



Australian Government



28 November 2014

Dr Warren Mundy
Commissioner
Productivity Commission
Collins Street East
Melbourne VIC 8003

Dear Commissioner Mundy,

Thank you for your invitation to contribute to the Productivity Commission's research project into Australia's international tourism industry.

Tourism Australia is the Australian government agency responsible for the international promotion of Australia as a destination for leisure tourism and business events. Tourism Australia and its predecessor the Australian Tourism Commission have delivered successful tourism marketing campaigns since 1967.

The attached submission explains the role of government in the tourism sector, including the work of Tourism Australia, its strategy and resources, as well as an overview of tourism trends, research and insights relating to the future growth potential of the Australian tourism sector. Tourism Australia undertakes extensive research to ensure our programmes are resourced and executed on a strong evidence base and directed to the markets of greatest return on investment and benefit to the national economy.

Tourism Australia has increased its overall investment base by both developing strong partnerships and associated partnership revenue, as well as identifying savings and efficiencies within the business that can be reinvested into frontline marketing activities. This has contributed to a \$23 million increase in advertising expenditure over the last two years. Back office efficiency measures have contributed savings of more than 10 per cent during this period with further savings expected in 2014/15 through the ongoing implementation of new business systems.

Tourism is a rapidly growing sector of the global economy, and one in which Australia has a comparative advantage in meeting this growing demand. The *Tourism 2020* national tourism strategy is a collaboration between industry and federal and state and territory governments to harness this global potential and grow overnight visitor expenditure to between \$115 billion and \$140 billion by 2020.

The strategy aims to achieve this by increasing demand for Australia through international marketing and on the supply side, building the productive capacity and competitiveness of Australia's tourism industry. This includes policy initiatives to increase investment in Australian tourism product and to ensure our visa regimes and air services are conducive to growth in international visitation.

I commend our submission to you and your team. If you would like to discuss any aspect of this work, please contact Tim Mahony, Tourism Australia's Government Relations Manager, on 02 9361 1351.

Yours sincerely

John O'Sullivan
Managing Director



Productivity Commission research
paper: *Australia's international
tourism industry*

Submission by Tourism Australia

28 November 2014

Executive Summary

Tourism Australia is the Commonwealth government agency responsible for the international marketing of Australia as a destination for leisure tourism and business events. Tourism Australia and its predecessor, the Australian Tourist Commission (ATC), have delivered tourism marketing campaigns on behalf of the industry since 1967. Following the 2013 federal election, responsibility for tourism, including Tourism Australia, was moved into the Foreign Affairs and Trade portfolio under the Minister for Trade and Investment.

The intended outcome of Tourism Australia's programmes is to grow demand and to foster a competitive and sustainable Australian tourism industry through partnership marketing to targeted global consumers in key markets.

Tourism 2020 is the national long term tourism strategy for the tourism industry to grow overnight visitor expenditure to between \$115bn and \$140bn by 2020, and to build the productive capacity and competitiveness of Australia's tourism industry. Considerable progress has already been made – and stability is important to support the achievement of the *Tourism 2020* objectives.

Understanding Australia's international tourism industry

International tourists buy a bundle of tourism services from multiple Australian businesses (including flights, accommodation, meals, entertainment, shopping, scenic tours, ground transport and attractions). The value of this bundle to the tourist is greater than the sum of its parts. As such, Australia's tourism industry is best characterised as a two-sided market – on one side are tourists demanding a bundle of services in various iconic destinations, and on the other side are many Australian businesses providing services in those destinations.

Tourism Australia – in partnership with the States, Territories and industry – acts as an intermediary in this two-sided market, by increasing demand for Australia as a travel destination (on the demand side), and by fostering a competitive and sustainable industry (on the supply side).

In the absence of publicly-funded promotion of Australia, the private sector would undersupply this service, as individual tourism businesses can't justify an optimal level of investment in promoting Australia, leaving tourism assets underutilised. Like other two-sided markets (such as a shopping mall – a similar marketplace where buyers and sellers transact), Australia's international tourism industry is one (enormous, \$30bn) marketplace, where tourists and Australian businesses providing tourism services come together to transact.

To have a successful tourism industry, it is important to balance the demand and supply sides of the market. There is no point marketing a shopping mall if there is not enough car parking, or shops that don't stock the items customers want. In the case of the market for international tourism, Tourism Australia works collaboratively to attract visitors on the demand-side, helping to develop a desirable bundle of products and capacity on the supply-side, and provides platforms (such as the Australian Tourism Exchange, ATE) where wholesale buyers and sellers of tourism products can transact more efficiently.

The economic returns and funding of Tourism Australia's programmes

The promotion of Australia by Tourism Australia generates tourism expenditure (the Return On Marketing Investment, or ROMI) in a ratio of 15:1. This converts into a benefit:cost ratio of 6:1 (after allowing for displacement effects, crowding out and the marginal cost of public funds, or MCF). This ratio of 6:1 is an important contribution to Australians' living standards and proof that government can perform this role effectively.

This ROMI does not happen by accident – it is the consequence of a careful and well-researched process of planning and executing marketing campaigns, using the latest technologies and methods to engage with potential visitors to Australia, and with strong governance.

Tourism Australia assists with developing the Australian industry, so that Australian businesses are well-positioned to deliver the tourism experiences expected by international tourists, keeping pace with changing preferences.

Government funding for Tourism Australia is constant in nominal terms over the forward estimates. The funding received by Tourism Australia is leveraged with over \$50m in industry, partner and other funding, so that \$143m of government funding leads to \$194m in marketing and industry development activities.

International visitors pay the Passenger Movement Charge (PMC) and also pay Goods and Services Tax (GST), Wine Equalisation Tax (WET), excises and various other indirect taxes on all their expenditure within Australia (unlike other service exports). There are minor exemptions through the Tourist Refund Scheme (TRS) and Duty Free allowances. Tourism Australia is largely funded from general revenue. The Asian Marketing Fund (AMF) is funded directly from the PMC. An argument can be made that marketing Australia pays its way through visitors paying the PMC, GST, WET, excises and various other indirect taxes, as well as industry contributions.

Innovation in a changing industry

Tourism and the marketing of Australia are both rapidly evolving. New source markets (like China and India), changes in traveller tastes and motivations to travel, and new methods of marketing (such as digital and social media), all require constant monitoring and innovation. Tourism Australia undertakes significant research, analysis and *ex post* review, to ensure public-funded marketing of Australia is effective and keeps pace with the changing ways that tourists research and book trips to Australia, to maintain effectiveness.

This research is primarily undertaken to guide marketing strategies, but the insights and collateral from this market research are also shared with Australian businesses, to improve their chances of success, at marginal cost.

The tourism 'alumni'

A visit to Australia by an international tourist has long-lasting effects, beyond the tourist's expenditure while physically in Australia. Tourists who have visited Australia have a more favourable perception of Australia (across a number of attributes – safety, quality of the food and wine, value for money, etc) than those who have not visited Australia. There is a cumulative 30m people (spending \$260bn) who have visited in recent years: an important stock of people overseas with a more favourable view of Australia, who are more likely to advocate about an Australian holiday, buy Australian merchandise, or consider investment or education opportunities in Australia. This impact is not included in the ROMI and benefit:cost ratio above.

Social and equity benefits

The marketing of Australia and industry development role of Tourism Australia is fully justified on economic efficiency grounds. Even so, it also achieves several other important social and equity benefits over and above the economic return:

- Tourism increases economic opportunities in regional areas, including regions with declining opportunities in sectors such as manufacturing.
- Economic and employment opportunities for Indigenous communities by developing uniquely Australian tourism experiences and products.
- Marketing Australia is an important part of economic diplomacy, creating a positive perception and consistent branding of Australia overseas.

Tourism policy: key issues

A competitive and efficient tourism industry requires a great deal of coordination and cooperation across federal, state, territory and local government, and across many portfolios, including immigration and transport. Tourism Australia works with the Tourism Division in Austrade and supports other agencies that have primary responsibility for the following issues:

- Labour issues, including skill shortages and penalty rates, are challenges facing the tourism industry. However, we note this is outside the scope of this research project.
- Bilateral air services agreements need to keep two years ahead of demand. A pro-active approach is important.
- Australia needs to continue improving and streamlining visa issuing processes to remain competitive.
- The TRS is currently under review. Shopping is an increasingly important part of the tourism experience, particularly for Asian source markets.
- Statistical collections – such as the Australian Bureau of Statistics (ABS) Survey of Tourism Accommodation (STA) – are vital for evidence-based decision making. Tourism Research Australia (TRA) and the ABS need to be adequately resourced.
- Passenger facilitation (immigration, customs and quarantine) at major airports requires improvement.
- Effective and efficient regulatory approvals for investment in tourism assets is essential for capacity to keep pace with demand.

Conclusion

International tourism directly contributed \$11.4bn to GDP at a 5.2% growth rate in 2012-13 (TRA, *State of Industry 2014*) and employs over 2% of the population (direct and indirect, international estimate is pro-rated from total tourism employment, from TRA). But we can't be complacent – more countries are recognising the potential of international tourism and competing vigorously for visitors, with some key competitors increasing their investment.

The current role of government in the international tourism industry delivers strong results for Australia – it increases living standards by six times more than it costs taxpayers, while also enhancing equity and the fiscal balance.

Tourism grows faster than the Australian industry average and global tourism growth is expected to grow faster than the global GDP average over the next two decades. Australia has a proven comparative advantage in supplying tourism.

Australia's international tourism industry, guided by the *Tourism 2020* strategy, is seeing unprecedented levels of co-operation across federal government agencies, between jurisdictions and industry. There are many challenges ahead (ranging from visa processes to a second Sydney airport), but current institutional structures and strategies are in place for the industry to rise to these challenges, to seize the opportunity ahead and to back our competitive strength in international tourism.

Tourism Australia, November 2014

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Focus and structure of this submission

Tourism is constantly evolving. Modern tourism is very different to the notions of tourism from previous decades. Australia is now part of a connected world, with close ties to many other countries. Australians have extensive social, cultural and family links with many parts of the world.

Travel to Australia is no longer a ‘once in a lifetime’ exotic holiday. Rather, a complex range of factors and motivations determine why people travel. People often travel for more than one purpose in a given trip, and may travel to Australia multiple times through their life. A person visiting Australia as a backpacker in their early 20s might return to do a Masters degree in their 30s, as a business traveller to explore investment opportunities in their 40s, to attend a conference in their 50s and bring their grandchildren on holiday to visit Australia in their 60s – all because they saw a ‘working holiday’ promotion in their 20s.

New attractions, changing traveller preferences and new source markets mean that tourism businesses and Tourism Australia continually innovate to adapt to the changing demands of tourists. Methods of communications, media and marketing are also going through enormous change, particularly with the rise of digital and social media. Crowd-sourced travel guides (like TripAdvisor) are replacing traditional travel guides, and online travel booking services are now commonplace. These developments create tremendous opportunity for Australian tourism, but also bring risks that need to be carefully managed – a country needs to actively manage its brand and how it is perceived overseas, rather than leaving it to the crowd.

About Tourism Australia

As Australia’s national tourism organisation, Tourism Australia aims to increase international leisure tourism and business events visitation by promoting Australia as a compelling tourism destination.

Tourism Australia is the Commonwealth government agency responsible for the international marketing of Australia as a destination for leisure and business events. Tourism Australia and its predecessor, the ATC, have delivered tourism marketing campaigns on behalf of the industry since 1967. Following the 2013 federal election, responsibility for tourism, including Tourism Australia, was moved into the Foreign Affairs and Trade portfolio, under the Minister for Trade and Investment.

The intended outcome of Tourism Australia’s programmes (as described in our Portfolio Budget Statement) is to grow demand and also to foster a competitive

and sustainable Australian tourism industry through partnership marketing to targeted global consumers in key markets. Further information on the two programmes we administer to deliver on this outcome is provided later in this submission.

Tourism Australia, Austrade and the Department of Foreign Affairs and Trade (DFAT) work together to ensure tourism policy, promotion and research support the *Tourism 2020* strategy and the growth of the industry.

Tourism Australia also supports the work of other agencies, such as providing information on tourism demand for international aviation bilateral discussions. Tourism Australia works closely with the State and Territory Tourism Organisations (STOs) and industry to achieve our intended outcome.

About this submission

Tourism Australia has provided the Productivity Commission with a presentation and verbal briefing on how it performs its role. Much of that material is confidential as it would be commercially valuable to National Tourism Organisations (NTOs) in competing destinations. This submission covers issues that can be part of the public record – we have endeavoured to provide as much detail as possible in this public submission, in the interests of transparency.

This submission focuses on the areas of most relevance to Tourism Australia’s role. Austrade is preparing a submission relating to the role of Austrade and DFAT. Tourism Australia supports and participates in the work of various other agencies and contributes to forums where these issues are addressed and where tourism is affected, however, this submission focuses mainly on the tourism industry programmes administered by Tourism Australia.

This submission assumes some familiarity with tourism and the extensive information in the public domain on tourism. Please refer to Appendix A for a glossary of tourism terminology, and Appendix B for a literature survey. OECD (2014) and our Portfolio Budget Statement (2014) provide a useful overview of the Australian tourism industry and government policy as it relates to international tourism.

References

OECD (2014) *Tourism Trends and Policies 2014*

Tourism Australia (2014) *Portfolio Budget Statement*

Recent tourism developments

International tourism expenditure was \$30.1bn in 2013-14, a 7% increase on the previous year (TRA, 2014). International visitors aged 15 or more increased by 8% to 6.1m in the same year.

543,600 people were directly employed in the tourism industry (domestic and international) by 267,000 businesses. Direct tourism GDP was \$42bn, or 2.8% of total GDP, of which international tourism directly contributed \$11.4bn, growing at 5.2%.

Other countries are realising the potential of international tourism and competing for our visitors, e.g. Australia was the first western Approved Destination Status (ADS) country in China (1999) – there are now more than 130 ADS countries. The US and NZ both recently increased marketing funding to their NTOs.

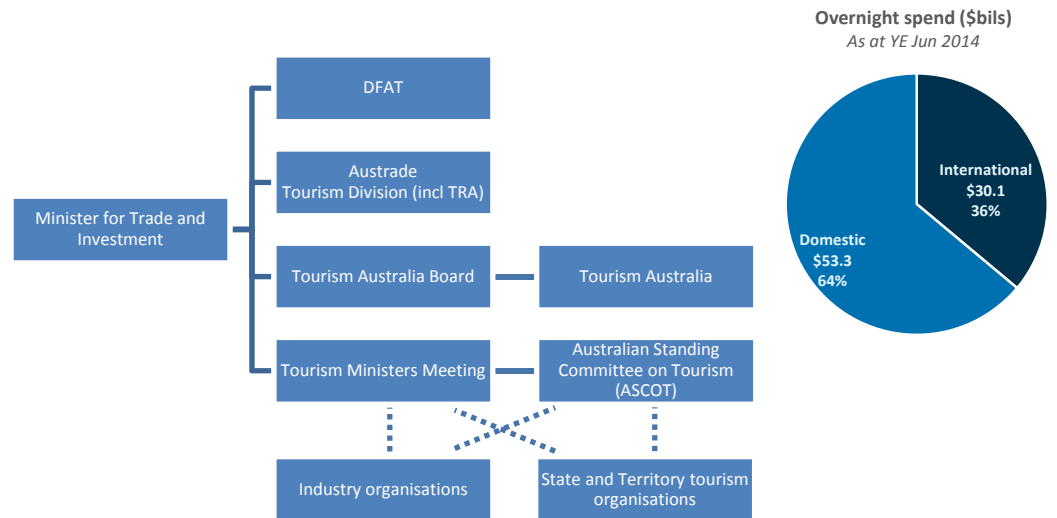
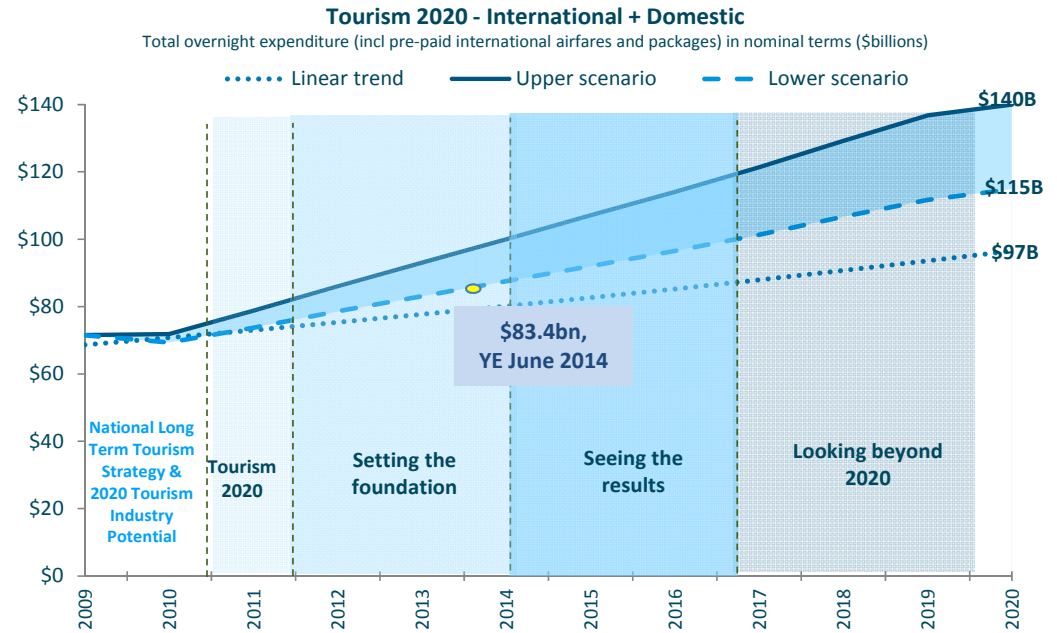
Deloitte (2013) identified tourism as a sector of the global economy expected to grow at least 10% faster than global GDP growth over the next two decades, at a compound annual rate of 4.08%. Deloitte also identified tourism as a comparative advantage for Australia (a competitiveness index of 8.2 relative to an industry average of 5.2). Based on this combination of comparative advantage and future global demand growth, tourism was determined to be one of Deloitte’s ‘Fantastic Five’ future growth opportunities for Australia.

Other recent developments in tourism include:

- The *Tourism 2020* strategy (DRET, 2011), an unprecedented level of co-operation between industry and the Australian and State and Territory governments to address barriers to growth.
- The structure of the Australian Government’s international tourism agencies (under the Minister for Trade and Investment) include several other agencies and mechanisms, responsible for tourism policy, attracting tourism investment, tourism bilateral and multilateral negotiations, and tourism research. The current structure is illustrated opposite.

References

Deloitte (2013) *Positioning for prosperity? Catching the next wave*
 Department of Resources Energy and Tourism (2011) *Tourism 2020*
 Tourism Research Australia (2014) *State of the Industry 2014*



Recent tourism developments: the ‘visitor economy’

Tourism is a relatively well-understood concept (see, for example, [UNWTO](#)): *A visitor is a traveller taking a trip to a main destination outside his/her usual environment, for less than a year, for any main purpose (business, leisure or other personal purpose) other than to be employed by a resident entity in the country or place visited. A visitor (domestic, inbound or outbound) is classified as a tourist (or overnight visitor), if his/her trip includes an overnight stay, or as a same-day visitor (or excursionist) otherwise.*

For international tourism to Australia, the distinction of having an overnight stay versus a same-day visitor has little practical effect (with the possible exception of a small number of same-day trips from a short-haul source market such as NZ).

Tourism Australia focuses on international leisure travel and business events, as these markets involve a degree of discretion, thus are potentially able to be influenced through the marketing of Australia. That noted, tourism is becoming increasingly multi-purpose. For example, an international business traveller attending a meeting in Sydney may add on a side-trip to Tasmania to visit the Museum of Old and New Art (MONA) for leisure purposes. As such, marketing (while targeted primarily at leisure travellers) that also encourages business travellers to add a few nights to their trip for leisure purposes is clearly creating additional value for Australia, beyond the leisure expenditure analysed to ascertain the ROMI (discussed in detail later in this submission). Furthermore, the creation of positive perceptions about Australia for leisure visitors can have a side-benefit of encouraging interest from business travellers and investors.

The ‘visitor economy’ and mobile consumers

There is a growing appreciation that people live itinerant lives. For example, the TRA IVS survey shows that 94% of NZ tourists in 2013-14 were repeat visitors to Australia, while for all source countries 63% of visitors to Australia were repeat visitors – up from 60% ten years ago. While there are still many people that might live and work predominantly in the same location and take a once in a lifetime vacation to Australia, people are increasingly travelling and combining leisure and work on the road. This has been aided by frequent air transport services, smartphones and mobile computing – 90% of smartphone users have used their device to search for local businesses or services, 51% for restaurants and 47% for travel services (see Google, 2013), with smartphone penetration in Australia now at 81% (Deloitte, 2014) and even higher in some Asian nations (e.g. Singapore was already at 85% in Google’s 2013 survey).

The term ‘visitor economy’ describes this wider concept of tourism. People are frequently spending time outside their normal environment, often for mixed purposes – combining business-leisure-visiting friends and relatives (VFR) – and making repeat visits. There have been some recent attempts at defining this wider concept, such as the NSW Visitor Economy Taskforce (2012) which noted: *Whilst no concise definition has been globally settled, the visitor economy takes into account broader economic activity than what has been historically defined as tourism and events. It encompasses the direct and indirect contributions to the economy resulting from a person (a ‘visitor’) travelling outside their usual environment for holiday, leisure and events and festivals, business, conventions and exhibitions, education, to visit friends and relatives and for employment in NSW. In other words, the full value chain of the visitor economy is being accounted for. This includes intrastate, interstate and international visitors.*

The role of government in the ‘visitor economy’

The *Tourism 2020* strategy and goals cover all overnight domestic and international tourism, including business and VFR travel. While governments have traditionally focussed mainly on marketing to leisure travellers, there is a need to facilitate smooth and seamless travel for all visitors.

For example, visas have traditionally been issued for a single leisure trip or business trip. Visas that allow multiple visits over multiple years for multiple purposes, and streamlined passenger facilitation at major airports, are two examples where government can perform a useful role in reducing the hassle for the new generation of frequent international visitors. Rigid processes that classify a person as a ‘business’ or ‘leisure’ visitor could potentially curtail Australia’s opportunities in facilitating and serving the needs of a mobile society. While Tourism Australia evaluates its campaign effectiveness against leisure travel outcomes (i.e. expenditure by survey respondents who nominate a leisure purpose as their primary purpose of trip), the wider ‘visitor economy’ concept is a valuable contribution to the understanding of the broader role of government in facilitating the efficient movement of visitors, whatever their purpose.

References

- Deloitte (2014) *Media Consumer Survey*
- Google (with Ipsos MediaCT, 2013) *Our mobile planet: Australia*
- Tourism Research Australia (2014) *International Visitor Survey*

Two-sided markets: understanding the tourism industry and Tourism Australia

Before we go into further detail on public good provision, market failures, the role of government and funding of Tourism Australia, it is necessary to first understand how the market for international tourism operates, and whether it would operate less than optimally if left to the private sector.

The market for international tourism

In order to have a successful tourism industry, which contributes to higher living standards and economic growth, it is necessary to have a balance between tourism services being offered (on one side of the market) and the tourists purchasing those services (on the other side of the market).

The tourism industry has long had intermediaries – travel agents, wholesalers and Inbound Tour Operators (ITOs) – that provide a package of tourism services that can be sold to tourists. Travel websites (like WebJet and Wotif) are also intermediaries, which create a marketplace for tourists to book flights with airlines and hotel chains.

Tourism Australia acts as an intermediary, on a national scale, by operating trade shows such as the ATE and Corroboree Greater China. These B2B events are efficient wholesale marketplaces through which Australian sellers and overseas buyers come together to transact tourism services and build relationships on a wholesale level. A successful trade show requires a balance of both buyers and sellers - too few of either would diminish the success of such a marketplace. Tourism Australia also ensures a consistent brand image for Australia is presented at trade shows.

As these two examples show, the economic concept of a ‘two-sided market’ is useful for understanding tourism, and the wider ‘visitor economy’. The economics literature (see below) often uses the example of a credit card payment system to illustrate the concept of a two sided market, where an intermediary (such as MasterCard or Visa) allows merchants and customers to transact efficiently – particularly useful when travelling overseas.

Like a tradeshow, to have a successful credit card payment system requires the intermediary to both attract merchants (to install an EFTPOS machine) and customers prepared to use their card rather than cash. A successful intermediary strikes a balance between the prices or subsidies paid to either side of the market (e.g. card fees for the merchant, with loyalty points for the customer). Another example of a two-sided markets is a shopping mall operator, who needs to attract both shop keepers and shoppers to their mall – earning

rents from shop keepers and providing free car parking to attract shoppers.

As these examples show (and see Eisenmann et al, 2006), there is often a ‘money side’ and ‘subsidy side’ in a two-sided market to achieve the optimal balance of buyers and sellers.

Australia: a marketplace for tourism buyers and sellers

The concept of a ‘two-sided market’ is not only useful for understanding travel agents, wholesalers, ITOs and trade shows – it can also usefully explain the operation of the *entire* Australian international tourism industry.

Australia has iconic destinations, world class beauty and natural environments: the Great Barrier Reef, Sydney Harbour, Uluru and many more.

Tourists visit these iconic destinations and demand a range of tourism services (hotels, restaurants, retail, entertainment, etc), which have evolved over time, an achievement in itself. There is a ‘chicken or egg’ challenge when creating a tourism market in a new destination, which requires attracting both buyers and sellers to transact in it. Indeed over the years, some tourism ventures have failed by building too much supply before demand caught up (like the early days of Port Douglas). Excess demand (resulting in, say, an overcrowded beach) can also be detrimental – striking a balance between demand and supply is key.

In an economic sense, the Australian international tourism industry can be thought of as one (enormous, \$30bn) marketplace that provides a range of tourism services including accommodation, food and wine, taxis and rental cars, shopping, entertainment, attractions, events, flights, scenic tours and cruises. At the same time, millions of overseas visitors come to this marketplace every year to buy bundles of those tourism services and experiences.

Figure: the tourism marketplace



The role of government in a two-sided market

What is the role for government in improving the operation of this highly valuable Australian marketplace for international tourism?

Importantly, tourists don't just buy a flight or a hotel room, they buy a bundle of many services to create their holiday experience – this bundling is what creates the positive externalities that are an important and necessary condition for the existence of a two-sided market. That is, airlines, hotel chains, restaurants, taxi drivers and shops all combine to create a tourism bundle that is *more valuable to the tourist than the sum of its parts*. Local residents also purchase goods and services from restaurants, taxis and shops – the boundary of the tourism industry and these traditionally-defined industries is blurred.

Some might argue that the 'invisible hand' will largely work to ensure hotel rooms are available where tourists want to stay, or airport capacity is built when it is needed, and all the elements of the tourism bundle will grow at the appropriate rate needed to serve the tourists as they arrive, and enough tourists keep arriving to maintain capacity utilisation rates at an optimal level. But in reality, government does play a role in growing demand, planning approval processes, and avoiding bottlenecks in key areas of tourism. The flow-on effects of removing a bottleneck are substantial. See Access Economics (2010) and Deloitte Access Economics (2013) for examples of the benefits from not constraining one part of the tourist's bundle of purchases – by addressing Perth hotel shortages and Sydney basin airport capacity, respectively.

Government-funded tourism statistics and tourism forecasts also help to improve hotel investment and air capacity decisions compared with the boom-bust developments of the 1980s. The haphazard nature of tourism development is (mostly) a thing of the past, and that has been achieved through the supply of better information and research, not through direct government subsidies or the government taking on commercial risks better suited to the private sector.

Similarly, Tourism Australia works – in collaboration with Austrade, the States, Territories and industry – to foster a competitive and sustainable Australian tourism industry. We do this by supporting increases in air capacity, improving distribution, helping businesses better supply the product being sought by tourists, to understand the bundle being demanded by new markets like China and to respond to changing preferences of tourists in established markets.

Of course, there is no point having a great product, with lots of available flights and rooms if there is insufficient demand, so Tourism Australia spends 85% of its

resources (from all sources) on the demand side.

Equally, there is no point having lots of demand if there is insufficient supply of quality product, so Tourism Australia spends the other 15% of its resources on fostering and developing the supply side (noting that Austrade and other government agencies have a greater role on the supply side).

Unlike other two-sided markets (where the intermediary is more commonly funded by sales commissions or transaction fees), the task of enhancing the operation of Australia's international tourism marketplace – both developing the supply side and growing demand – is funded mostly by government (at all the Commonwealth, State, Territory and Local government levels).

The recent National Commission of Audit (NCoA, 2014) queried whether Tourism Australia should focus only on the demand side. The remainder of this submission explores this question, demonstrating that there is a dual role for government. Furthermore, the effort on the demand-side and supply-side ensures the right balance, so that buyers and sellers can efficiently transact bundles of tourism services.

The role performed by Tourism Australia, as an intermediary in Australia's two-sided international tourism market, has proven to be effective. Tourism Australia enhances both the demand-side and supply-side of Australia's international tourism industry, ensuring that buyers and sellers (at both the wholesale and retail level) can engage in mutually beneficial exchange.

A government funded intermediary – Tourism Australia – is an essential ingredient in growing the volume of successful transactions in the two-sided market that characterises Australia's international tourism industry.

References

- Access Economics (2010) *Perth hotel economic impact study*
- Deloitte Access Economics (2013) *Economic impact of a Western Sydney Airport*
- Eisenmann, Parker, and Van Alstyne (2006) *Strategies for two-sided markets*
Harvard Business Review
- National Commission of Audit (2014) *Towards Responsible Government* (Phase One report, Section 8.1)
- Rysman (2009) *The economics of two-sided markets*

Government assistance administered by Tourism Australia

The charts on the following page summarise the sources and applications of funds administered by Tourism Australia.

Tourism Australia receives funds from various sources:

- Government appropriations of \$129.9m from general revenue. Appropriations for Tourism Australia, adjusted for the structural reorganisation with TRA moving to Austrade, have not increased (in nominal terms) since 2004.
- A direct hypothecation of \$13.5m from the PMC for the AMF. The AMF is \$14m over the forward estimates.
- Funds from direct industry contributions and partnerships of \$13m, other own-source revenue (interest and subleases) of \$3.5m, and
- Tourism Australia leverages \$33.8m in dollar-matched, in-kind or other indirect joint marketing. For example, campaigns funds where a partner (such as an airline) pays money directly to an advertising agency to help partly fund a campaign. Industry chooses to leverage Tourism Australia campaigns due to the effectiveness of using Tourism Australia branding and collateral to supplement their marketing activities.

- Tourism Australia markets around the world, so the purchasing power of the A\$ for buying advertising in foreign currencies impacts the size of available budgets in local currencies. The recent decline in the A\$ places pressure on total funding.

Tourism Australia uses these resources for two broad programmes, one on the demand side (84.7% of funds) and one on the supply side of the tourism market (15.3% of funds, see Tourism Australia (2014) *Annual Report 2013-14*, also attached). The three programmes administered by Tourism Australia as described in the annual report for 2013-14 are now structured as two programmes, as described below, for the current fiscal year 2014-15 – see Tourism Australia (2014) *Portfolio Budget Statement 2014-15*. The relatively low percentage (15.3%) of resources devoted to the supply side is cost-effective, since a large amount of research undertaken and marketing collateral developed primarily for the demand side (growing demand) is also able to be used to provide insights and content to industry at marginal cost. Furthermore the Tourism Australia distribution strategy uses global platforms (e.g. the Aussie Specialist Program (ASP) and ATE) with partners to achieve cost and operational efficiencies.

Demand side

Grow demand for Australia as a travel destination: Tourism Australia engages inspirational partners to help us achieve the most from our marketing activities.

Recent 'There's Nothing Like Australia' campaigns have included 'Restaurant Australia', 'Best Jobs in the World' and 'Oprah's Ultimate Australian Adventure'.

Other marketing initiatives have included airline partnerships and a focus on Asia.

Our marketing is based on detailed consumer research and data-driven marketing methods.

Supply side

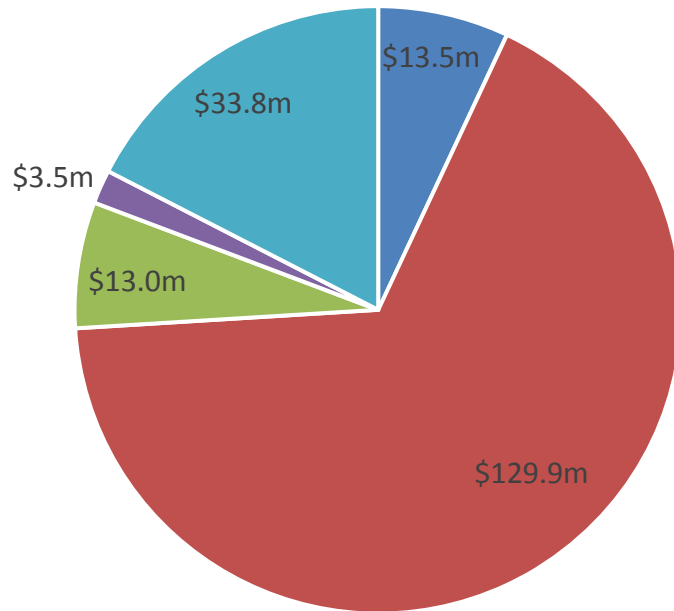
Foster a competitive and sustainable tourism industry.

Tourism Australia supports increased investment in new tourism products, to improve the industry's productive capacity. We provide marketing collateral and deliver insights on consumer trends to industry.

Tourism Australia strengthens the travel distribution system, including the Australian Tourism Exchange, Aussie Specialist Program, Corroboree Greater China, product bundling and 'Best of Australia'.

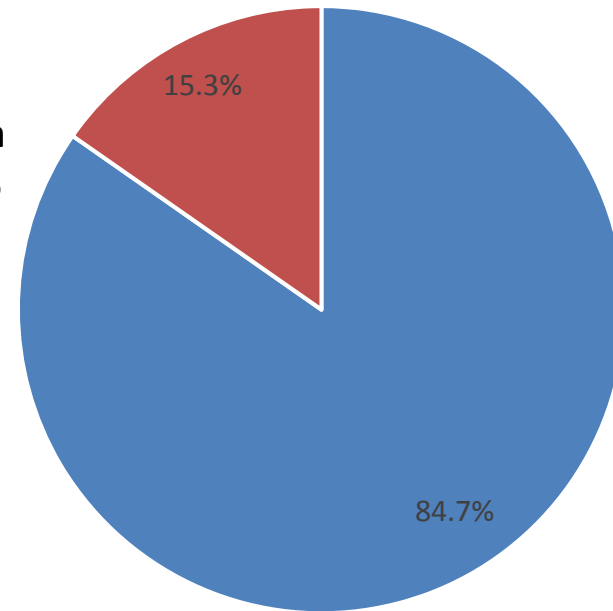
Funding and programmes administered by Tourism Australia

Funding Sources



- Asian Marketing Fund
- Appropriations
- Industry and partnerships
- Other (interest and subleases)
- Indirect / dollar-matched

Assistance provided



- Growing demand: marketing Australia
- Industry development and strengthening distribution

**Total: \$193.7m
for FY 2014-15**

Government assistance *not* provided by Tourism Australia

Tourism Australia does not use any of the following types of (potentially more distortionary) methods for delivering government assistance to the tourism industry:

- Direct grants, subsidies or financial support
- Mandatory licences or other restrictions on competition (e.g. the ASP, which trains travel agents in source countries on Australian tourism products, is a voluntary course)
- Guarantees, indemnities, underwriting commercial ventures, or taking on traffic risk
- Exclusive arrangements or preferential access

Tourism Australia's programmes are designed to promote and enhance the tourism industry with minimal regulatory burden, and minimal effects on competition and trade. Trade shows such as the ATE provide a non-exclusive platform for wholesale buyers and sellers of tourism products to efficiently meet and transact.

Tourism Australia is currently undertaking a strategic review assessing an expanded support role in marketing major events. Based on work completed to date, Tourism Australia can uniquely add value to the existing work done by States and Territories with leading a national strategy, improving coordination and undertaking more extensive international marketing. It has been modelled that significant incremental spend can be achieved by 2020.

No barriers to entry

Any Australian can open up a business that offers tourism services – it does not require any special permit or licence to become part of the tourism industry.

See TRA (2013) for definitions of how tourism businesses are defined and counted, and the concepts of 'tourism characteristic' and 'tourism connected' businesses.

It is not possible to exclude a business from providing services to tourists, or prevent any given tourism business from benefiting from the marketing of Australia.

State and Territory Governments administer various business licensing requirements that affect businesses in the tourism industry, such as:

- a taxi driver authority,
- liquor licence, or
- food business registration.

Tourism businesses, of course, require the relevant permits to operate safely in the relevant jurisdiction. With only a few exceptions (such as a limit on the number of taxi plates and a limit on the number of casino licences per city), most parts of the tourism industry are completely unrestricted. For example, there are no restrictions on the number of domestic airlines, hotels, restaurants, tour operators, rental car companies and so forth. Importantly, there are no restrictions at the Commonwealth level, nor restrictions administered by Tourism Australia that prevent any current or potential business from benefiting from the marketing of Australia.

References

Tourism Research Australia (2013) *Tourism businesses in Australia June 2010 to June 2012*

Role of government: *grow demand and foster a competitive and sustainable industry*

The rationale

Tourism is a significant part of the economy, contributing 543,600 in direct employment (and 929,000 in both direct and indirect employment, or 8% of total employment), and \$42bn in direct GDP (of which international tourism accounts for 27%). That noted, we recognise that simply because the tourism industry is large, or that many people work in the industry, does not necessarily mean the government should intervene to make it larger or grow faster. It is also important to consider whether governments can intervene effectively – governments do not always possess the levers to be able to fix every market failure that might arise.

The rationale for government intervention to promote leisure travel and business events has to rest on two public policy questions:

- Is there a justification for government to subsidise the promotion of travel to Australia and develop the supply side? and
- Can government perform this role effectively?

Market failure in tourism marketing

There is a well-established literature regarding the public good characteristic of marketing Australia. A summary of the literature is in Appendix B. In the absence of government assistance, the promotion of Australia would be undersupplied by the private sector – few companies could justify this marketing cost, and would free ride on the marketing provided by others. This would be the economic equivalent of advertising a shopping mall – no individual tenant in the mall could justify the cost of attracting customers to that mall, but all tenants in the mall benefit from the shopping mall operator advertising the mall.

No businesses (not even the large airlines and hotel chains) have the market share to be able to recoup the costs of promoting travel to Australia, or are able to present consistent branding for Australia. Interestingly, using the ‘shopping mall’ analogy, it is often the case that the largest participants (e.g. an ‘anchor tenant’ like a major department store) pay less rent per sqm than the specialty shops to ensure the optimal flow of customers into the mall. Similarly, many countries (but not Australia) subsidise or protect their national flag carrier.

Non-excludable Non-rivalrous

All tourism businesses potentially benefit from the marketing of Australia overseas, and from the insights, marketing collateral and industry development services provided by Tourism Australia. It is not possible to prevent any tourism business from benefiting from increased visitation to Australia, or accessing Tourism Australia’s services on the supply side.

The marketing of tourism and provision of information (like www.australia.com) is also non-rivalrous – a potential tourist or business event organiser considering Australia, watching an advertisement, an article written by Tourism Australia-hosted media, or visiting the website does not reduce the ability of other potential visitors to also access that information on travelling to Australia. Similarly on the supply side, any tourism business can use Tourism Australia’s marketing collateral (pictures and videos) to prepare their marketing materials, without diminishing the ability of any other tourism business to also use that content.

Role for government

There is widespread and long-standing acceptance of the need for government-funded marketing of Australia, as the private market (left to its own devices) would under-supply marketing of Australia (noting that 95% of the 267,000 tourism businesses are Small and Medium Enterprises, SMEs). This role makes even greater sense when tourism is viewed through the framework of a two-sided market. The majority of Tourism Australia’s resources are used on the demand side, and less on the supply side (as the supply side is mainly the role of other agencies such as Austrade and the transport portfolio) in order to achieve the optimal balance in the two-sided market that characterises Australia’s international tourism industry, and the optimal assistance for the ‘subsidy side’ of the market.

A further rationale is to avoid fragmented and confusing messages about Australia overseas (made worse with the ‘noise’ and crowd-sourced information on the internet). A benefit of government-funded marketing is to ensure Australia is portrayed overseas in a manner that is consistent, research-driven and targeted at attracting high-yielding visitors. Given the increasing competition to attract visitors, Australia cannot be complacent. Tourism Australia has led an initiative called “One Voice” with States and Territories to ensure a cohesive approach.

Measuring the effectiveness of Tourism Australia

The performance of Tourism Australia (and its predecessor, ATC) has been the subject of several independent reports and refereed journal articles over the years. There is now a timeline of 22 years of continual improvement in empirical methods for evaluating the ROMI of Tourism Australia, using econometrics, surveys and Computable General Equilibrium (CGE) modelling methodologies. Each author has made innovations and improvements in the empirical methods used, and has incorporated better data. See Appendix B for full references and further discussion.

Crouch et al (1992)	Access Economics (1997 and 2002)	Kulendran et al (2007 and 2009)	Webber Quantitative Consulting (2011)*	Insignia (2014)*	Webber Quantitative Consulting (2014)	Dwyer et al (2014) and Deloitte Access (2013)
<i>Controlling for exogenous factors</i>	<i>Focusing on yield (expenditure)</i>	<i>Dynamics, lags and substitutes</i>	<i>Isolating leisure spend by country</i>	<i>ROMI from survey-based methods</i>	<i>Diminishing return, marginal effect</i>	<i>Crowding out and (CGE) impacts</i>
61:1	8:1 to 11:1, and 11:1 to 16:1	8:1 and 17:1 (Asia)	16:1 (China) 15:1 (India)	6:1 to 37:1, weighted avg 16:1	13:1 to 16:1 at the margin	Real value added = ⅓ of ROMI
Dependent variable: Visitors (ABS OAD data) Marketing variable: ATC spend by country Method: econometric	Dependent variable: Spend (ABS Balance of Payments other travel and passenger transport credits) Marketing variable: total ATC operating budget Method: econometric	Dependent variable: Visitors (ABS OAD data) Marketing variable: Tourism Australia spend by country Method: econometric (cointegration and error correction model)	Dependent variable: leisure spend by country Marketing variable: Tourism Australia spend by country Method: econometric, also supplemented by analysis of tracking survey results	Dependent variable: spend by leisure travellers by country Marketing variable: spend on campaign Method: survey-based ROMI methodology	Dependent variable: spend by leisure travellers by country (IVS) Marketing variable: spend by country Method: econometric	Dependent variable: real gross value added (parameters based on meta analysis) Method: CGE modelling
Innovation: multivariate regression used to control for income and prices. First measure of gov't ROMI net of any displacement of private marketing and exogenous factors	Innovation: builds on Crouch (1992), introducing spend (yield) data and inclusion of third-country competitiveness effects	Innovation: builds on AE (2002), adding stationary and non-stationary models, lagged effects and estimating ROMI in Asian countries	Innovation: uses spend by country, focuses on leisure (excl travel for employment, education). Focuses on individual countries, using IVS data	Innovation: used survey data and ROMI methods from the Marketing discipline to isolate impact of individual campaigns on tourists' decision making in target market	Innovation: use of quadratic and logarithmic terms to capture diminishing returns to scale, and to calculate 'average' versus 'marginal' ROMI	Innovation: adjusts previous ROMI estimates for crowding out effects (due to constraints in the economy). Converts tourism expenditure into net real value added impact
Limitations: focus on volume (visitors) rather than yield (export income) due to data limitations, although this allowed estimation of individual country volume effects	Limitations: data only available on total spend (not leisure spend), and not enough historical IVS data to allow estimation of ROMI by source country (only total for all inbound)	Limitations: uses visitor numbers rather than spend. Includes non-leisure visitors that are not the target of Tourism Australia marketing, but improves in many other respects	Limitations: estimates an average ROMI (later 2014 work estimates marginal), but improves on previous studies in many other respects	Limitations: may not capture any offsetting reduction (if any) in private marketing effort due to gov't marketing effort. Adds a new level of precision in many other respects	Limitations: uses unconstrained I-O multipliers (rather than CGE model) to estimate wider economic impacts, but is first study to estimate average and marginal effects	Limitations: very few. Could adjust for MCF, and examine marginal versus average effects introduced in Webber (2014)

Continuous improvement in empirical methods 

Current ‘state of the art’ in tourism ROMI methods

The current ‘state of the art’ in evaluating a tourism marketing campaign combines ROMI evidence from tracking surveys (Insignia), econometrics (Webber Quantitative Consulting) and CGE modelling, such as in Dwyer et al (2014) and Deloitte Access Economics (2013), to ensure robust economic impacts of government marketing.

Other countries are starting to adopt the first two elements of this approach, e.g. *Brand USA* (undertaken by Oxford Economics) combined survey-based methods and econometric methods (although some of the ROMI results appear high), see Oxford Economics (2014) *The Return on Investment of Brand USA Marketing*.

New innovations currently being explored by Tourism Australia include the use of control cities (a ‘placebo group’). In a large country such as China it is possible to use experimental methods to test the effectiveness of a campaign in the target city and a control city. This survey data allows the researcher to control for the baseline level of interest in travelling to Australia, and any underlying survey biases. Harbin, Wuhan and Xian were control cities used in a recent China market evaluation.

More recent studies generally focus on leisure expenditure (IVS data) by source country as the dependent variable (rather than visitor numbers), to ensure closest alignment with objectives of government marketing, to increase yield rather than visitor numbers. Other recent innovations include controlling for income, prices, wealth, third-country prices, supply side (airfares or airline seats) and one-off events.

The inclusion of non-linear terms to capture diminishing returns (and to allow marginal and average ROMI to be calculated), are another recent innovation, such as the techniques introduced in Webber (2014).

Displacement effects

Displacement effects refer to a situation where a government intervenes to assist an industry, resulting in a corresponding reduction in effort or investment by the private sector, or increased demand that competes resources away from other sectors.

Two displacement effects are of potential concern when promoting travel to Australia and increased tourism exports:

1. Government-funded marketing will displace marketing that private companies would have done in its absence:

- Econometrics studies (e.g. Crouch, Webber and Access Economics) estimate the **net** increase in travel or expenditure resulting from changes in government-funded marketing, thus they implicitly already capture any impact on travel expenditure from any displacement of private sector marketing effort due to an increase in public sector marketing effort.
- Tourism Australia partners with airlines and other industry partners (e.g. dollar-matching, joint campaigns and the like) to ensure private contributions towards marketing costs are leveraged to supplement the publicly-funded promotion of Australia.
- Tourism Australia leverages approximately \$13m in direct industry funding, \$33.8m in dollar-matched, in-kind or other indirect joint marketing and \$3.5m in other revenue (over \$50m in total).

2. Additional tourism demand can crowd out other economic activity:

- As noted in Dwyer, Forsyth and Dwyer (2010) *An expanding tourism industry tends to ‘crowd out’ other sectors of economic activity. The extent of these ‘crowding out’ effects depends, in turn, on factor constraints, changes in the exchange rate, the workings of the labour market and the macroeconomics policy context*. This book also explains the advantages of modelling tourism impacts with a CGE model rather I-O multipliers.
- CGE modelling studies by Deloitte Access Economics (2013), and Dwyer et al (2014) estimate that **each dollar** of additional **tourism expenditure** equates to around **⅓ of a dollar** of additional **real value added** (an income measure – wages plus gross operating surplus – of economic impact that allows for crowding out effects and import leakage, to determine the direct and indirect *value added* associated with additional tourism *expenditure*).

Conclusion

Rigorous *ex post* evaluation of government programmes is valuable for informing policy. The past 22 years of empirical advancements in evaluation techniques of marketing campaigns have resulted in a strong evidence-based culture in Tourism Australia.

Converting ROMI into a benefit:cost ratio

The marketing profession uses the concept of ROMI to assess the effectiveness of a campaign. This is a private return concept, which measures the dollars returned in additional sales as a result of a dollar invested in a marketing campaign. The consensus of recent studies is that Tourism Australia delivers an ROMI typically in the order of 15:1, although some individual campaigns can be higher or lower. The ratio of 15:1 is best thought of as the overall return on the portfolio of campaigns run by Tourism Australia.

In a public policy context – where taxpayer funded marketing is being assessed, and displacement effects may occur – it is necessary to convert this into a benefit:cost measure that reflects the net return to Australians as a whole (including those who work in other industries that might be crowded out).

Firstly, the ratio of 15:1 excludes from the denominator any dollar-matched marketing undertaken by a foreign entity, so it already reflects the return to Australians on the spend by Australia, being the relevant geographical boundary for public policy purposes. For example, if Australian taxpayers spend \$1m on a campaign and this is leveraged by Tourism Australia with another \$1m of advertising spend by a foreign airline, resulting in a net increase in tourism expenditure of \$15m then the ROMI is 15:1, rather than 15:2, since it has only cost Australians \$1m for the campaign. CGE modelling takes into account any import leakage to the foreign airline and other displacement effects. Hence, it is appropriate to compare the modelled economic impact with the Australian

taxpayer's share of the campaign cost.

To calculate a benefit:cost ratio from the ROMI ratio (typically around 15:1 in recent studies), two adjustments to costs are suggested (see Appendix B for details and references):

- MCF ratio of 1.275
- Tourism Australia total costs (including corporate overheads, admin and research) to campaign spending is a ratio of 1.25
- Adjusted costs to society for each \$1m spent on a marketing campaign is therefore $\$1m \times 1.275 \times 1.25 = \$1.59m$

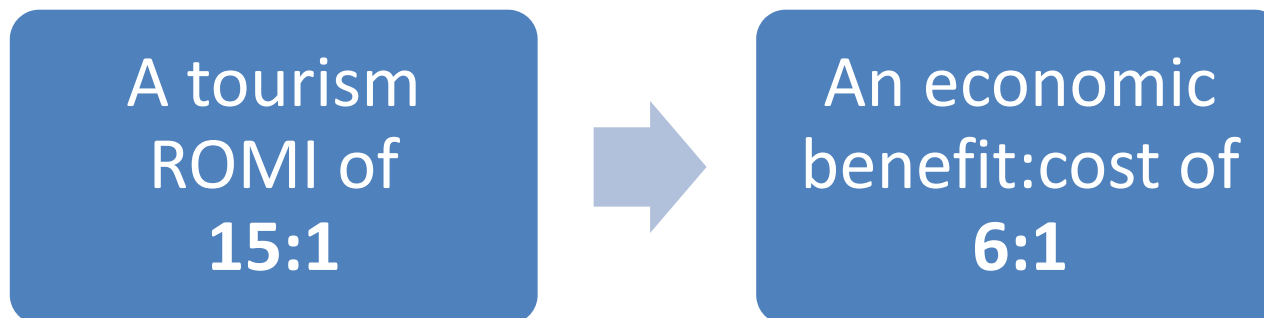
To convert **tourism expenditure** into a concept of economic value added, allowing for crowding out and import leakage, recent CGE modelling suggests a value of approximately $\frac{2}{3}$, as discussed on the previous page.

- Adjusted benefits are therefore $\$15m \times 0.667 = \$10m$

So, the ROMI of 15:1 equates to a **benefit:cost ratio of 6:1**

Conclusion

The cost of marketing Australia results in a 6:1 benefit after allowing for crowding out effects, overheads and the MCF. This ratio compares well to other areas of government funding, which are anecdotally often in the range of 2:1 to 4:1 (though a comprehensive list is not available).



Effectiveness of Tourism Australia’s programmes on the supply side

Much of the focus thus far has been on the demand side – marketing Australia. To optimise Australia’s tourism performance it is necessary to match the bundle of products that tourists desire with the suppliers that can meet those needs, and avoid bottlenecks in any one part of the bundle (like air or hotel capacity) that might reduce sales of the other components of the tourism bundle.

This is not straightforward, and it is easy for problems with just one component of the bundle to reduce the attractiveness of the whole bundle. Key areas where governments act to ensure parts of the tourism bundle are not constraining opportunities include:

- Passenger facilitation at airports
- Airport capacity, particularly Sydney
- Bilateral air services agreements
- Hotel capacity (an issue in Perth in recent years)
- Convention centres
- Visa processing
- Strengthening the distribution system – making Australia’s product more available overseas
- Developing the industry – ensuring Australian businesses are providing the bundle of products tourists demand

Austrade plays a key role in leading and coordinating the efforts of other agencies on supply-side tourism issues. DFAT leads on tourism international policy engagement. Tourism Australia often assists Austrade, DFAT and other federal agencies or jurisdictions to support that important policy development work, by providing insights and research. The areas where Tourism Australia has shared responsibility (with the STOs) are in strengthening the distribution system and developing the industry.

The studies by Access Economics (1997 and 2002) provide a useful insight on the supply side role of Tourism Australia, as they use total funding of the (then) ATC as the right hand side variable, along with other exogenous variables, to explain total yield measured by balance of payments ‘other travel credits’ and ‘passenger transportation credits’. This captures the total effect of both marketing (which was the majority of ATC expenditures) but also the work done on the supply side to strengthen distribution and develop the industry to be able

to meet that demand.

The more recent studies (such as Webber, 2014, and Kulendran et al, 2007 and 2009) use detailed data to isolate the effect of marketing expenditure by source market so does not capture the effect of the supply side programmes administered by Tourism Australia. A possible future refinement for researchers would be to conduct regressions on both supply-side programme expenditure and demand-side marketing expenditure by Tourism Australia to gauge the incremental impact of both aspects of Tourism Australia’s role in growing the amount of successful transactions that take place in the international tourism industry.

Aside from econometric studies, we also collect surveys on the results of our supply-side programmes to ensure they have been effective:

- Colmar Brunton conducted a detailed review of this year’s ATE in Cairns (and similar reviews were done for previous ATEs). The results were very positive in terms of the satisfaction and return on investment from attendees. The platform created by Tourism Australia in Cairns to bring buyers and sellers together was a highly effective wholesale marketplace.
- The ASP, training foreign travel agents to be more familiar with selling Australian tourism product, is being reviewed to improve its effectiveness, including a review by external experts in education and training – an example of how Tourism Australia is continually monitoring, reviewing and improving its programmes.
- Tourism Australia also conducts follow up surveys to monitor the performance of Familiarisations, Media Hosting and trade shows. These surveys have indicated strong results and constructive feedback on how to continually improve.

Conclusion

The multi-faceted role of Tourism Australia – including roles on the supply side, in the wholesale market, and its collaborations with other agencies and jurisdictions – complements the marketing of Australia. Growing demand for travel to Australia is more effective when it is in sync with the STOs, the wholesale market and the supply side on offer.

Cost recovery (funding) of Tourism Australia's services

Tourism Australia generally provides marketing campaigns, materials, insights and briefings free of charge to Australian tourism businesses. Some revenue is raised from exhibitors to cover the costs of staging trade shows, however this is a relatively modest contribution to the total revenue of Tourism Australia.

The majority of Tourism Australia expenditure (85%) is on the marketing of Australia, which indirectly benefits a large number of businesses connected to the tourism industry, from taxi drivers to hotel and restaurant owners to retail outlets. There is no direct nexus (i.e. no one-to-one relationship) between the marketing of Australia and the benefits that accrue to any individual business (unlike a government agency that issues a licence or permit to a specific business).

The marketing of Australia is non-excludable – Tourism Australia cannot ‘fence off’ or limit beneficiaries of this marketing to those that contribute to its cost.

Tourism Australia does not operate a travel agency to earn commissions from selling travel products. This is important, due to the need for independence between marketing Australia to the benefit of the whole industry, and earning commissions from selling specific travel packages.

Some Tourism Australia services to businesses require users to register with or contact Tourism Australia to receive insights and marketing content. This is to prevent competing tourism destinations freely accessing and downloading this intellectual property. These registration processes are streamlined and free.

Indirect cost recovery

An argument could be made that cost recovery occurs indirectly through PMC – indeed Productivity Commission (2005) noted it was a *de facto* user charge.

The marketing of Australia is also partly funded through industry and partnerships, with just over \$50m in private sector contributions and own-source revenue expected in the current year.

Tourists pay considerable GST (which accrues to the States and Territories, indirectly funding the STOs), WET and other indirect taxes (gambling taxes and excises on alcohol, tobacco and fuel) unlike other exports. Tourists receive only limited GST, WET and excise exemptions on some types of eligible expenditure through the TRS and Duty Free allowances. However, all the big-ticket items in a holiday (domestic flights taken by international visitors, hotels, meals and ground transport) all attract GST and various other indirect taxes.

The Australian Government (2014) *Cost Recovery Guidelines* describes the policy to cost recover government services where it is efficient to do so. In the case of marketing Australia, it would be difficult to attempt to recoup the cost of marketing from all beneficiaries in a way that is proportional to the benefit each receives. This is due to the large number of SMEs in the tourism industry (267,000 Australian businesses are directly or indirectly involved in tourism, of which approximately 95 per cent of tourism businesses were non-employing, micro or small businesses), and the varying degree of benefit across businesses.

A possible answer to the question of whether tourism is optimally funded and if that cost is optimally recovered ultimately rests *at the margin* on whether the cost of attracting (say) 1000 additional tourists – from the marketing efforts of Tourism Australia supported by the STOs – generates sufficient economic returns to Australian society as a whole.

CGE modelling can help answer this marginal impact question. Dwyer et al (2014) *Destination Marketing of Australia: Return on Investment* uses CGE modelling to show an economic return of 10:1, i.e. a dollar spent on tourism marketing returns around \$10 of real gross value added. Noting the average taxation rate is greater than 10% of GDP, indeed it is 25.6% (Henry (2009), based on OECD data, of which 80% of revenue accrues to the Commonwealth), hence each dollar of marketing returns around \$2.56 of tax revenue. This estimate is admittedly based on broad averages, but it shows additional tourism marketing, even after allowing for the MCF, is most likely a net positive for the fiscal balance (for the consolidated government sector – federal, state, territory and local combined – and probably positive at the federal level).

Thus, Tourism Australia's view is that marketing Australia **pays it way** through the GST, PMC and various other indirect taxes and excises paid by tourists, so the fiscal balance (consolidated across all levels of government) from assisting tourism is positive: **each dollar spent marketing Australia improves the fiscal balance.**

References

Dwyer, Pham, Forsyth and Spurr (2014) *Destination Marketing of Australia: Return on Investment*

Henry K, et al (2009) *Australia's Future Tax System*

Productivity Commission (2005) *Assistance to Tourism: Exploratory Estimates*

The 'optimal' amount of Tourism Australia's services

What is the 'optimal' level of funding for Tourism Australia's marketing of Australia? Certainly the current level of funding has delivered a high benefit:cost ratio of 6:1, based on the consensus of several studies.

Webber (2014) estimated equations that allow for diminishing returns to an additional dollar of marketing, allowing both marginal and average ROMI to be calculated. This analysis found that while there are diminishing returns, the **marginal** dollar is still highly effective – with an ROMI in the range 13:1 to 16:1, which translates to a benefit:cost at the margin in the order of 5:1 to 6:1, with an **average** return higher than other estimates in the literature (22:1 to 30:1).

Of course, with fiscal constraints it is not possible to fund every government programme that has the potential to generate strong benefit:cost ratios, but putting to one side the current fiscal pressures, there is a *prima facie* case for increasing the current level of funding.

Efficient use of funds

The first condition to satisfy is that the funding currently received is being spent efficiently, resulting in the maximum possible marketing effort.

Tourism Australia has increased its overall investment base by both developing strong partnerships and associated partnership revenue, as well as identifying savings and efficiencies within the business that can be reinvested into frontline marketing activities. To date, Tourism Australia has reduced spending on back office operations by more than 10 per cent (see Appendix B – back office expenses are now around 11% of total operating costs). This will be reduced further in the 2014-15 financial year through savings arising from our new business systems implementation. These activities have contributed to a \$23m increase in advertising expenditure over the last two years, without any significant increase in appropriations (the AMF increased \$1m between 2013-14 and 2014-15, while other appropriations reduced by \$0.5m).

Optimality in two-sided markets and optimal public good provision

A more difficult question is what the optimal level of provision of marketing Australia should be. There is literature on the optimal provision of a public good, which suggests increasing provision until the benefit:cost ratio is unity. Allowing for fiscal constraints where funding has to be rationed, this could be a hurdle rate set by the government at a value greater than one, such as only funding programmes with a benefit:cost ratio greater or equal to 2.

Rochet and Tirole (2006) *Two sided markets: a progress report* note that it can be optimal to charge one side of the market a below-cost price in order to maximise revenue (using the example of broadcasters providing 'free TV' to consumers to attract the maximum possible audience and hence advertising revenue from businesses). However, these calculations of optimal prices can become complex, as it depends on the elasticities of both sides of the market.

As we have noted on the previous page, modelling shows tourists are contributing more in tax revenue than the cost of attracting them to Australia. Given the complexity of exempting tourists from domestic taxes (e.g. giving tourists a GST-free card to use in shops and restaurants would be too easily rorted), the subsidisation of marketing of Australia in some respects corrects for the taxation of tourism exports.

In short, the theory and literature on optimal pricing and optimal public good provision is difficult to apply in the case of Tourism Australia's services. The available evidence is that Tourism Australia's benefit:cost ratio is well above any hurdle ratio that might apply.

International comparisons

NTOs or Destination Marketing Organisations (DMOs) around the world are funded in different ways. Some (like Canada) received a large increase in funding prior to their Winter Olympics, which has since been reduced.

Brand USA recently received a substantial increase in funding, but is structured more like Australia's agricultural levies and rural R&D boards – on an industry dollar matching basis, with industry representation on the resource allocation decision making body (potentially giving rise to complexities in weighing competing interests and conflicts in resource allocation decisions).

Tourism NZ recently received a large increase in funding to focus on emerging markets and high value visitors.

As these examples show, funding of NTOs or DMOs overseas is made on an ad-hoc or irregular basis, or tied to special events, so it is difficult to determine an optimal funding model or best-practice formula from international comparisons.

Optimal funding

Ultimately, the funding of Tourism Australia is a matter for government. The above discussion is provided as information to support that decision making.

Intangible benefits and equity benefits of Tourism Australia's programmes

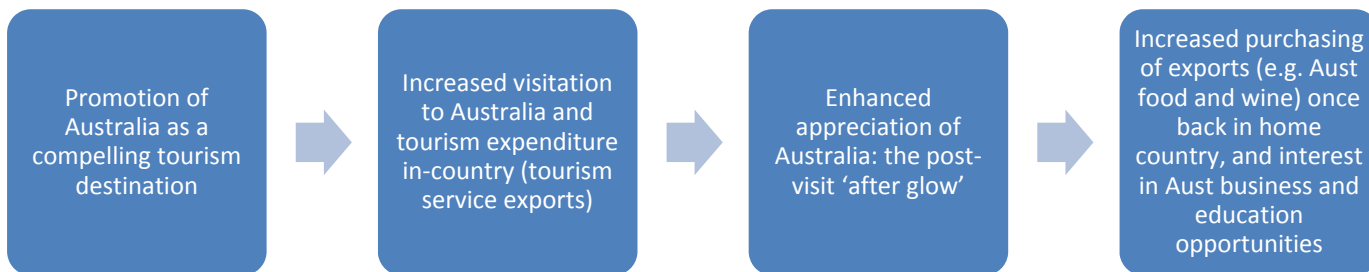
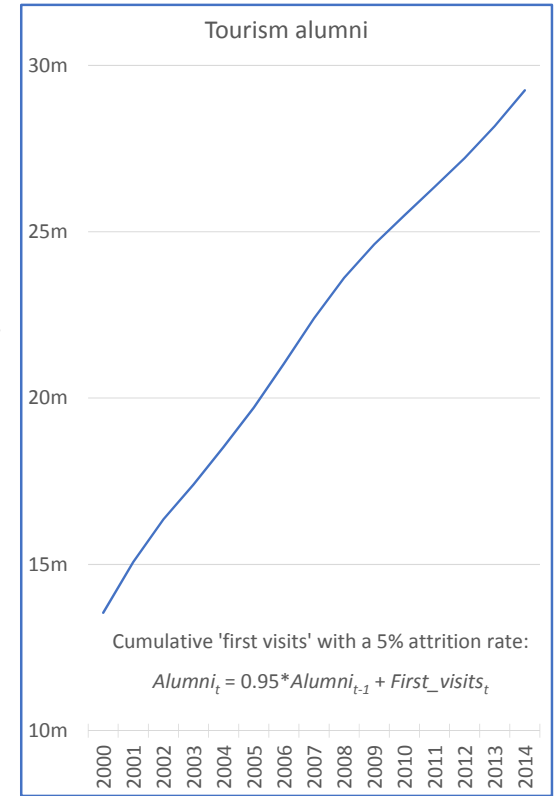
<p>Role for government fully justified on efficiency grounds</p>	<p>The role of Tourism Australia, to grow demand and foster a competitive and sustainable tourism industry, is fully justified on efficiency grounds. It is an effective government intervention to improve the functioning of the market and the balance between the demand-side and supply-side of the tourism industry, resulting in a higher overall level of tourism transactions.</p> <p>That noted, government intervention in tourism also provides important intangible and equity benefits, above and beyond the purely economic / productive capacity enhancing effects. To the extent that people value fairness or greater equality these can also be valuable, particularly when they are being achieved without a trade-off in less efficiency.</p>
<p>Economic diplomacy</p>	<p>Promoting travel to Australia and marketing Australia overseas creates a positive image of Australian in other countries. The Reputation Institute (2014) <i>2014 Country RepTrak</i> report found Australia ranks highly (5th in the world), an important asset with a correlation of 0.7 for 'intention to visit' which in turn has a correlation of 0.6 with 'income from tourism'.</p> <p>Tourism is key to the Government's economic diplomacy agenda. Tourism reaches across the four pillars of trade, growth, investment and business. Tourism marketing provides a positive message about Australia and fosters goodwill towards Australia from residents of other countries. Government involvement is important to ensure a clear and consistent image of Australia is presented overseas.</p>
<p>Indigenous opportunities</p>	<p>The Indigenous Tourism Champions Program promotes and supports businesses that offer authentic Indigenous tourism experiences delivered by Indigenous guides or hosts. The program has continued to grow under the joint leadership of Tourism Australia and Indigenous Business Australia (IBA), and through support from state and territory tourism organisations. The program now has 51 Indigenous tourism experiences, which are promoted to consumers and trade around the world.</p> <p>Tourism Australia is partnering with an award winning team for a new film project. Renowned Director/Cinematographer Warwick Thornton and critically-acclaimed Australian director Brendan Fletcher will collaborate on and direct a three-minute film promoting Australia's Indigenous tourism experiences to international visitors.</p>
<p>Regional opportunities</p>	<p>Tourism Research Australia (2014) <i>State of the Industry</i> calculated that 44 cents of every visitor dollar was spent in regional areas.</p> <p>Tourism provides economic opportunities in regions that are undergoing structural change (such as adjusting to the decline in manufacturing). The reinvigoration of Tasmanian tourism, with publicly funded promotion complementing the privately funded MONA, and promotion of tourism attractions such as the Great Ocean Road (extending from Geelong to the SA border), provide economic opportunities in areas that have faced declining employment opportunities in other sectors of the economy.</p>
<p>Conclusion</p>	<p>While Tourism Australia's programmes (grow demand, and foster a competitive and sustainable industry) will continue to be primarily justified on the basis of their ability to enhance overall economic welfare, there are important intangible and equity aspects of what the government's intervention in tourism provides to Australians. To the extent that a more equitable distribution of economic activity, and indigenous opportunities, can be created at the same time as also lifting aggregate living standards and the fiscal balance, Tourism Australia's programmes are demonstrated to improve equity without sacrificing economic efficiency or impinging on short term fiscal pressures.</p>

The tourism 'alumni' – *today's tourism exports lead to tomorrow's merchandise exports*

A long-lasting benefit of tourism is the advantage from having people living in many countries of the world that have visited Australia. The stock of unique visitors to Australia are referred to here as the tourism 'alumni'.

Thus far, the discussion has focused around international tourism expenditure that occurs while the tourist is physically visiting Australia, but there are also longer lasting effects from the 'visitor economy'. Each year, around half of all holiday visitors (and 37% of visitors for all purposes of travel) are visiting Australia for the first time.

- Cumulatively, **nearly 30m people** from other countries have visited Australia (first visit only – does not double count repeat visitors and includes a 5% attrition factor) for a range of purposes including business, leisure and VFR. (The estimate in the chart uses conservative assumptions regarding cumulative 'first visits', based on IVS data.) It is estimated they spent \$260bn (nominal) in Australia.
- Average visitor spend (TRA IVS) is \$4,897, with a 63% probability of repeat visits, so each first-time visitor attracted may spend \$13,234 in Australia in their lifetime (using an exponential hazard function).
- People who have visited Australia generally have an enhanced appreciation of Australia compared with those that have not visited Australia, based on a survey commissioned by Tourism Australia (see extract on the following page).
- This substantial tourism 'alumni' grows by around 1m per annum (after allowing for attrition of 5% per annum in the prior year stock of 'alumni', plus the current year 'first visits').
- Australian food and wine exporters benefit from increased merchandise export sales due to the after-glow of people who have visited Australia.
- Tourists who have visited Australia for a holiday are more likely to return to Australia for a holiday again (there are particularly high repeat visits from NZ of 94%), or for other purposes such as education or business events. People who have visited are also more likely to consider investing in Australia.
- This 'after glow' is additional to the tourism expenditure ROMI captured by the methodologies such as Webber (2014), Access Economics (1997 and 2002) and Kulendran et al (2007 and 2009).



The impact from having visited Australia

Figure 3: Perception of Australian food and wine by consumers who have visited compared with those who have not visited Australia



The figure shows there is a significant perception gap regarding Australia’s food and wine offering. Those who have visited and tried Australian food and wine rate it much higher than those who have not visited.

Source: Tourism Australia (2014) *Annual Report 2013-14*

Key tourism policy issues: *issues important for tourism, but where Tourism Australia does not have the primary role within government*

Visas

The efficient issuing of visas to potential tourists is an important element of a tourist's experience in visiting Australia. At times, Australia has led other countries (such as introducing the Electronic Travel Authority in 1996), however there are examples where other countries have overtaken Australian to streamline visa processes. With a transient international community, efficient visa processes are essential. Tourism & Transport Forum (2014) *Visitor visa reform: reducing the barriers for travel to Australia* identifies a number of issues with visas and the need to: expand the number of eligible countries; allow multiple visits and multiple year visas; provide visa forms in more languages; increase countries able to use online systems; simplify documentation requirements; and, review visa fees. See Appendix B for further details.

Tourism Australia is a member of the Tourism Visa Advisory Group. The ASP and Key Distribution Partners have been used as a channel to give special visa concessions in key markets.

Bilateral air services agreements

Air access is essential for tourism and trade. A liberal and proactive aviation policy and the development of aviation capacity ensure these elements of the tourism bundle do not constrain the tourism industry.

Tourism Australia is supportive of the policy of negotiating capacity at least two years ahead of demand, to ensure airlines can plan their fleet and growth strategies.

Investment and accommodation

The main impediments to investment are the regulatory approvals and planning approvals required for tourism assets. These approval processes need to be effective and efficient to ensure the industry's productive capacity keeps pace with demand.

The attraction of investment into new tourist accommodation and attractions enhances the competitiveness of tourism. The benefits of Foreign Direct Investment (FDI) for Australia are also widely known. Attracting investment and reducing barriers to FDI are important for tourism, but also Australia more generally. Austrade has the lead responsibility for FDI in tourism, and Tourism Australia supports this work with research and insights on tourism demand, as well as marketing collateral. Tourism Australia also participates in the *Australian Tourism Investment Attraction Partnership* with Austrade (see the Austrade submission for detail).

Statistical collections

The ABS and TRA administer several statistical collections, including: OAD, IVS, NVS, STA, TSA and produce forecasts. There is a real risk that the ABS will discontinue the STA. Please see Appendix A for a glossary of statistical collection acronyms.

While Tourism Australia is not directly responsible for these, the outputs from these statistical collections are essential for the tourism industry and for informed decision making.

Recent funding issues at the ABS have affected some statistical collections and Tourism Australia encourages a sensible level of funding for these important data resources.

Passenger facilitation

Passenger facilitation involves the immigration, customs and quarantine procedures at our major airports. The rapid growth of tourism has resulted in delays in processing passengers and queues. This is an unnecessary hassle for tourists, and also a source of frustration for returning Australians. Border agencies need to be adequately resourced – in line with growth in traveller numbers – to enable efficient passenger facilitation.

Tourist Refund Scheme

The TRS is currently the subject of a separate review. Because this involves a refunds of the WET and GST it is an issue for States, Territories and the Commonwealth. Tourism Australia notes that shopping and high-end retail is an increasing attraction for tourists. An efficient TRS, that allows some tax relief on exported purchases would encourage shopping, which is a particularly important part of the travel experience for Asian visitors.

Way forward

It is essential for Commonwealth, State, Territory and Local governments to continue removing impediments that reduce the competitiveness of Australia's tourism exports, and to ensure appropriately-funded statistical collections. Since the launch of the *Tourism 2020* strategy there has been an unprecedented level of co-operation across jurisdictions and agencies relevant to tourism and travel. Tourism Australia does not have the lead responsibility for many issues that affect the success of the international tourism industry, but works closely with Austrade, the States, Territories and other agencies to progress a range of issues. There are many challenges ahead, but the current institutional structures and strategies are in place for the industry to rise to these challenges.

Appendices

Appendix A: Glossary

ABS	Australian Bureau of Statistics	NTO	National Tourism Organisation
ADS	Approved Destination Status (China)	NVS	National (domestic) Visitor Survey
AMF	Asian Marketing Fund	NZ	New Zealand
ANAO	Australian National Audit Office	OAD	Overseas Arrivals and Departures
APEC	Asia-Pacific Economic Cooperation	OECD	Organisation for Economic Co-operation and Development
ASEAN	Association of South East Asian Nations	PMC	Passenger Movement Charge (departure tax)
ASP	Aussie Specialist Program	ROMI	Return on Marketing Investment, also referred to as ROI
ATC	Australian Tourist Commission (predecessor of Tourism Australia)	SARS	Sudden Acute Respiratory Syndrome (2003)
ATE	Australian Tourism Exchange	SME	Small and Medium Enterprise
Austrade	Australian Trade Commission	STA	Survey of Tourist Accommodation
B2B	Business to business	STO	State (or Territory) Tourism Organisation
bn	billion	TRA	Tourism Research Australia
CGE	Computable General Equilibrium	TRS	Tourist Refund Scheme (GST and WET refund)
DFAT	Department of Foreign Affairs and Trade	TSA	Tourism Satellite Accounts
DMO	Destination Marketing Organisation	TTF	Tourism & Transport Forum
FDI	Foreign Direct Investment	UNWTO	United Nations World Tourism Organization, as distinct from World Trade Organization (WTO)
G20	Group of 20 major economies	US	United States
GDP	Gross Domestic Product	VFR	Visiting Friends and Relatives
GFC	Global Financial Crisis (2008)	WET	Wine Equalisation Tax
GST	Goods and Services Tax	WTTC	World Travel & Tourism Council
IT	Information Technology		
IVS	International Visitor Survey		
ITO	Inbound Tourism Operator		
m	million		
MCF	Marginal cost of (public) funds		
MONA	Museum of Old and New Art		
NCoA	National Commission of Audit		
NSW	New South Wales		

Appendix B: Curated bibliography

Appendix B provides a discussion and listing of data sources and references on international tourism. Rather than an exhaustive list, Tourism Australia has provided a 'curated bibliography', which discusses the important literature, the history of international tourism, and the development of the science of marketing Australia.

The bibliography sub-headings in this appendix are as follows:

- Tourism statistics: a brief history
- Tourism demand and forecasting
- Tourism marketing: a public good
- Tourism marketing ROMI
- Overheads, the MCF and the AMF
- Empirical evidence on the economic impact of visas

Tourism statistics: a brief history

The first wave – the 1980s

In the 1980s, international tourism increased markedly – people were starting to travel to Australia in large numbers, for leisure purposes. It was driven by the sudden availability of relatively cheap flights. That, in turn, was due to the passing of the 1970s oil shocks, the introduction of large-capacity aircraft (like the Boeing 747) on routes to Australia, and the floating and subsequent depreciation of the A\$.

This influx of demand resulted in somewhat haphazard development, speculation and a boom-bust volatility in tourism-related investments. Some investors in tourism developments were burned, and some tourists had poor experiences. Tourism statistics and forecasts were fairly limited. There were some volume-based metrics (such as ABS OAD which tracked visitor arrivals). The lack of good data probably fed into the low-yield high-volume approach to tourism in the 1980s (such as cheap package tours).

By the 1990s, there was a growing recognition of the economic opportunity presented by international tourism, but also the need for better decision-making based on analysis and data, rather than gut feel. In particular, the Sydney Summer Olympics in 2000 was a key focal point in the drive to learn from the mistakes of the 1980s, and not squander the opportunity presented by tourism, the second time around. Governments invested considerably in improved statistical collections and the Tourism Forecasting Committee was established.

Governments and businesses also started focusing on yield (i.e. visitor expenditure) rather than volume-based measures of tourism performance (i.e. visitor arrivals).

The second wave – the 2000s

During the 1990s and the first decade of the 2000s, the information available to decision makers in the tourism industry improved considerably. The first TSA was released by the ABS, and the IVS and NVS were enhanced with larger sample sizes. Other information resources include the STA, the Tourism Investment Monitor and OAD. Academics and consultants built CGE models to analyse tourism issues, using TSA matrices.

Following the Sydney Olympics, a number of negative shocks impacted on the tourism industry, including the September 11 and Bali terrorist attacks, SARS, the collapse of Ansett and a period of high oil prices and A\$. This decade of negative shocks somewhat constrained the 'dividend' Australia would have otherwise received from a highly successful Olympics.

The third wave – the 2010s

The current decade of the 2010s is shaping as the third wave of international tourism, driven by tourists from China, India and a number of traditional source markets. This next wave has been identified by several analysts, including within government and Deloitte (2013). Global tourism is expected to grow faster than global GDP, and it is an activity that Australia is competitive at supplying.

Thanks to better data, and a growing track-record of analysing that data to support

decision making, Australia is much better prepared to harness the opportunity currently being presented in international tourism.

The challenge ahead

Good statistical collections are vital for good decision making. Fiscal pressures could result in some important surveys (such as STA) being discontinued. Adequate funding for the ABS and TRA is essential for ensuring that Australia can make well-informed decisions in relation to tourism.

TRA undertakes surveys of people who *have visited* Australia, while Tourism Australia undertakes surveying of people who are *considering visiting* Australia, or have *not yet considered* Australia, to help understand what causes people to consider a holiday to Australia, to guide its marketing and strategy. The ABS produces OAD statistics from passenger cards, conducts surveys (STA) and compiles the TSA.

The need for Australia to expend effort on statistical collections is clear:

- Good data is essential for decision making.
- There is a clear role for government in providing statistical information services.
- Australia has a mostly long-haul inbound tourism market. We can't rely entirely on international data suppliers (like UNWTO), as these statistical collections are dominated by short-haul travel (intra-Europe, intra-Americas, intra-Asia and trans-Atlantic) and not suited to analysing the out-of-region market Australia competes for, in most source countries (except a few short-haul markets like NZ).
- The statistical collections undertaken by TRA, Tourism Australia and the ABS are complementary and serve different purposes.

References - tourism statistics

Australian Bureau of Statistics (catalogue 3401.0) *Overseas Arrivals and Departures*

Australian Bureau of Statistics (catalogue 5249.0) *Australian National Accounts: Tourism Satellite Account*

Australian Bureau of Statistics (catalogue 8635.0) *Tourist Accommodation, Australia*
Bureau of Infrastructure, Transport and Regional Economics *International Airline Activity*
Department of Infrastructure and Regional Development *Register of Available Capacity* [agreed international aviation capacity]

OECD (2014) *Tourism Trends and Policies 2014*

STR Global *Hotel Survey*

Tourism Australia *Consumer Demand Project*

Tourism Economics (an Oxford Economics company) *Tourism Decision Metrics*

Tourism Research Australia *International Visitors In Australia* (based on IVS)

Tourism Research Australia *Travel by Australians* (based on NVS)

Tourism Research Australia *Tourism Forecasts*

Tourism Research Australia *Tourism Investment Monitor*

UNWTO *Compendium of Tourism Statistics*

Tourism demand and forecasting

Australia is well-served by a number of academics and consulting firms that have produced numerous econometric studies on tourism demand (and components of tourism, such as air travel demand), over many years. Tourism Australia also conducts surveys that examine the perceptions and motivations of potential visitors to Australia. The Bureau of Infrastructure, Transport and Regional Economics has an “Elasticities Database Online” of transport elasticities, which includes some tourism-related references. TRA publishes tourism forecasts on a regular basis.

Examples of the extensive literature on drivers of international tourism include Dwyer, Forsyth and Dwyer (2010) and Seetaram (2012a). Earlier studies include Crouch (1992) and Kulendran et al (2007 and 2009). Economic drivers include:

- the cost of tourism, determined by factors such as airfares and exchange rates, and the responsiveness to these (the own-price elasticity)
- the income and wealth of potential tourists, usually represented by GDP and stock market indices of the source country, and the responsiveness to this (determined by the income elasticity)
- the price of competing (substitute) destinations, which vary by source market, and the cross-price elasticity
- seasonal factors
- special events, both positive for travel (such as the Olympics) and negative shocks (such as the GFC, SARS, September 11 and Bali terrorist attacks)
- destination marketing activity (see separate page on ROMI)
- cultural links, such as immigration in prior years
- travel restrictions (or the removal of travel restrictions) such as China’s Tourism Law.

Of the various factors that influence tourism, income and wealth of the source country is the main long-term driver of travel growth. Australia is a relatively long trip from most source countries, so relies on middle to high income earners who can afford this type of long-haul travel. In emerging countries such as China and India, the high income earners above the price threshold of a trip to Australia increases at a faster rate than the overall rate of GDP growth, due to the shape of the income distribution. Combined with travel being a ‘luxury’ good, the income elasticity for international tourism to Australia is typically greater than one.

Prices and exchange rates can influence demand in the shorter term, and tend to affect expenditure more than total visitor numbers (the latter being more strongly correlated with income growth, in the long term). Estimates of price elasticities tend to show travel as being relatively inelastic (in the range -0.5 to -1.0), although some

studies estimate all forms of travel including travel for business and education purposes, with leisure / discretionary travel likely to be more price sensitive than the average for all purposes of trip.

Own price elasticities only capture the direct effect, but in correctly interpreting the estimates, it may be necessary to allow for third country substitution effects (i.e. cross price elasticities), to determine the total demand response to a unilateral increase in the cost of travelling to Australia.

For example, if an econometric study has estimated both an own-price and cross-price elasticity, it may be the case that a unilateral price increase (e.g. an Ansett Levy) makes Australia both more expensive (own-price effect) and relatively more expensive compared with competing destinations (cross-price effect). Therefore, it would be necessary to sum both the **own** and **cross** price elasticities to determine the full effect of a **unilateral** increase in the cost of visiting Australia. **Multilateral** price increases (i.e. wide-spread price increases like a rise in jet fuel prices, that affect Australian and competing destinations similarly – e.g. Hawaii and Cairns would be similarly impacted by a higher fuel price) would mostly have an own-price effect and a more muted cross price effect on travel to Australia (the latter being dependent only on the net additional distance to Australia versus to Hawaii).

References - tourism demand and forecasting

- Bureau of Infrastructure, Transport and Regional Economics (periodically updated literature survey) *Elasticities Database Online*
- Deloitte Access Economics (2011) *Impact and implications of exchange rate movements on the Australian tourism industry*
- Deloitte Access Economics (biannual) *Tourism and Hotel Market Outlook*
- Dwyer L, P Forsyth and W Dwyer (2010) *Tourism Economics and Policy*
- Kulendran and Divisekera (2007) *Measuring the economic impact of Australian tourism marketing expenditure*
- Kulendran and Dwyer (2009) *Measuring the Return from Australian Tourism Marketing Expenditure in Asia*
- Seetaram, N (2012) *Estimating demand elasticities for Australia’s international outbound tourism*
- Seetaram, N (2012a) *Immigration and international inbound tourism: Empirical evidence from Australia*
- Tourism Research Australia (2014) *Tourism Forecasts*
- Webber Quantitative Consulting (2014) *Estimates of the Return on Marketing Investment for Australian Inbound Tourism*

Tourism marketing: a public good

The NCoA (2014) queried whether marketing Australian tourism was justified, noting the importance of industry assistance to be provided in areas of market failure. The NCoA also noted the need for a consistent national approach to how Australia is portrayed overseas (hence the need for Commonwealth involvement rather than devolving this role entirely to the States and Territories).

There is extensive literature on the importance of tourism marketing and role for government in the provision of destination marketing, dating back to Dwyer and Forsyth (1992). Due to the public good characteristics of tourism marketing, government involvement is needed to correct this market failure.

As noted in Blake and Sinclair (2007):

Private provision of destination promotion suffers from being a public good; if some businesses were to collectively advertise their destination, other businesses would be able to free-ride on this promotion, and the original businesses would have no incentive to stay within such a voluntary scheme. Destination promotion therefore needs some form of public involvement, through direct government provision or compulsory membership schemes. This public good aspect of destination promotion applies on a larger scale to national promotion. It is in the interests of most tourism businesses to try to attract international visitors, yet each individually has little incentive to spend money on national promotion activities; this is a public good with the inherent incentive to free ride on the provision of promotion by other businesses.

And more specifically for Australia, Access Economics (1997) noted that:

Access Economics concludes that there is a strong case for the Commonwealth Government to:

- (i) Acknowledge that the basic conditions generally agreed to be needed to generate 'market failure' exist for one aspect of travel and tourism activity - in this specific case leading to private under provision of resources for general marketing of Australia as a travel destination.
- (ii) Note that the inability to capture the benefits of such marketing activity is particularly severe in the light of the pervasive and fragmented nature of the business of travel and tourism.
- (iii) Recognise that , at the end of the day , the benefits of successful general marketing of Australia as a travel destination are dispersed across the Australian community.
- (iv) On this basis, agree that the most sensible means of government intervention is via appropriation of funds from the Consolidated Revenue Fund through Budget processes.

While Access Economics referred to 'export income', later work, such as Dwyer, Forsyth and Dwyer (2010) and Dwyer, Pham, Forsyth and Spurr (2014) note the importance of conducting CGE modelling to ensure there are not crowding out effects that might prevent tourism marketing from being welfare enhancing, although confirming the general rationale for government intervention, Dwyer, Forsyth and Dwyer (2010) note:

Destination tourism promotion has all the properties of a public good. It is both non-rivalrous and non-excludable. Once money is spent to promote a destination, all destination businesses benefit, whether or not they helped to fund it. However, even if every business owner agrees that more money should be spent on promotion, each has an incentive to be a free-rider. Indeed, if many choose to free-ride, not enough money will be available to be spent on promotion.

Shi (2012) also notes that to be efficient, government promotion need not only be effective (i.e. generate a high ROMI) but also have increasing returns (e.g. due to underemployed fixed capital or less than full employment), which highlights the need for CGE modelling and benefit-cost analysis to ensure government promotion to achieve increased tourism expenditure is efficient and not crowding out other economic activity.

References - public good characteristic of tourism marketing

- Access Economics (1997) *Is there a case for Government Funding for Generic Tourism Marketing?*
- Access Economics (2002) *The Economic Value of Tourism for Australia: A Post-September 2001 Stock-take & Update*
- Blake A and T Sinclair (2007) *The Economic Rationale for Government Intervention in Tourism*
- Dwyer and Forsyth (1992) *The Case for Tourism Promotion: An Economic Analysis*
- Dwyer L, Forsyth and W Dwyer (2010) *Tourism Economics and Policy*
- Dwyer, Pham, Forsyth and Spurr (2014) *Destination Marketing of Australia: Return on Investment*
- National Commission of Audit (2014) *Towards Responsible Government* (Phase One report, Section 8.1)
- Shi (2012) *The efficiency of government promotion of inbound tourism: The case of Australia*

Tourism marketing ROMI

22 years of continual improvement

Provision of a public good – like promoting Australia – is only worthwhile if it can be done effectively. The effectiveness of overseas tourism marketing has been the subject of many studies over the years. These are collectively referred to as ROMI studies, which measure the outcome from marketing effort (noting this is different to the concept of ‘return on investment’ in financial accounting). The main body of this submission provides an overview of the development of empirical methods.

There are four main methods used for tourism ROMI:

- Econometric – which has evolved over the years to incorporate non-stationary (error correction) and panel data methods.
- CGE modelling, to capture ‘crowding out’ effects.
- Tracking surveys – detailed fieldwork which is then analysed to determine the consumer behaviour change in response to a campaign.
- Experimental design techniques – using a control population (or ‘placebo group’) in City A and an intervention population in City B to determine the incremental effectiveness of a campaign run in City B.

Each of these empirical methods are valuable and complementary. The use of a range of methods contributes towards a full understanding of the various dimensions of the issue.

Early studies, such as Couch et al (1992) used visitor arrivals by country as the dependent variable, partly due to the long time series of ABS OAD data being the only data source disaggregated by country that was available at the time. The IVS has been collected for many years now, allowing leisure spend by country to be used as the dependent variable in studies such as Webber (2011 and 2014). Faced with similar data limitations, Access Economics (1997 and 2002) used ABS Balance of Payments data, which is a closer approximation for tourism expenditure (but is not disaggregated by country), so can only be used to assess the effectiveness of tourism marketing in total (i.e. the total ATC operating budget), rather than marketing spend by country, as was done in Couch et al (1992). As noted in the main body of the submission, this has the advantage of also capturing the impact of the (then) ATC’s supply side programmes to develop the industry and strengthen distribution.

Kulendran et al (2007 and 2009) employed advanced nonstationary econometric

methods to improve on earlier estimates. Webber (2014) also introduced non-linear terms that allowed estimation of marginal and average ROMI.

Deloitte Access Economics (2013) and Dwyer et al (2014) conduct CGE modelling to determine an ROMI net of crowding out effects.

Tourism Australia’s promotion of Australia can also encourage Australians to travel within Australia. However, any domestic spill-over of Tourism Australia’s promotion of Australia is excluded from the ROMI studies. While a similar market failure occurs on this ‘import replacement’ side of marketing Australia (Access Economics, 1997), this role is currently funded entirely by the States and Territories, although Tourism Australia has run domestic campaigns in the past.

References - tourism marketing ROMI

Access Economics (1997) *The Economic Significance of Travel & Tourism, & Is There a Case for Government Funding of Generic Tourism Marketing?*

Access Economics (2002) *The Economic Value of Tourism for Australia: A Post-September 2001 Stock-take & Update*

Crouch, Shultz and Valerio (1992) *Marketing international tourism to Australia: a regression analysis*

Deloitte Access Economics (2013) *Economic impact of tourism marketing expenditure in Tasmania*

Dwyer L, P Forsyth and W Dwyer (2010) *Tourism Economics and Policy*

Dwyer, Pham, Forsyth and Spurr (2014) *Destination Marketing of Australia: Return on Investment*

Kulendran and Divisekera (2007) *Measuring the economic impact of Australian tourism marketing expenditure*

Kulendran and Dwyer (2009) *Measuring the Return from Australian Tourism Marketing Expenditure in Asia*

Pratt, McCabe, Cortes-Jimenez and Blake (2010) *Measuring the Effectiveness of Destination Marketing Campaigns: Comparative Analysis of Conversion Studies*

Webber Quantitative Consulting (2014) *Estimates of the Return on Marketing Investment for Australian Inbound Tourism*

Webber Quantitative Consulting (2011) *China and India Return on Marketing Investment*

Overheads, the MCF and the AMF

The full cost of marketing Australia: an efficient use of funds

In making an assessment of the socioeconomic return to Tourism Australia's marketing of Australia, it is necessary to allow for more than just the direct costs of the campaign, research, post-campaign evaluation and other costs directly associated with planning and running a campaign to promote Australia. It is also necessary to include an adjustment for corporate overheads and the MCF.

Overheads

Tourism Australia has calculated a campaign cost multiplier (for overheads, research and other costs not directly attributable) of 1.25 based on an analysis of our accounts. That is, for \$1m spent directly on a campaign, the total cost is \$1.25m.

This is an efficient ratio of overheads – 80% of total funds are spent on activities directly related to planning and running campaigns, with 20% (i.e. \$0.25m of every \$1.25m) on other costs, of which 11% is spent on traditional overheads (such as finance and IT) and the remainder spent on research and other activities not directly attributed to an individual campaign. These costs are an appropriate level of oversight and scrutiny for a public-funded agency, and are below the public sector average of 21% (NCoA, 2014). Nonetheless, it involves a cost to taxpayer which needs to be factored into the cost of a campaign.

In applying this overhead ratio to the denominator of the ROMI estimate, note that Access Economics (1997 and 2002) used total agency funding in their econometric analysis (i.e. the right-hand-side variable in the equation was already inclusive of overheads), while Webber (2014) used campaign spend (i.e. net of overheads).

Marginal cost of public funds

A second adjustment is the MCF which is an adjustment to allow for the cost of raising tax revenue to fund Tourism Australia.

Jones (2010) suggested a range of 12% to 44% with a midpoint of 28%, Kleven & Kreiner (2003) estimated 28% for Australia, Lattimore (1997) suggested a factor of 27.5%, while Robson (2005) estimated a range of 20% to 30%.

There are also a range of published estimates for other countries (e.g. the body of work by Prof. Bev Dahlby), which are less relevant to the task at hand.

A brief survey of the literature suggests a consensus of 27.5%. Multiplying the corporate overhead factor of 1.25 by an MCF factor of 1.275 cents in the dollar results in an adjustment of 1.59. That is, each \$1m of tourism marketing campaigns delivered has a socioeconomic cost to Australians of \$1.59m.

This approximation is sufficient for this purpose, being to understand the broad socioeconomic benefits of tourism marketing, relative to its costs.

That noted, when considering changes at the margin, it may be worth estimating an MCF that is more tailored to any incremental policy change being considered.

For example, the policy decision in 2012 to direct 10% of revenue to Tourism Australia from the \$8 increase in the PMC, for the AMF, was most likely at a different MCF, compared with the broad economy wide averages estimated by Jones, Kleven & Kreiner, Lattimore and Robson.

Forsyth et al (2013) estimated that (subject to various assumptions about full employment, inelastic demand and budget neutrality), the \$8 increase in the PMC actually had a optimal tariff style welfare-enhancing effect, such that raising an additional \$105m in revenue actually increased welfare. In layman's terms, the raising of \$13.5m revenue annually for the AMF probably only had a socioeconomic cost of just over half that (implying a *negative* MCF of around -0.45). However, additional analysis is needed of the long-run demand elasticities (including both own and cross price effects of the PMC increase), impacts on short-haul demand from NZ, and loosening the assumption of full employment, before relying too heavily on this remarkable result. Indeed, an earlier article by Dwyer and Forsyth (1992) used an MCF and shadow price adjustment of 1.275 for tourism marketing, the same as Lattimore (1997).

Ultimately, the MCF from raising the revenue to fund tourism marketing – noting the GST paid by tourists is also a relatively efficient and broad tax base – probably comes at a lower MCF than applies to the raising of government revenue more broadly.

Combined with efficient operations – with 80% of funding being spent directly on the front line work of planning and running campaigns – Tourism Australia believes it runs its programmes efficiently.

References – empirical estimates of MCF, the PMC and overheads

Dwyer and Forsyth (1992) *The Case for Tourism Promotion: An Economic Analysis*

Forsyth, Dwyer, Spurr and Pham (2013) *The impacts of Australia's departure tax: Tourism versus the economy?*

Jones C (2010) *Interpreting and using empirical estimates of the MCF*

Kleven H.J and Kreiner C.T (2003) *The marginal cost of public funds in OECD countries: hours of work versus labor force participation*

Lattimore (1997) *Research and development fiscal incentives in Australia: impacts and policy lessons*

National Commission of Audit (2014) *Towards Responsible Government* (Chart 2.5, Appendix Vol.3)

Robson A (2005) *The Costs of Taxation*

Empirical evidence of the economic impacts of visas

The issuing of visas to international visitors to Australia is an additional precaution (beyond passport/identity checks) undertaken for a variety of purposes including national security, immigration and employment.

It is difficult to assess if an appropriate balance is struck between the travel restrictions necessary to achieve those objectives, versus the additional hassle and cost imposed on low-risk leisure travellers. The Australian National Audit Office (ANAO) conducted audits of aspects of visas in 2004, 2007 and 2011.

There is also a considerable literature on the tourism impact of visa processes.

Visa restrictions on certain countries should perhaps be subjected to periodic or sunset review and benefit:cost analysis to ensure there is a robust case for not moving to a low-cost electronic visa or visa-free travel for the country in question. No doubt, assessments are made within government, but due to the secrecy required around national security risks and country risk assessments, the reasons for the pace of reform of visas is not always clear to tourism industry organisations.

Empirical evidence

Tourism & Transport Forum (2014) provides a very recent account of current processes for key inbound markets and the equivalent processes in competing destinations. This report also provides historical timelines of visa reforms around the world, such as Australia's Electronic Travel Authority, the US Visa Waiver Program and European Schengen visa. As discussed in the main body of this submission, the changing nature of tourism and the 'visitor economy' highlights the importance of multi-year, multi-purpose and multiple entry visas to facilitate increasingly itinerant international travellers.

European Commission (with DG Enterprise and Industry, 2013) provides an assessment of the economic impact of 2010 Schengen reforms, and potential improvements. The results are based on surveys of visitors and consulates, with economic impacts based on simple Input-Output multipliers rather than CGE modelling, so there may be some displacement effects offsetting the results. That noted, the direct GDP impact (excluding indirect and induced multipliers) of the 2010 changes were estimated to be a of loss €5.5bn and 113,000 jobs. Future reforms were suggested that could generate €22bn to €25bn per year.

The UNWTO and WTTC (with Tourism Economics, 2012) assess the economic impact of visa facilitation in G20 nations. This report found 17%, or 110m visitors required paper visas to visit G20 countries. Reforms could increase tourism

exports by \$38bn by 2015 and 560,000 jobs, based on an unconstrained jobs multiplier (the report does note the limitation of these multipliers – the scope of the report did not allow for more complex impact modelling).

UNWTO and WTTC (with Tourism Economics, 2013) for the APEC region uses a similar methodology to the 2012 G20 report, with the addition of upper and lower bound impacts and individual results by country. Australia has an 'addressable market' of 11.2% (% of visitors from countries where visa processes could be improved) and could see an increase of between 493,000 and 679,000 visitors by 2016 and US\$1.7 to US\$2.3bn in expenditure (see Table 5).

Neumayer (2010) uses a panel dataset to find that visa restrictions can reduce country pair (or 'dyad') bilateral travel by between 52 and 63 percent, with an country-specific estimate for Australia of 61 percent.

As a result of these many studies, it is possible to measure and weigh the tourism and economic impacts of visa processes with the national security and immigration considerations.

References – economic impacts of visas

ANAO (2004) *Onshore Compliance—Visa Overstayers and Non-Citizens Working Illegally*

ANAO (2007) *Electronic Travel Authority Follow-up Audit*

ANAO (2011) *Management of Student Visas*

European Commission (with DG Enterprise and Industry, 2013) *Study on the economic impact of short stay visa facilitation on the tourism industry and on the overall economies of EU Member States being part of the Schengen Area*

Neumayer (2010) *Visa restrictions and bilateral travel*

OECD (2014) *Tourism Trends and Policies 2014*

Tourism & Transport Forum (2014) *Visitor visa reform: reducing the barriers for travel to Australia*

UNWTO and WTTC (with Tourism Economics, 2012) *The Impact of Visa Facilitation on Job Creation in the G20 Economies*

UNWTO and WTTC (with Tourism Economics, 2013) *The Impact of Visa Facilitation in APEC Economies*

UNWTO and WTTC (with Tourism Economics, 2014) *The Impact of Visa Facilitation in ASEAN Member States*

Attachment

Attachment

The following attachment is provided to this submission: Tourism Australia (2014) *Annual Report 2013-14*

The Annual Report provides additional detail on Tourism Australia’s governance, financial statements, KPIs and programmes. It also includes further details on our campaigns and the numerous international awards won by Tourism Australia and staff.

Please also refer to the current *Portfolio Budget Statement*, as the programmes in the Annual Report have been modified for the current 2014-15 fiscal year.

There are a number of other reports referenced in this report, which are mostly available in the public domain or from Tourism Australia. However, several of the academic journal articles referenced in this submission require access through a subscription or pay-per-article service.

