**Submission to PC research project on Australia's International Tourism Industry from Karl Flowers [[1]](#endnote-1)**

**Background**

I welcome the PC again looking at tourism issues after your most recent report on this industry was controversial. The most recent report by the PC on the tourism industry rejected use of the international definition of tourism and ignored a range of key policy issues confronting the industry.

**Key issues**

The Dutch Disease

The major issue facing the Australian international tourism industry is the classic Dutch disease problem, as analysed by Professor Peter Forsyth among others. In this case the boom in mining (prices, investment and production) has forced the Australian dollar higher reducing the price competitiveness of inbound tourism along with other trade exposed sectors. Compounding the usual Dutch Disease challenges has been a strong local economy that has produced labour shortages, and a major growth in offshore tourism competition in our region able to utilise much lower labour costs. The net result is that Australia has become a high cost destination for our international visitors.

Implications of a high cost of Australian tourism are faster growth of visiting friends and relative travel, as a close substitute for holiday travel, along with faster growth of return than first time travel to Australia. Travellers returning to Australia can more confidently budget for and economise on their trip than can first time visitors.

With the RBA pressing for a lower dollar to assist economic growth as mining investment declines, the question is whether the Australian tourism industry has other barriers to competitiveness than exchange rate boosted prices. In particular, has there been investment in recent years that leaves head room for growth in international tourism?

Investment issues

Reflecting that many tourism operators have been in survival mode for many years, investment in new product has been weak. I encourage the PC to carefully review tourism accommodation and attraction investment data, to check on whether an investment drought has befallen the industry in the last decade. Investment in tourist accommodation has also been affected by tax advantaged growth in residential investment which often competes for the same sites and construction services. Highest value and best use has not meant tourism investment for many years on key sites.

In the areas of greatest demand by international tourists of inner city areas, hotel room occupancy rates are now at very high rates. Previous research by Access Economics of the Perth Hotel market, highlighted how a shortage of supply reduces visitation by frustrating demand and increasing search costs.

Regional tourism

International tourism to regional areas has been weak, leading to a two pace tourism economy with capital city tourism growing reasonably but regional areas dependent on low growth domestic tourism.

There remains a major policy and marketing challenge for Australia in getting our fastest growing Asian markets to experience overnight stays in regional Australia. With tourism still a major employer in many areas of regional Australia, there are regional development issues with the challenges facing regional tourism.

Taxation of tourism

Compared to Government support for international tourism, taxes imposed on international tourism are high compared to those payable by other export industries. While the arguments over the imposition of the GST on international tourism are long since lost, this policy change was estimated to shrink inbound tourism by around 6% and also reduce domestic tourism by around 4%.

The imposition of the Passenger Movement Charge well beyond cost recovery, represents a tax that reduces inbound tourism, even as it provides protection for domestic tourism. I encourage the PC to review the potential for changing the PMC in a revenue neutral fashion so it has a lesser impact in reducing demand for tourism exports. This could be achieved by reducing the PMC payable on short haul and leisure travel and increasing it on long haul and premium airfares. A revenue neutral change to the PMC to set is as a fixed percentage of international outbound airfares from Australia would reduce the deadweight loss associated with this tax. This will also have obvious benefits for our trade and political relationship with New Zealand, Pacific Islands and ASEAN countries.

Aviation policy

The Dutch Disease had similar affects on Australian international airlines as it had on international tourism to Australia. The result has been a lack of competitiveness of Australian airlines, market share shifts to foreign carriers and increasing pressure on seat capacity limits for foreign carriers within our bilateral air service agreements. Australian carriers have responded by cutting fleet expansion plans, increasing their foreign ownership and by entering into more aggressive code share agreements with selected foreign carriers. The limited growth expected for Australian international airlines and their increased foreign ownership has shifted the benefit/cost equation in favour of increased liberalisation of Australia’s bilateral agreements and increases in capacity for international carriers within these agreements.

I welcome any queries you have with this input.

*K. S. Flowers*

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Managing Director

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1. This submission draws on my previous experience as Tourism and Aviation Economist at Tourism Australia, General Manager Policy and Research at Tourism Transport Forum and Director Investment in the Commonwealth Department of Tourism, as well as my current role as a private consultant specialising in tourism and aviation. The views expressed are my own and should not be attributed to any other organisation or client. [↑](#endnote-ref-1)