

Australia's international tourism industry – what role should government play?

Despite strong growth in the number of visitors travelling to Australia over the past two decades, the global market for international visitors is heavily contested. A new Productivity Commission Research Paper examines trends in international tourism to Australia, and points to a number of reforms that would allow the tourism industry to adapt to changing consumer preferences and emerging digital technologies.



International tourism is important to the Australian economy. In 2013-14, international tourism contributed almost 1 per cent of Australia's GDP (about \$11 billion). Understanding the trends in and drivers of international tourism helps to inform government policy priorities in areas such as destination marketing and the support of major events, the regulation and funding of investments in tourism-related infrastructure, and international aviation regulation.

What role should government play?

The way businesses in the international tourism industry innovate and adapt to changing visitor trends will largely determine how successful Australia is in continuing to attract international visitors. Governments also have a role, and a number of reforms would benefit the tourism industry and the economy more broadly.

The Commission Research Paper finds that a key role for governments is to ensure that their policies and regulations do not unnecessarily impede the international tourism industry from adapting to changes in consumer preferences and emerging digital technologies.

As visitors' preferences to undertake different activities or to travel to different destinations within Australia change, there will be a need for tourism-related businesses to adapt their tourism product offerings or make new investments. This can include private sector investments in tourism-related infrastructure,

such as accommodation or resorts, and visitor attractions such as casinos and theme parks. Investment decisions in these areas can be strongly influenced by development assessment and approval processes (including planning and zoning processes). The Commission's research paper finds that:

- There are concerns about tired and inadequate tourism-related infrastructure, particularly national park infrastructure which is hampered by persistent funding shortfalls. Greater user charging and private-sector investment in national parks would provide an additional source of funding and facilitate innovation in the provision of tourism-related infrastructure.
- Poor approval processes for tourism related infrastructure investments are not only costly to developers, but to businesses and communities. There is a need for governments to continually review and reform these processes so that they are flexible and risk based, and keep pace with innovations in the tourism industry.

Government provision of international destination marketing, and support for major sporting, cultural and business events can influence decisions to travel to Australia. The research paper finds that there can be a case for governments to be involved in the provision of international destination marketing and support for major events. These activities display 'public good' characteristics: once provided the benefits (increased international visitor activity for tourism-related businesses) are available to all tourism-related businesses, and it is infeasible to exclude businesses that benefit from these activities, but 'free ride' by not contributing to the costs of provision. However, assessments often overstate the net economic benefits of destination marketing and major events – and consequently the basis for government support – highlighting a need for rigorous and transparent economic analysis to determine whether government expenditure is warranted.

Other government policies and regulations can also influence visitors' decisions to travel to Australia. These include policies and arrangements that govern air travel between Australia and other countries, and arrangements for facilitating the flow of international visitors, such as visa processes. The research paper finds that:

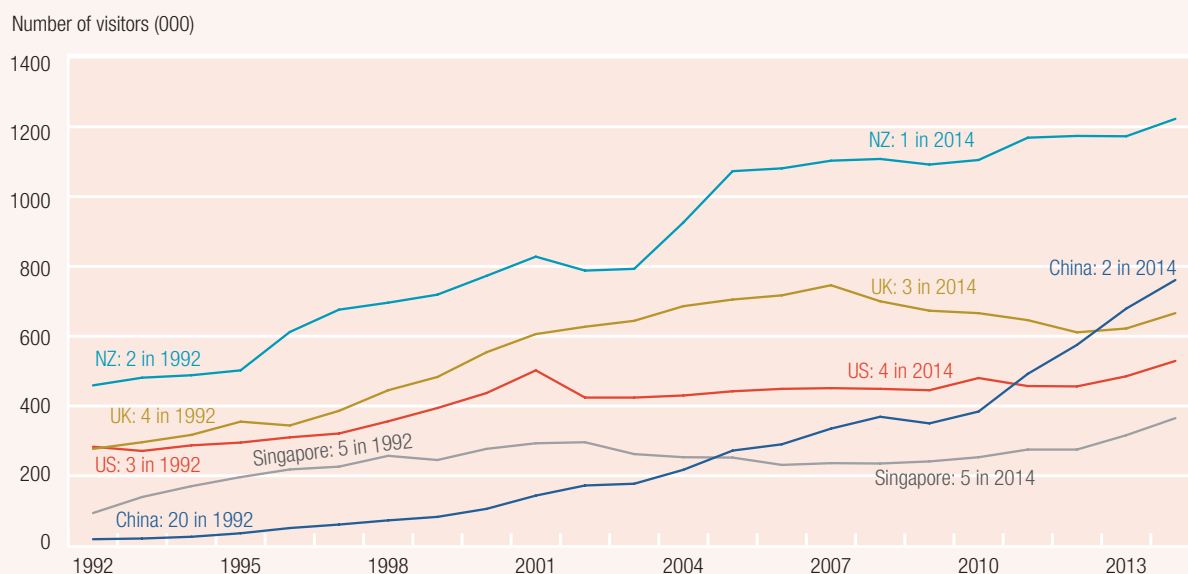
- Although Australia's international aviation policy settings have served Australia well, it is expected that further liberalising access to Australia's major gateway cities – Brisbane, Melbourne, Perth and Sydney – would provide net benefits to the international tourism industry and the Australian community. In

Australia's international tourism industry has undergone substantial change

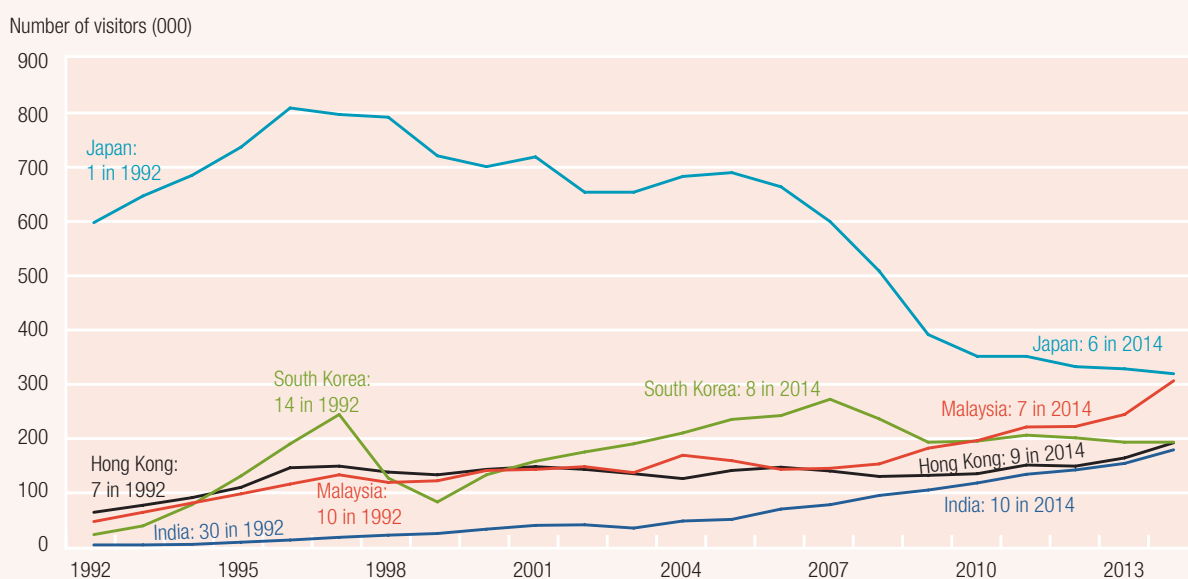
- Australia's international tourism industry has grown strongly over the past two decades – the number of international visitors to Australia has more than doubled, rising from 2.5 million in 1992 to almost 6.7 million in 2014.
- The composition of the industry has also changed. Markets in Asia, particularly China and India, have grown in importance as a source of international visitors to Australia, with China now the second largest source of visitors after New Zealand. Alongside this, there has been a slow down (and, in some cases, a decline) in growth in the number of visitors to Australia from some historically important source countries, such as the United States, the United Kingdom and Japan.
- Growth in the industry overall means visits to regional areas of Australia have increased, but the change in the composition of source countries has contributed to a decline in the *proportion* of international tourism activity that takes place in regional areas (estimates indicate that between 2006 and 2014 there was a 5 percentage point decline in the proportion of expenditure and the proportion of international visitors travelling to regional areas of Australia).
- In some regions there has been an overall decline in international tourism activity – for example, between 2006 and 2014 there was a 20 per cent decline in the number of international visitors travelling to Tropical North Queensland, particularly from Japan, and a 40 per cent decline in real expenditure.
- Australia's market share of global international visitors has declined, in line with most other developed countries. Australia's share declined from 0.7 per cent in the year ending 2000 to 0.6 per cent in the year ending 2013. Research commissioned by Tourism Australia suggests that the decline in Australia's market share is beginning to stabilise for some of its historically important source countries, such as the United States and Singapore.

Figure 1 Australia's international short-term visitors, top ten source countries 2014

(a) Top five countries of origin



(b) Next five top countries of origin



Source: ABS 2014, *Overseas Arrivals and Departures*, September, Cat. no. 3401.0.

addition, the paper states that it is difficult to see how restricting access to secondary airports serving the major gateway cities, such as Avalon and the proposed airport at Badgerys Creek, creates benefits for the Australian community. If any restrictions are to remain, the case for all restrictions, except those at Sydney Kingsford Smith Airport, is quite weak.

- Reforms to visa application processes, particularly those applying to visitors from key tourism markets such as China, would benefit the tourism industry,

but these benefits should be weighed against other public policy objectives. The Commission supports the steps being taken by the Australian Government to simplify visa applications.

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- > Productivity Commission Research Paper
- > Released February 2015