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Commissioner
Productivity Commission
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Productivity Commission research paper – Australia’s International Tourism Industry

Dear Dr Mundy,

I am writing to you in relation to the Productivity Commission’s research paper on Australia’s International Tourism Industry. The Australian Airports Association (AAA) would like to thank the Commission for the opportunity to comment on the project and for kindly granting an extension to provide a response.

By way of background, the AAA is the national industry voice for airports in Australia. The AAA represents the interests of more than 260 airports and aerodromes Australia wide – from local country community landing strips to major international gateway airports. The AAA’s members include Adelaide, Brisbane, Cairns, Canberra, Darwin, Gold Coast, Hobart, Perth, Melbourne and Sydney airports. There are a further 100 corporate members who provide goods and services to airports. The Charter of the AAA is to facilitate co-operation among all member airports and their many and varied partners in Australian aviation, whilst maintaining an air transport system that is safe, secure, environmentally responsible and efficient for the benefit of all Australians.

Given the importance of Australia’s aviation and airports sector in facilitating international tourism, it is imperative that the Commonwealth Government have an appropriate policy framework in place that supports the research and forecasts for Australia’s tourism industry.

In order to achieve the Government’s *Tourism 2020* targets, the AAA recommends that:

- the Commonwealth Government continues to provide adequate funding to Tourism Australia to ensure Australia continues to be marketed as an attractive international destination;
- Air Service Agreements be liberalised to facilitate greater economic and social benefits, particularly in capacity constrained Asian markets;
- the Passenger Movement Charge, as well as visa fees and charges, be decreased to stimulate economic growth through increased international travel; and
- appropriate planning frameworks be in place across all jurisdictions to protect the future operation of Australia’s airports.

I would welcome the opportunity to discuss any of the above issues with you further and please do not hesitate to contact me should you have any questions.

Yours sincerely,

Caroline Wilkie
Chief Executive Officer

Trends in Australia's International tourism industry

The international tourism sector is of immense importance to the Australian economy, contributing \$11.4 billion in 2013-14 directly to the nation's Gross Domestic Product (GDP), in addition to the \$31 billion directly generated by domestic tourism. Australia's airports provide a pivotal role in facilitating international tourism, with over 6.1 million international arrivals in 2013-14 resulting in \$30.1 billion in expenditure, up in excess of 7% on previous years¹.

As outlined in Tourism Australia's *Tourism 2020 strategy*, the Government has committed to the target of doubling overnight visitor expenditure by the end of the decade to more than \$115 billion, with \$63.4 billion to be achieved through the international market alone. In the Tourism Research Australia report *State of the Industry 2014* it notes that since 2009, expenditure growth has been strongest from key tourism markets such as China (up 102 per cent), Singapore (up 35 per cent), and New Zealand (up 23 per cent).

With respect to aviation, the report notes that international air capacity has progressed 64 per cent towards the Tourism 2020 target since 2009. In the short term, international capacity has the potential to grow through:

- solidified airline partnerships;
- a push for increased expansion of low-cost carriers; and
- major international airlines expanding routes between destinations and existing hubs in Northern and South East Asia, and creating opportunities for increased access to Australia.

Importantly, however, the report also notes that the ability to realise this potential will be dependent on air service agreements being suitably flexible to allow airlines to increase capacity to service key growing inbound markets.

In order to meet these ambitious targets, Australia's aviation sector and its airports will need to continue to grow substantially. This growth can only be achieved in an environment where investment certainty can be provided through policy and regulatory frameworks that are conducive to, and recognise the need for, continued growth in the international tourism sector.

The Role of Government

The way in which Australia is marketed as an international destination to the rest of the world is essential to ensuring that our tourism industry remains a strong and vibrant contributor to the national economy. Tourism Australia is the Commonwealth government agency responsible for the international marketing of Australia as a destination for leisure tourism and business events. The AAA believes that is essential that the Commonwealth Government continue to recognise the vital role that Tourism Australia plays in boosting our international visitor numbers, and as such it is critical that the agency receives adequate funding.

The relatively modest investment in global marketing activities through Tourism Australia delivers a \$42 billion return in direct GDP. Just as importantly, the demand for travel to Australia that is generated by Tourism Australia in turn supports ongoing investment in Australia's aviation infrastructure by airport operators.

All of Australia's international gateway airports are privately operated under lease from the Commonwealth. The operators of these airports are investing tens of billions of dollars in aeronautical infrastructure to keep Australia connected to the rest of the world. The forecast growth in demand for international passenger travel to Australia supports this ongoing investment by airport operators.

¹ Tourism Research Australia – State of the Industry 2014

In addition to generating demand for travel to Australia, Tourism Australia's marketing activity enables cooperative marketing arrangements with international airlines, further stimulating demand and the supporting the development of new routes for aviation services. This helps bring more international visitors to Australia, and also provides Australian travellers with a greater range of competitively priced aviation services to an increasing number of international destinations. The dispersal of international visitors around Australia is also vital to regional airports by supporting demand for travel to those destinations, in addition to domestically-generated demand.

In addition to the tourism benefits, international air services are also critical to enabling the delivery of high value exports to overseas markets which are carried as air freight. The majority of international air freight is carried on passenger aircraft. So, it could be argued that the Commonwealth Government's investment in tourism marketing through Tourism Australia also delivers indirect benefits to Australian exporters by facilitating reliable and efficient access to global markets.

The huge private investment being made in Australia's aviation infrastructure is just one example of the benefits of Tourism Australia's global marketing of Australia, and the AAA strongly recommends that the Commonwealth Government maintain adequate funding support for Tourism Australia in future budgets.

The effect of aviation policy and regulation

With respect to the current aviation and policy regulation framework and its impact on international tourism, the AAA believes that there are two main areas that would benefit from review and amendment; the policy settings for international air service agreements and certain border fees and charges.

Air Service Agreements

International air transport services to and from Australia are vital for the Australian economy, particularly for tourism, trade and merchandise exports. An unconstrained air services sector also promotes social connectedness and facilitates travel between Australia and the world for non-tourism related activities such as education, medical and business purposes. Consequently, the regulatory stance towards Air Service Agreements (ASAs) is of great economic and social importance for Australia.

The AAA has recognised the importance of the regulatory framework around ASAs and is currently working with Deloitte Access Economics (DAE) to examine the potential economic impacts of liberalised ASAs. While this report is still a work in progress, there are several important findings that are worth noting.

Given that international air services are a key component of the Australian economy, when ASAs act as a constraint on certain international routes, they effectively mimic the imposition of a trade barrier such as a quota or tariff. The result is reduced economic activity and lower living standards of Australians.

As well as reducing the number of inbound tourists (and the resulting flow-on losses to the tourism sector), capacity constraints increase the costs for Australian travellers and freight leaving the country and discourage foreign investment. The AAA report under development with DAE estimates the increase in tourism and freight activity that might flow from liberalising ASAs at Australia's major airports. It shows that the economic benefits of this activity are likely to be large and will accrue widely across the community as increased GDP, larger government tax collections and increased employment.

Table 1 (below) shows the estimated amount of additional passenger and freight trades that could be facilitated by reducing constraints caused by the current ASAs. By 2017-18 it is estimated that inbound tourism could be increased by around 1.1 million passengers (PAX). This could lead to additional inbound tourist expenditure of up to \$1.9 billion in that year.

Table 1: Potential induced aviation activity

Type of activity	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Outbound freight (kt)	4.92	9.33	12.80	17.07	21.36	26.38
Inbound freight (kt)	2.03	3.95	9.54	16.24	24.51	33.65
PAX – Aust. residents ('000)	139	250	370	467	588	729
PAX - Overseas visitors ('000)	117	286	478	675	884	1,111

Source: DAE analysis

The additional activity in these key markets will create significant flow-on benefits to the economy more broadly. At the moment there are two scenarios modelled in the report: the first focusses on the role of air services as an input into the production of other goods and services and the second considers the additional impact on tourism. Both show significant benefits in terms of job creation and GDP growth.

Even considering the role of air services as an input alone, the potential gains from liberalisation are large. The report estimates that under the liberalisation scenario modelled the impact on GNP could be an increase of around \$380 million annually by 2017-18 and an employment increase of around 2,050 FTE.

Taking into account the additional tourism generated, the economy-wide impacts are around twice as large, with GNP increasing by around \$640 million annually and employment increasing by 3,700 FTE. These modelling results are outlined below in Table 2.

Table 2: Modelling results (GNP and Employment deviations by scenario)

	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Input effects only						
- GNP Deviation (\$m)	44	92	153	219	294	378
- Employment (FTE)	313	617	961	1,294	1,658	2,048
Input + tourism effects						
- GNP Deviation (\$m)	149	237	331	428	533	642
- Employment (FTE)	1,075	1,578	2,088	2,602	3,149	3678

Source: DAE analysis

While many new ASAs have recently been negotiated, the AAA believes there are several destination markets where the current agreements are at risk of constraining aviation activity to lower levels than would otherwise be achieved by market forces, this is particularly the case in key growth markets throughout Asia, such as China.

The AAA believes that there are a number of significant economic benefits that stand to be realised by liberalising the current policy settings for ASAs and recommends that the Commonwealth Government consider reviewing its policy framework to ensure that Australia meets its Tourism 2020 targets and continues to grow into the future.

Border Fees and Charges

As the Commission would be aware, there is currently a Joint Review underway being led by the Australian Customs and Border Protection Service (ACBPS) and the Department of Immigration and Border Protection (DIBP), in conjunction with the Department of Agriculture (Agriculture) into border fees, charges and taxes. The review is focusing on identifying where the current border charging arrangements can be improved to better support future border operations and outcomes for industry.

The AAA has participated in the Joint Review and identified two major charging arrangements that are barriers to international tourism; the Passenger Movement Charge (PMC) and the visa fees and charges for certain markets.

The Passenger Movement Charge (PMC) was introduced in July 1995 as the replacement for the Departure Tax. The charge is levied on all outbound international passengers and was originally designed to offset the cost to Government of the provision of passenger facilitation at airports; principally customs, immigration and quarantine functions. Since the PMC was established in 1995 at \$27, the Federal Government has increased the charge on four separate occasions, with the latest increase coming in 2012 at \$55, resulting in Australia having one of the highest departure taxes in the world.

In each instance that the PMC was increased, it was done so in response to a specific issues such as increased passenger processing for the 2000 Sydney Olympics, health pandemics or aviation security incidents. However, once each of these specific issues had subsided the PMC has never been reduced or reviewed to reflect any reduced costs to the Government. According to Government budgetary and annual reports, the income generated from the PMC, visa fees and passport applications will total approximately \$2.98 billion for the 2014-15 period. Conversely, passenger related facilitation expenses across all relevant Government agencies is only expected to total \$1.7 billion for the same period. Although the PMC was originally introduced as a cost-recovery mechanism, it has clearly been expanded to become another source of general taxation revenue for the Government.

In 2013 Australia was ranked 130 out of 140 countries for its relative cost of passenger taxes and airport charges in the World Economic Forum's Travel and Tourism Competitiveness Report. When compared to member countries of the Organisation for Economic Cooperation and Development (OECD), Australia has the second highest departure tax after the United Kingdom's Air Passenger Duty (APD). However, unlike the PMC the APD is a tiered charge based on the distance travelled, so for distances under 3220km it equates to only \$23.50. This results in the PMC's current flat \$55 charge being the most expensive in the developed world for short-haul journeys.

The AAA considers the PMC to be a poorly designed, direct tax on the tourism industry and its continued increase since inception is unsustainable; resulting in significant impacts for airports. With rapidly increasing security costs and the need to fund major investment in aeronautical infrastructure, any unnecessary impediment to increased tourism facilitation creates an artificial barrier to both airport and economic growth.

When considering the investment that airports make in essential aeronautical infrastructure, it is important to recognise that the vast majority of this expenditure is privately funded. This funding will amount to almost \$10 billion dollars over the coming decade and with this funding coming almost exclusively from the private sector, this provides a significant relief for a Federal Budget that is under enormous pressure. To understand the impact of this investment the AAA in 2012, commissioned Deloitte to investigate the economic and social contribution of Australia's airports. The report noted that in 2011, the total direct economic contribution of airport operators was estimated at \$3.2 billion, with \$2.6 billion in gross operating surplus (GOS) and \$620 million in wage payments.

The Deloitte report also noted that the operational core of an airport is only one component of its overall economic profile, with a broad range of associated and ancillary activities also occurring on airport precincts. With this taken into consideration, it was estimated that the broader economic contribution of Australia's airports and their precincts to be in the order of \$17.3 billion in 2011 (equating to around 1.2% of GDP), with overall employment at airport sites estimated to be around 115,200 FTEs.

To understand the impact that a heavily increased departure tax (such as the PMC) can have on the tourism sector, we need only look at the Netherlands as an example. The Netherlands introduced a departure tax called the 'Air Passenger Tax' in the beginning of July 2008. The result was a steep decline in passenger traffic at the main Dutch airports of between 8 to 10 per cent. In June 2009 the Dutch government repealed the departure tax after research concluded the \$142 million that was gained in additional tax revenue was dwarfed by a \$1.6 billion cost to the national economy. Following the abolishment of the tax, in 2010, Amsterdam Airport Schiphol reported traffic growth of 3.8 per cent, while the regional airports at Eindhoven and Maastricht reported passenger number increases of 25.2 per cent and 30.6 per cent respectively (Netherlands Government, Effects of the Air Passenger Tax, February 2011).

The AAA is also concerned with the disparity in visa fees and charges when comparing, for example, applicants from either the United States or Britain with applicants from key Asian markets such as China and India. A temporary entry visa applicant from the United States can complete an online form and receive an electronic visa for \$20; whereas a Chinese traveller faces a \$130 fee, considerable evidence requirements and a paper-based application. Given the increasing importance of Australia's reliance on tourism and trade partnerships with China and India, it is important that we remove any artificial and unnecessary barriers to growth. It is also important to note that according to Commonwealth 2014-15 Budget documentation, the expected revenue generated from visa fees and charges will total \$1.7 billion. Whereas the associated expenses for all permanent migration and temporary entry programs (including border management and visa processing) will only total \$0.87 billion, approximately half the amount of the income generated from the fees and charges – further evidence that international travel fees and charges have moved far beyond a cost recovery exercise and into a general taxation revenue stream.

The AAA strongly recommends that the Government amend its current policy settings to reduce both the Passenger Movement Charge and visa fees and charges to assist in stimulating Australia's tourism industry and ensure that Australia's airports can continue to deliver strong returns for the national economy.

The effect of land-management policy regulation

An ongoing focus area for the AAA is ensuring that appropriate planning frameworks are in place across Australia that recognise the important role airports play in supporting the broader economy. It is vital that all levels of government understand the importance of protecting airports from being adversely impacted by poor land use planning and development.

Poor land use planning around airports can lead to a range of issues and problems including aircraft safety hazards, operational restrictions, protracted litigation, amenity impacts for nearby residents and airport closures in the extreme case. Each of these potential issues can impact on the ability of an airport to facilitate international air services and as a result, create a barrier to growing Australian tourism. Airport safeguarding aims to prevent or mitigate these issues for the benefit of the whole community.

Airports are complex facilities and experience has shown that the town planning issues associated with protecting their ongoing operation are often not well understood by planning practitioners. In recognition of this issue, the AAA recently released its latest Airport Practice Note titled "Planning around airports – Safeguarding for the future" (**Attachment A**), which aims to raise awareness of airport safeguarding issues

within the planning profession, and assist town planners and planning authorities in understanding airports and how to safeguard their ongoing operation.

Airport safeguarding also aims to ensure that communities surrounding airports are made aware of the potential impacts of aircraft operations (particularly aircraft noise) and that these considerations then influence good planning decisions to minimise effects on people and airports.

Aviation is a growth industry, and Australia's network of airports, across both major urban centres and regional areas, form an integral part of the national economic infrastructure and are critical to connecting communities and enhancing broader economic performance, particularly through the facilitation of tourism. Airports need to be properly protected over the long term to realise these benefits and ensure their safe and efficient operation.

The National Airports Safeguarding Framework (NASF) aims to address the lack of a uniform statutory regime for airport safeguarding in Australia. NASF was developed by the National Airports Safeguarding Advisory Group (NASAG), comprising of Commonwealth, State and Territory Government planning and transport officials, the Australian Government Department of Defence, the Civil Aviation Safety Authority (CASA), Airservices Australia and the Australian Local Government Association (ALGA).

NASF was agreed to by Commonwealth, State and Territory Ministers at the Standing Council on Transport and Infrastructure (SCOTI) meeting on 18 May 2012. The agreement represents a collective commitment from Governments to ensure that an appropriate balance is maintained between the social, economic and environmental needs of the community and the effective use of airport sites. NASF has raised the airport safeguarding bar in Australia but unfortunately in some cases State, Territory and Local Government planning systems are lagging behind the guidelines.

There are seven guiding principles that underpin the NASF. These principles focus on safety, efficiency, operational integrity, shared responsibility, government alignment, balance in priorities, airspace protection, aircraft noise, collaboration and information sharing. The NASF also provides a series of guidelines that provide comprehensive information and recommendations relating to airport safeguarding matters.

The AAA is committed to promoting the adoption of the NASF Guidelines by all jurisdictions and as a next step the AAA will be endeavouring to produce a series of jurisdiction specific Airport Practice Notes that focus on State/Territory based planning legislation, policy, processes and practices relevant to airport safeguarding in each jurisdiction.

While the development of the NASF Guidelines has been a significant step forward, there is no single planning measure that will address all of the key airport safeguarding issues and requirements. A comprehensive suite of measures is likely to be required in order to properly and fully protect airports and support their ongoing operation and development. Without such protection, the safety of aircraft using our airports will be placed at risk, surrounding communities may be adversely affected and the contribution airports make to our economic and social well-being will be compromised.

The AAA also believes that the recent review of AS2021 (Acoustics—Aircraft noise intrusion—Building siting and construction) has been a lost opportunity to address some fundamental issues with the application of the standard in relation to the Australian Noise Exposure Forecast (ANEF) and its relationship to NASF. In its current state, the standard does not accurately reflect the impact of noise upon the community surrounding airports and, when used in isolation, is an inadequate way of representing noise impacts to the general community. The AAA will be seeking to be involved in the development of a supplementary document to the standard and is hopeful that this process will go some way to addressing some of the issues not dealt with through the review of AS2021.

The AAA will also be providing copies of the “Planning around airports – Safeguarding for the future” Airport Practice Note to both government and industry stakeholders as part of an ongoing engagement strategy in 2015. The AAA is committed to ensuring that the importance of airport safeguarding is well understood by all stakeholders. As such, the AAA recommends that the Commission recognise the need for appropriate planning frameworks to be in place across all jurisdiction to protect the future operation of Australia’s airports in facilitating international tourism, trade and economic prosperity.