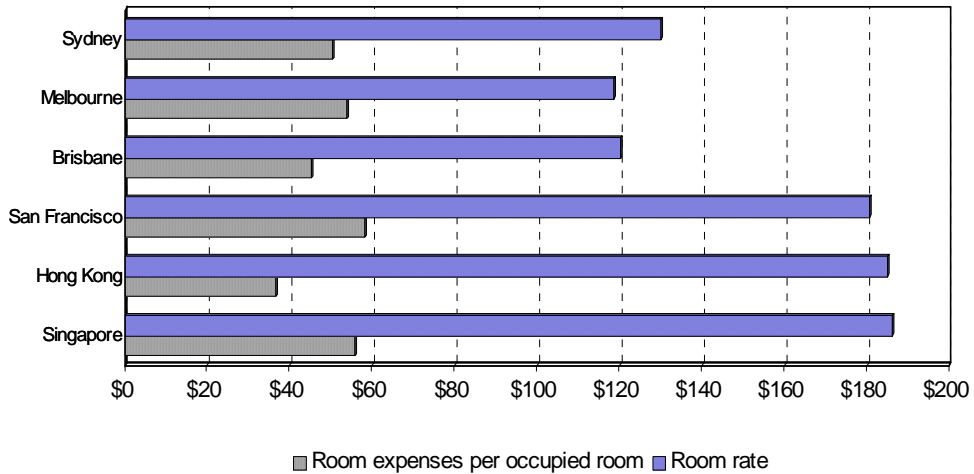
In 1995 there were 3.7 million overseas visitors to Australia.

In April 1995, the Tourism Forecasting Council forecast this number to grow to 6.3 million by 2000 and 7.6 million by 2003. There will be a significant number of additional visitors in Sydney for the Olympic Games in 2000. The worldwide publicity of that event is likely to promote Australia as a destination.

The challenge for the industry is to continue to meet a growing international demand for accommodation in a manner that returns an adequate profit to owners.

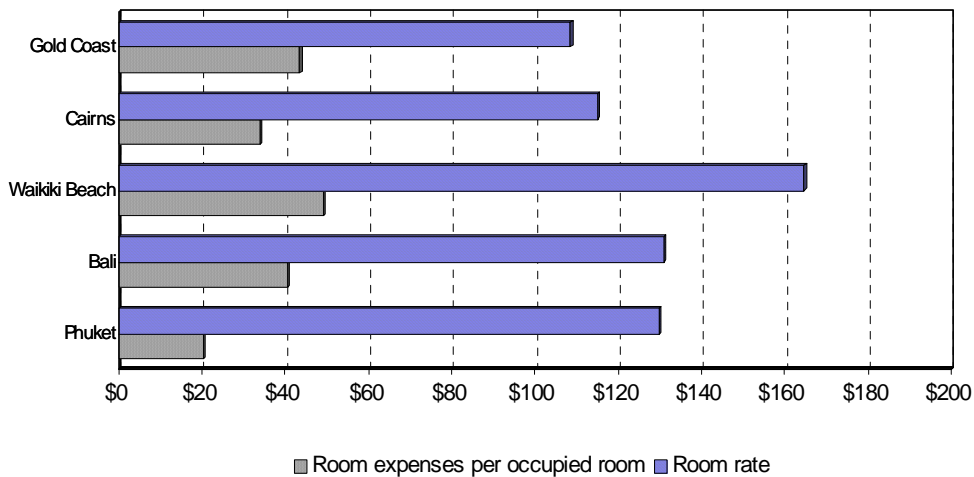
In the short to medium term, some potential tourists will not be able to obtain rooms when and where they want them and at prices which have prevailed in the recent past. That is, there may be difficulties in accommodating demand in specific destinations, such as Sydney, although it is highly unlikely that they will occur across the board. As rooms become scarce and prices rise, guests on package tours who generate low margins are likely to be replaced by independent travellers who generate higher margins.

Figure 9 Large cities, room rates and expenses per occupied room, 1993 and 1994 (4&5 star hotels)



Source: Horwath Asia Pacific 1995

Figure 10 Resort areas, room rates and expenses per occupied room, 1993 and 1994 (4&5 star hotels)



Source: Horwath Asia Pacific 1995

The forecast increases in demand influence investors' expectations. In a number of major destinations (such as the Gold Coast, Perth, Melbourne and Darwin) substantial new investment is occurring. In Sydney, increases in supply outstripped demand growth until 1992. The recent higher occupancies will be reflected in higher room rates for independent tourists and most domestic tourist packages in 1996, but not until 1997 for packages purchased by overseas wholesalers. High occupancies are a prerequisite for a change in expectations with regard to the profitability of investment.

Some organisations, including the Tourism Task Force, have been calling for concessional access to Government land in Sydney as a means of encouraging hotel investment. The Commission considers that Government intervention to eliminate expected shortages (through preferential access to land or by any other means) would be counter-productive. If further investment and construction takes place before profitability returns, there will be a delay in room rates rising to profitable levels.

It is a normal feature of the market for accommodation that there will be shortages at some times and in some locations. Such shortages do not justify government intervention.

Access to finance

The attitudes of financial institutions to tourism investment are affected by both the losses of the last decade and the recent low levels of profitability. However, the Commission has concluded that there are no regulatory or institutional impediments to access to finance for tourism accommodation. Some financial institutions are still not fully familiar with tourism investments but the tourism industry has initiated action to remedy this situation. The Department of Tourism and the Tourism Task Force recently commissioned the Macquarie Bank to identify impediments to institutional investment in tourism. Their report (Macquarie, 1995) identified the two main factors to be:

- the poor investment track record of the industry; and
- a lack of understanding on the part of institutional investors of the current improvements in the sector and the potential for future income and capital growth.

Macquarie Bank advised the industry to cultivate a relationship with institutional investors — to communicate with them and to provide information in a timely and professional manner on the financial returns and on the potential for investment.

It is possible to be somewhat optimistic about the future. The various factors which drove the construction of too much highly-priced accommodation in the past are no longer evident, or have diminished in influence. However, there may still be an 'overhang' resulting from the experience of the financial institutions, which is causing them to be over-cautious in their evaluation of tourism accommodation proposals. These institutions are certainly more prudent than they were in the past. Over time, financial institutions, developers and owners can be expected to become more experienced in judging the right time and place to invest.

Provision of information

In light of the current size and growth rate of tourism there is a need for better information on economic activity associated with the tourism industry. Such information is necessary to assess the impact of policy-induced influences on the industry's performance. It would also be valuable for the private sector, as a better foundation on which to base its demand forecasts and investment decisions.

Tourism is not an industry in the conventional sense. It is defined by who the purchasers are rather than by the nature of the producers or product. For example, a restaurant meal sold to a local person is not part of tourism expenditure but the same meal sold to a person who is away from home is. The way in which industry activity and employment are captured in ABS data make it impossible to obtain an accurate picture of the size of the tourism industry, its revenue or its employment.

There is scant research on the likely effect price increases have on demand for tourism accommodation. This is something which will need to be attended to if better decisions are to be made in the future. It would appear that some of the unprofitable decisions made in the recent past were based on expectations of having more tourists than actually eventuated and of tourists paying much higher room rates than they actually did. The performance of any particular hotel will be affected not only by demand in the region but also by the decisions of others to build at the same time in the same place. Errors in predicting both supply and demand were the reasons for the over-supply in certain destinations.

Tourism accommodation and the environment

The Australian natural environment is a major tourist attraction and the provision of accommodation in appropriate locations is important for ensuring access to sought-after sites. If not managed correctly, tourism accommodation developments have the capacity to destroy the environmental assets upon which they rely.

Accommodation provision should be suitable for the environment in question and appropriate locations should be identified before accommodation is constructed. It is important that appropriate regulations and planning processes are adopted so that land is dedicated to its optimal use and conflict over land use minimised. In particular, there is merit in streamlining the participation of authorities involved in development applications.

Co-operation between different levels of government is essential to ensure that appropriate accommodation siting decisions are made. The Intergovernmental Agreement on the Environment provides the framework for such decisions. There is a need to put in place immediately the procedures and processes that are established by this agreement.

Another potential influence on the development of tourism accommodation is local government land-use planning and zoning. It is through this mechanism that incompatible land uses are identified and separated. There has been no evidence presented that tourism accommodation has been, or is being, adversely affected in this regard, although planning approval processes should be standardised and similar procedures adopted in all jurisdictions.

There are some development controls, such as floor space ratios, that are different for hotels than for other buildings. These controls require re-examination to ensure that they do not provide unnecessary impediments to hotel development.

What can governments do?

The history of growth and change in the Australian tourism accommodation sector has been one of supply responding to demand with virtually no government involvement.

The impact of the period when supply outstripped demand will correct itself in time and there is no need for government action. However, apart from a role for government in providing better basic information for decision-making, there is a role in protecting the environment and in land-use planning.

A range of interested parties (including potential developers and investors, existing owners, marketing bodies and government infrastructure suppliers and planners) would benefit from the availability of more detailed and destination-specific data on which to base forecasts. There is also a need for better data on tourism generally. To this end, the Commission has concluded that the Australian Bureau of Statistics be asked to hasten the development of Tourism Satellite Accounts.

There is a need for soundly based forecasts, not just of tourist numbers and nights away from home, but according to market segment and specific destination. Such forecasts should be related to the prices tourists will be asked to pay. Accommodation providers need to take into account how demand responds to changes in room rates.

The benefits of better information will flow through to potential investors and owners of tourism accommodation and to the large number of owners of tourism-related businesses, as well as to government bodies responsible for the provision of infrastructure.

Government action, particularly in providing more detailed basic data should provide the basis for more timely investment decisions in the future.

* * * * *

Characteristics of the tourism workforce

Employment growth in tourism has exceeded the Australian average over the last decade — there are now about half a million people in the tourism workforce, although it is difficult to determine the exact number.

The broad characteristics of this workforce are as follows:

- it is, on average, young;
- it is characterised by female, part-time employment;
- it has a relatively high proportion of casual and part-time employees, but the majority of hours are nevertheless worked by full-time employees;
- it has a low level of union membership;
- a relatively high proportion of jobs are low skilled;
- a relatively high proportion of hours are worked outside of normal business hours (in the evening and at weekends and on public holidays);
- it is a mobile workforce with high turnover rates; and
- the workforce has low levels of formal educational qualifications.

These general characterisations hide the fact that the tourism workforce is in fact very diverse. It comprises a series of sub-markets, with more or less mobility between them. Numerically, by far the highest proportion of workers are employed as kitchen hands, bar attendants and waiters.

It has been argued that low paid part-time and casual jobs, high labour mobility and low unionism suggest a workforce with poor job security, career prospects, and bargaining position. However, it can also be argued that low paid jobs are better than no jobs and that flexible working times fit well with the lifestyle choices of some members of the workforce (such as a major commitment to family or study). In addition, there is some evidence that many of these tourism jobs do have a contribution to make to providing entry jobs to people who are currently unemployed or at risk of being unemployed.

Tourism labour markets

Tourism labour markets are not fundamentally different from other labour markets, but labour markets have different characteristics than commodity markets. Unlike other factors of production, labour or the services of labour cannot be separated from the individual employee himself or herself. The effectiveness of the individual worker is determined by a complex array of human interactions, motivations and responses by employees and employers. In contrast to machines, the productivity of workers usually rises with ‘use’ (that

is, experience) rather than depreciates, as workers learn many of their skills on the job. Employers need to recruit, train and motivate their workforce, choosing among a pool of potential employees, none of whom is exactly the same as another. These features affect the way in which labour markets operate.

Tourism labour market functioning and efficiency

Low unit labour costs are an important determinant of competitiveness and one means of increasing demand for the product and the profits of employers. In principle, they may be attained in a variety of ways, which range from having highly productive workers who are paid relatively high wages to having low productivity workers who are paid low wages. Firms in the tourism industry choose a variety of strategies to attain low unit labour costs. From an economy-wide perspective, the high productivity/high wage method will generate higher standards of living and is therefore to be preferred. Tourism operations are not especially labour intensive (they are only slightly more so than the average for other industries). Nonetheless attention to labour productivity and quality is important here as elsewhere.

The tourism labour market has many employers and many people employed or seeking employment. There are no barriers to entry apart from normal skill requirements. Thus the labour market is competitive, although the outcomes are constrained by the requirements of industrial regulation.

The degree of efficiency with which the tourism labour market operates is hard to define and even harder to observe empirically. There is no simple test of whether wages and conditions of employment in tourism are inefficiently high or low at any particular time of the business cycle. However, if there are persistent shortages of workers in particular locations or with particular skills, then this may be taken as *prima facie* evidence that the wages and conditions of employment are inefficiently low for those locations or skills.

Society also has objectives in addition to efficiency, relating to equity and fairness. Social objectives are reflected in measures that, for example, define the normal working day, require paid leave and provide the basis for minimum wages. These measures may alter prices and conditions of employment away from those generated by an unfettered market. In this context, labour market efficiency is a case of constrained optimality, that is, efficiency within the constraints of social norms. These norms change, of course, over time.

Flexibility

In this inquiry the Commission is asked to examine the impact of industrial awards and agreements on costs and flexibility in the tourism industry. In doing so, it has consciously chosen not to form judgements about the desirability or otherwise of the entirety of the existing structure of industrial tribunals and of awards as instruments for regulating the labour market.

All developed countries regulate their labour markets in some way, and methods of regulation vary over time. Whether the unique Australian system of a comprehensive set of awards administered by industrial tribunals and supplemented by various forms of bargaining and payment over the award is the best available at this time is beyond the scope of this inquiry.

The inquiry has instead focussed on understanding better what is meant by workplace flexibility, on exploring the forms and degrees of workplace flexibility within the tourism labour market and on examining the changes which have occurred in recent years.

This has been done in the context of the existing institutional framework of awards and industrial tribunals. The recently elected Coalition Government has signalled its intention to change aspects of the industrial relations system, but in doing so to retain both the system of awards and the Australian Industrial Relations Commission (AIRC).

The term ‘flexibility’ has a number of meanings. These include:

- the ability to adjust the size of the workforce;
- the ability to vary the number and timing of hours worked by the existing workforce;
- the ability to shift workers from one task to another;
- the ability to vary wages and on-costs; and
- mechanisms for consultation between the firm and its workers.

The flexibility to tailor workplace practices and employment conditions to the circumstances of individual firms and employees has potential benefits for both, and for the economy as a whole. The benefits of greater flexibility are widely acknowledged in the Australian context, where the rules of employment have historically been prescribed in considerable detail. However, additional workplace flexibility can be costly for employees who bear the consequences and these costs need to be taken into account when assessing whether changes are efficient from the perspective of the tourism industry and of the economy as a whole.

A recurring theme in submissions to this inquiry was the need for flexible working hours. This need arises in part because tourists' demand for services does not flow evenly or predictably across the day, the week and the year and does not conform to the normal business week. Flexible working hours can be achieved through a number of strategies, including the use of casual and permanent part-time labour, overtime, flexibility in rostering arrangements and multi-skilling employees.

Skills which are learned on the job are a major part of the overall stock of skills in the tourism industry. Firms and employees are less likely to accept the costs of acquiring such skills if employees are expected to stay with a firm only for a short time. Casual employees are likely to have shorter tenure than are permanent employees. Thus, a heavy reliance on the use of casuals as a means to flexibility may reduce the commitment of both employers and employees to the development of workplace skills. It is important for this reason that the awards do not bias employment in favour of casuals rather than permanent full or part-time workers.

The impact of tourism awards on flexibility

Awards are legally enforceable documents that specify the conditions and obligations in the employment relationship. They constrain management's prerogative to direct labour and reduce wages — they also specify the obligations of employees (such as the requirement to perform tasks as directed by management and to give notice of resignation). The content of an award is arrived at through a negotiation process between the union and the employer association(s), and on occasions through arbitration. It is also influenced by society's judgments about equity and minimum acceptable standards.

Most tourism enterprises are covered by a single Federal or State industrial award. Although reliable measures of award coverage are not available, it appears that a significant majority of tourism enterprises operate under one of the two main Federal awards: *The Hospitality Industry — Accommodation, Hotels, Resorts and Gaming Award 1995* (Hotels award) and the *Motels, Accommodation and Resorts (Roping-in No. 1) Award 1995* (Motels award). There are also more than 30 tourism awards that operate in State jurisdictions.

The broad conclusions that can be drawn from the Commission's analysis of the two Federal awards and from comments made by participants are:

- it is difficult to make an objective judgement on whether provisions are excessively restrictive;
- both awards contain a reasonable level of flexibility within the overall constraints of the industrial relations system;

- one potential constraint is the requirement in many circumstances to involve the relevant union and, less frequently, the employer association, when changes are proposed;
- the Federal awards have in most respects become substantially less restrictive;
- the tourism awards are mostly free of the major impediments to efficiency which arise when there are contests over job and union demarcation, multiple awards covering a single employer, complex provisions which are hard to understand and narrow job classifications;
- there is an important role for continuing award restructuring to increase flexibility in the awards; and
- there may be limits to the gains in flexibility that can be achieved through award restructuring alone.

Changes to the Federal Hotels Award, in particular, has considerably increased the scope for tailoring employment conditions to the circumstances of the individual workplace through reduced detail in its prescriptions and the introduction of an enterprise flexibility clause and facilitative provisions.

Although not all tourism awards have achieved the same gains through restructuring, the Federal Hotels Award provides an example of what can be achieved.

Despite the general satisfaction with the flexibility achieved in the Federal Hotels Award to date, some participants argued that there were further gains to be had through individual negotiations and through the further simplification of awards via the s.150A review process. This review process is a requirement of the Federal industrial relations legislation and directs the AIRC to review each award every three years to ensure that it is easy to understand and contemporary. One of the major criticisms directed at tourism awards (not just the Federal Hotels Award) related to 'excessive' penalty rates. Changes to penalty rates are contentious because they potentially involve a loss of income for incumbent employees. The Commission received mixed evidence on whether penalty rates in tourism awards were higher than they need be to attract people to do the job. Few participants argued that penalty rates should be zero. There is a case, however, for reviewing whether existing levels of penalty rates exceed those necessary to be deemed to be fair.

In addition to increasing the flexibility of its provisions, the Federal Hotels Award has also been through the s. 150A award simplification process.

Award simplification involves revisions to make the award easier to understand and to administer, without changing the substance of the award. There are considerable advantages to having awards written in a manner that enables them to be clearly understood by the employees and employers (including small employers). While the need to avoid ambiguity imposes limits on how simply the terms of awards can be expressed, there is considerable scope in the two main Federal tourism awards for further clarity and ease of expression.

There are more than 30 State awards covering the tourism industry. As discussed above, State awards still contain many of the obsolete and restrictive provisions that have been amended in the Federal Hotels Award. In Queensland and South Australia awards are being reviewed in a similar manner to the Federal system. In NSW, Tasmania and Western Australia awards are only reviewed at the initiation of the parties to the awards. In Victoria, the whole system of awards has been formally abolished by legislation, although the minimum wages and classifications of the repealed awards continue to apply as a transitional measure.

Enterprise bargaining in the tourism industry

Employment contracts negotiated at the enterprise rather than the industry level (and between employers and employees) are more likely to reflect the unique characteristics of individual workplaces. All State and Federal jurisdictions have introduced legislation to facilitate enterprise-based agreements to replace industrial awards in part or in full.

There were two types of enterprise agreements available in the Federal jurisdiction as at April 1996. Certified Agreements provide for agreements between unions and employers and require union involvement. Enterprise Flexibility Agreements permit agreements between an employer and employees without the requirement for the involvement of a union as a party, but eligible unions must be notified of negotiations to form agreements and may choose to become involved at various stages.

The perceived benefits of enterprise bargaining depend on the extent to which the provisions of an award substantially inhibit changes which the management believe would enhance productivity and/or profitability. Examples from the tourism enterprise agreements which have been concluded suggest that the following are judged to be beneficial:

- increased employer discretion as to when employees work, including greater flexibility in starting and finishing times; greater span of hours which a part-time employee can work without attracting overtime pay;
- time off in lieu of overtime to be paid at a single rate, public holidays not paid at a higher rate;
- reduced penalty rates;
- reduced restrictions on the hours which casual and part-time employees can work;
- multi-hiring, such that a full-time employee may be re-hired to do different tasks in addition to his or her full-time job without being paid at overtime rates; and
- annualised salaries, wherein no distinction is made between ordinary hours, overtime hours and hours which attract penalty rates; in return, the base rate of pay is usually increased (such annualised salaries may be adopted within the provisions of the award, but with the restriction that they do not result in loss of pay).

Although a number of enterprise bargains have been registered under State and Federal jurisdictions, evidence suggests that the spread of enterprise bargaining in tourism industries has been slow compared to other sectors in the economy.

The Commission is not in a position to judge the reason for the low take-up of enterprise bargaining. On the one hand, it could be interpreted as indicating that the awards do not significantly inhibit productivity. Also, many employers are small in scale and this will limit the size of any gains available from bargaining. On the other hand, it may reflect:

- a reluctance by employers to involve unions in the workplace (in those jurisdictions where their involvement is a requirement), possibly because of a concern that this would interfere with the culture of the workplace or even because some employers may be in breach of the award;
- a concern that the process is too costly and the outcomes are too uncertain;
- a preference to see what may be gained under the s.150A review of the Federal awards before committing to the challenge of enterprise bargaining; or

- a general lack of awareness of enterprise bargaining, arising from the prevalence of small-scale employers in the industry.

Over time, the incidence of enterprise agreements is likely to increase in the medium and large establishments, and those smaller establishments with special needs. Nonetheless, for many of the smaller establishments and for other establishments that either do not have agreements or for whom the agreement does not replace the parent award, the existing industrial awards will remain an important mechanism for regulating the workplace.

Demand for and supply of tourism training

On average the people employed in the tourism industry have relatively low levels of formal qualifications and many employers, especially small employers, seem not to particularly value formal qualifications for their employees. Traditionally, skills have been developed on-the-job rather than via formal education and training (with the exception of chefs). It seems that, in the broad, the skill levels required in tourism have been relatively low.

The industry associations, the tourism training network, and some employers have formed the judgement that skill levels are too low and a major effort needs to be made to upgrade them. And indeed such a major effort has been put in place. This view may be correct, although it is not yet reflected in the behaviour of the majority of employers. Alternatively, this view may be correct only for selected parts of the industry. The presumption that there is a high skill way of operating that is more profitable than the current low skill approach has not yet been demonstrated.

In 1994, about 64 per cent of the workforce in the tourism industry had no post-school qualifications (see Table 1). This may be appropriate, if as suggested by the current training profile, it is an industry which requires a relatively high proportion of its workforce to undertake less complex tasks.

There is evidence to suggest that employees with formal training, including chefs, receive a smaller wage premium in tourism than in other industries and that employers look for experience rather than formal qualifications when hiring.

DEET has forecast demand for an additional 131 000 jobs in tourism by the year 2003. Of these 131 000 new jobs up to 90 000 are likely to be jobs as kitchen hands, bar attendants, and waiters. This leaves perhaps 40 000 who would benefit from higher level training. In this context, the 74 000 students currently enrolled in tourism TAFE and university courses (32 000 at trade certificate or higher) seems more than adequate to meet future demand.

Despite the relative emphasis on skills gained on the job rather than via formal education, the proportion of wages and salaries that employers spend on training is relatively low in tourism compared with all other industries (see Table 2). A relatively high proportion of managers surveyed reported having no formal training.

Table 1 Qualification profiles, 1989 and 1994

<i>Industry and year</i>	<i>Tourism</i>				<i>All Industries</i>	
	<i>1989 No.</i>	<i>1994 No.</i>	<i>1989 %</i>	<i>1994 %</i>	<i>1989 %</i>	<i>1994 %</i>
Total degree	11 788	15 722	3.5	4.4	10.0	13.6
Total trade	29 808	39 431	8.9	11.0	16.1	16.4
Total certificate, diploma and other	56 608	50 605	16.8	14.1	19.6	17.0
Without post-school qual.	215 333	229 092	64.0	63.7	51.8	50.7
Still at school	22 786	24 963	6.8	6.9	2.3	2.2
Total	336 323	359 813	100.0	100.0	100.0	100.0

Source: ABS Labour Force survey (unpublished data), and ABS Cat. No. 6235.0

Table 2 Average training expenditure, July to September 1993

<i>Industry</i>	<i>Percentage of gross wages and salaries</i>	<i>Dollars per employee</i>	<i>Hours per employee</i>
Entertainment and Recreational Services	2.4	124	2.6
Restaurants, Hotels and Clubs	1.6	65	2.9
All Other Industries	2.9	192	5.6

Source: ABS Cat. No. 6353.0

Who provides training?

Tourism training courses focus on factors that will enhance the tourism experience. They include training activities for the tourism industry as a whole, not just the tourism accommodation sector discussed in the first part of this report.

Tourism courses in Australia are provided by universities, TAFE colleges and private sector colleges, the school system, in the workplace, and by industry associations. The majority of training is provided by TAFE colleges and informally on the job by employers. Most TAFE courses are low level certificate courses. In 1991, there were 51 676 enrolments in tourism related courses at TAFE colleges. Over the three years to 1994 this number increased by 34 per cent to 69 422. Although the number of students enrolled in tourism courses offered by universities is small compared with TAFE, they have grown significantly in recent years.

Institutional arrangements in the delivery of tourism training

The tourism industry, through its representative bodies, is heavily involved in directing the content of vocationally oriented tourism training. Industry influence is channelled through the Industry Training Advisory Body, Tourism Training Australia (TTA), which operates within the National Vocational Education and Training System (NVETS) framework.

TTA has developed a process to give formal recognition to courses it assesses as relevant to the needs of industry. In reflecting the wishes of the industry, TTA has encouraged the development of very skill-specific training. There are two potential problems with this approach. First, publicly funded resources may not be put to best use if people undertake very industry-specific vocational training and then they subsequently leave the industry. As indicated by the high rate of labour turnover in the tourism industry, many people do indeed leave. In this situation, the interests of society may be better served by training that includes general skills, because these skills will be applicable in a range of employment situations and industries. Second, the level of training may become so specific that it is tailored to the requirements of an individual firm. In this case, the firm itself should fully fund the training. It would be inappropriate for this very specific training to be provided by publicly-funded institutions at no direct cost to firms.

The industry is diverse and this makes it difficult to develop a standardised training curriculum which is suitable for the full range of businesses. Small businesses, particularly, have been identified by inquiry participants as not having their training needs met satisfactorily under current training arrangements. The Commission has found that small business is not being represented adequately in the processes for developing tourism training policy and courses.

The Commission notes that because governments fund much of the training, they are accountable for the quality and relevance of that training. In order to discharge this accountability they need either to be involved in or at least very well informed about these matters.

The existence of both government-based accreditation and industry-based recognition for tourism courses has the potential to impose unnecessary costs on training providers.

There is no uniformity among jurisdictions of procedures for obtaining government accreditation. The system in some jurisdictions seems less than desirable and the Commission has recommended that the model used in Queensland be adopted nationally. The Queensland model represents an

efficient approach which maximises industry participation in tourism training yet retains a government power of veto to protect the public interest.

Too much training?

The tourism industry is a source of entry level positions in the Australian workforce. Any move towards requiring all employees to obtain formal qualifications before being employed in the tourism industry has the potential to waste resources devoted to training and to incur potentially large social costs.

Tourism is also an industry that provides part-time employment for students, undertaking both secondary and post-secondary education. This part-time employment supports the development of a more highly educated workforce at large, even if not specifically for the tourism industry. The ability for tourism to provide employment for these groups of people may be reduced if a trend emerges which requires credentials prior to gaining employment in the industry.

The NVETS has been developed and funded by the Australian government over a number of years. This support by government is predicated on the assumption that the level of skills in the Australian workforce is too low and needs to be raised. For its part, the tourism industry has been particularly successful in implementing and obtaining its share of the benefits available under the NVETS.

In circumstances where there is ample training on the supply side and limited evidence of unsatisfied demand, there is a possibility that credentialism could emerge where in aggregate, more skills are being imparted than are necessary to undertake the tasks required in the industry. This can result in a waste of government training resources.

On balance, the Commission sees little evidence in the behaviour of many, though not all, employers to suggest that they demand or value formal training. Nor can it find evidence that the recent increase in training effort has been insufficient to satisfy the demand for training by the tourism industry.

Chefs

In the course of the inquiry many participants identified a serious shortage of chefs working in the industry. The Commission concluded that the shortage of chefs is most acute at the higher skill levels and that this is because large numbers of both apprentices and trade qualified cooks leave the profession before they reach the higher skilled levels. ABS data indicate that only 52 per

cent of employed people with chef qualifications are currently employed as chefs. Therefore, this particular shortage is not due to any shortage of training as such. The problem appears to be related to the expansion of tourism and eating out lifestyle patterns on the demand side and high exit rates on the supply side. The high rate at which qualified cooks leave the profession is probably caused, at least in part, by low pay relative to other occupations and demanding working conditions.

A number of strategies have been tried but with mixed success to correct the seeming imbalance between the demand and supply of chefs. Of these the Group Training system seems to offer the most prospect of long-term success and the Commission believes that consideration should be given to expanding the group training program.

Conclusions

Having regard to all of the circumstances outlined above, two outcomes are possible.

One is that it may be an inherent characteristic of the tourism industry that, with some exceptions, the work involved requires only low levels of skill and therefore a low level of training and skill development is efficient. In this case, there is potential waste — and emerging credentialism — if more and more entrants into jobs requiring low skill levels are encouraged, or believe it is necessary, to have substantial formal training.

The other possible outcome is that the training now being provided does increase productivity but employers have not yet come to realise it. In this case real productivity benefits may be occurring. Waste and unmet expectations of employees will still result however, until employers can be persuaded of the benefits of the training that is being provided.

The NVETS must convince employers (that is, those making the hiring decisions) that the formal qualifications which the system is now delivering in large quantity are of real value to them and are worth a wage premium.

The large expansion in the training infrastructure has only occurred recently. Therefore, the conclusions above are necessarily preliminary. Nevertheless, the indications from the Commission's inquiries are such as to warrant careful monitoring to ensure that the potentially undesirable effects outlined above do not emerge.

FINDINGS AND RECOMMENDATIONS

Tourism accommodation

- *The majority of tourists in Australia, both international and domestic, do not use commercial accommodation. Of those who do not, most stay with friends and relatives. [Section 2.5.2]*
- *The highest growth rates for inbound tourism are from Asian countries. The average length of stay varies considerably according to country of origin; European and North American tourists stay significantly longer than tourists from Japan. [Section 2.5.2]*
- *It is a normal feature of the market for accommodation that there will be shortages at some times in some locations. Such shortages do not justify government intervention. [Section 9.4.1]*
- *There is no case for governments to subsidise the provision of tourism accommodation through preferential access to land or by any other means. [Section 12.7]*

Tourism and the environment

- *The Australian natural environment is a major tourist attraction and the provision of accommodation in appropriate locations is important for ensuring access to sought-after sites. If not managed correctly however, tourism accommodation developments have the capacity to destroy the environmental assets upon which they rely. [Section 6.3]*
- *Accommodation provision should have regard to the impacts on the environment in which it is situated. This applies to both the original siting decision and to ongoing operations. [Section 6.5.6]*
- *Co-operation between different levels of government is essential to ensure that appropriate accommodation-siting decisions are made. [Section 6.5.6]*

Recommendation 1

The Commission recommends that the procedures and processes that are established by the Intergovernmental Agreement on the Environment (IGAE) are put in place immediately.

[Section 6.6]

Approvals and Standards

- *There is merit in streamlining the participation of authorities involved in development applications. [Section 7.2.2]*
- *Planning approval processes should be standardised so that similar procedures are adopted in all jurisdictions. [Section 7.2.2]*
- *There are some development controls, such as floor space ratios, that appear to be different for hotels than for other buildings. These controls require re-examination to ensure that they do not provide unnecessary impediments to hotel development. [Section 7.6]*

Taxation

- *Based on available data, tourism accommodation pays no more indirect tax than the all-industry average. [Section 8.5.1]*
- *On the evidence presented, depreciation allowances for tourism accommodation are not too low and they are at least as high as they would be if set in accordance with the concept of economic life. [Section 8.6.1]*
- *Fringe benefits tax affects all industries and does not discriminate against tourism accommodation. [Section 8.4.1]*
- *The principle of mutuality is soundly based. However, given the changing nature and scope of some large clubs the Tax Commissioner may need to review their eligibility for access to concessions under the mutuality principle. [Section 8.7.1]*

Profitability and investment

- *Increases in demand place very little upward pressure on room rates if occupancy is low, but when occupancy is high and demand growth is outstripping increases in supply, strong upward pressure on room rates is expected to result. [Section 9.3.1]*
- *Periods of high occupancy are necessary for industry profitability because it is only when rooms are relatively scarce that industry can sustain the room rates that provide profits over the long run. Expected long run profitability is a precondition for future investment. [Section 9.3.1]*
- *In the late 1980s some investment decisions of hotel developers appear to have been based on poor market intelligence and/or on the expectation of capital gains. [Section 10.10]*
- *High levels of investment in the construction of 4 and 5 star hotels caused occupancy and room rates to decline. [Section 9.3.1]*

- *When wholesalers play a significant role, room rates can be slow to change because wholesale rates are agreed on well in advance (from several months to nearly two years). [Section 9.3.2]*
- *Tourism accommodation is characterised by many suppliers without a high concentration of ownership and control. It is highly competitive within Australia and is competitive in price terms with international destinations. [Section 11.8]*
- *In light of the current size and growth rate of tourism, there is a need for better information. Such information is necessary to assess the impact of policy-induced influences on the industry's performance. It would also be valuable for the private sector as a better foundation on which to base its demand forecasts and investment decisions and is needed by governments in planning infrastructure provision. [Section 12.4]*
- *Some financial institutions are still not fully familiar with tourism investments but the tourism industry has initiated action to remedy this situation. There are no regulatory or institutional impediments to access to finance for tourism accommodation. [Section 12.6]*

Recommendation 2

The Commission recommends that the Australian Bureau of Statistics be asked to hasten the development of Tourism Satellite Accounts. Data collected for this purpose will have a wide range of uses within both government and the private sector.

[Section 12.4.1]

Tourism labour markets

- *Compared with the workforce on average, and excluding travel agents and passenger transport workers, the tourism workforce is relatively young, female, low paid and has relatively little formal education. [Section 13.5]*
- *Provisions that bias toward the employment of casual employees are likely to reduce the commitment of employers and employees to training. The likelihood of such a bias will be reduced if award provisions governing hours of work of permanent employees, including permanent part-time employees, are similar to those applying to casual employees. [Section 14.3.3]*
- *The two Federal tourism awards are free of many of the problems found elsewhere. Most workplaces are covered by a single union and a single award; the awards contain explicit provisions for work across broadbanded job classifications, thus generating little inefficiency from*

demarcation disputes; they provide a reasonable degree of flexibility including opportunities to tailor aspects of the Award to the circumstances of the workplace. [Section 14.4.1]

Recommendation 3

The level of penalty rates specified in tourism awards should be reviewed to ensure that they are no higher than is necessary to meet tests of fairness according to current social norms.

[Section 14.4.2]

Recommendation 4

The Commonwealth Government should encourage the Australian Industrial Relations Commission to provide skilled specialists to rewrite the tourism awards in a manner that is easy to understand and administer. The Commonwealth Government should encourage the State Governments to do the same in their jurisdictions.

[Section 14.4.2]

- *The Federal Hotels Award has become more flexible and easier to use over time as a result of restructuring. Although not all tourism awards have achieved the same gains through restructuring, the Federal Hotels Award provides an example of progress that can be achieved within the current framework. [Section 14.4.2]*

Recommendation 5

The Commonwealth Government should encourage State Governments to initiate a review of State awards to ensure that they are up to date and inappropriate detail is removed.

[Section 14.4.2]

- *With some exceptions, the thrust of enterprise bargaining has been to increase employers' ability to tailor employee hours to match variable levels of demand, and to remove the distinction between ordinary hours and hours which attract penalty rates [Section 14.5.2]*
- *Many small employers in the industry are likely to continue to operate under an award rather than seek formal enterprise agreements. It is important that the awards be as simple and as non-prescriptive as is compatible with their objectives. [Section 14.5.2]*

Tourism training

- *The training infrastructure presently in place has been developed recently, and it is too early to judge its success or otherwise in matching training supply to training demand.* [Section 16.4.5]
- *The interests of small business are not adequately represented in the process of developing tourism training policy.* [Section 15.4.1]

Recommendation 6

State Training Authorities (STAs) in all States and Territories should be encouraged through the Australian National Training Authority (ANTA) Ministerial Council to adopt the Queensland model whereby training courses are recognised by industry recognition bodies with the STA retaining a power of veto over accreditation.

[Section 15.5.4]

- *In general, there is no evidence that there are insufficient students in the formal training 'pipeline' to satisfy the forecast demand for trained personnel in the tourism industry. Indeed the opposite may be true.* [Section 16.4.5]
- *ANTA should monitor carefully the balance between supply and demand for trained personnel in the tourism industry. This should reduce the likelihood of waste from increasing the supply of trained personnel without a corresponding increase in the demand for them by employers.* [Section 16.4.5]

Recommendation 7

The Commission recommends that an extensive review be undertaken within three years to quantify the costs and benefits of tourism training, drawing upon the monitoring and performance data compiled in the interim.

[Section 16.4.5]

- *All reasonable steps should be taken to design training to match the needs of small employers and to inform them of the availability of this training. Only then will it be possible to judge the degree to which formal training is beneficial to small business.* [Section 16.6.1]
- *The high rate of staff turnover in the tourism industry suggests that formal publicly-funded tourism training should continue to include a significant amount of general skills, in order to be of value to those who subsequently leave the industry and to increase the capacity of the workforce to respond to changes.* [Section 16.6.2]

Chefs

- *Based on the available evidence the Commission accepts the industry view that there is a shortage of chefs and that this shortage is most acute for experienced chefs. A shortage has existed at least since the mid 1980s and probably longer. [Section 16.5.1]*
- *The shortage of chefs is partly due to the increased demand from an expanding tourism industry and changing lifestyle patterns, with more people eating meals outside of the home. It is also due to the relatively large numbers of chefs leaving the industry because of demanding working conditions and low pay relative to other occupations. [Section 16.5.2]*
- *The shortage of chefs is most acute at the higher skilled levels because both apprentices and trade-qualified cooks are leaving the industry before they have had time to pursue a career and reach more experienced levels. [Section 16.5.3]*

Recommendation 8

The Commission recommends that training funds be re-allocated to give greater emphasis to the use of Group Training Companies in the training of apprentice cooks.

[Section 16.5.3]