



Australia Tourism Export Council

Submission

Review of Export Policies and Programs

April 2008

Introduction

The Australian Tourism Export Council (ATEC) is the peak national industry association representing the export (inbound) tourism industry, which contributed \$22 billion to the economy in 2006-2007.¹ ATEC is an Approved National Body under Austrade's EMDGS scheme.

All comments below are from the perspective of a "Mode 2" exporter, i.e. a sector that earns foreign exchange from services consumed by short-term arrivals *within* Australia. ATEC's Managing Director is also a Director of the Australian Services Roundtable.

This Review

ATEC welcomes this review as an historic opportunity to revolutionise institutional support for export innovation in the services sector. In April 2007, ATEC released a discussion paper *The Missing Link* (attached) in which we identified the institutional bias in support programs against the "new economy" industry sectors. This paper formed the basis of our submission to the Inquiry by the House of Representatives Standing Committee on Economics, Finance and Public Administration, *Servicing our Future*.

The tourism industry is proud of our contribution to the Australian economy, however two important indicators give us considerable concern. The first is that we are falling significantly behind world growth in inbound arrivals (2% in 2007 as opposed to 5.6% globally²). The second is the fact that in 2007, in dollar terms, Australia became a net *importer* of travel services. Buoyed by a strong economy and a strong dollar, Australian outbound travel has overtaken inbound travel in value.

ATEC believes that with the correct policy settings, Australia can quickly "get back into the black" in the balance of trade in travel services. A critical part of the mix of policy settings will to be assist

¹ Australian Bureau of Statistics, Tourism Satellite Account, April 17, 2007.

² UN World Tourism Organisation

services exporters to capture some of the value they create for the nation, potentially on a “customer pays” basis, to invest in sectoral innovation.

It could also lead to some powerful collaboration between sectors. For example, the success of the combination of general tourism services and education is well known. ATEC believes a similar opportunity exists in the collaboration of tourism and health.

Key Points

- An institutional bias exists against export and innovation support for the services sector. This exists partly because of age (mining 200 + years, mass inbound tourism 30 years) and partly through definition. Mining, agriculture and manufacturing produce real items for export and are therefore far easier to count, forecast, tax and regulate. Further, it can be argued that commodity exports are less discretionary (and thus their success is more assured) than services – the world needs power, food and steel. Further, tourism, financial services, professional services, education and health compete in dynamic and crowded markets whereas there are relatively fewer producers of export quantities of, for example, coal, iron and uranium.
- As the Business Council of Australia noted in 2007, the value of Australian services exports grew by only 2.8% between 2000 and 2006, compared to a global average of 10%³. Given the contribution of tourism to our total services exports, tourism export performance will be a critical factor in impacting growth.
- The markets for services are harder to measure and predict. Consumer trends and tastes change rapidly, and the consumer, armed with web-base self-publishing technology, is king. The supply-chain is diffuse, diverse, risky and prone to rapid

³ Business Council Of Australia, July 2007, *Underserviced: Why Australia's Services Economy Deserves More Attention*

- change. This dynamism does not sit easily with traditional public sector approaches to assistance programs with three and four year corporate and strategic plans, structured reporting lines and intense stakeholder scrutiny.
- The definitional advantages of the “older” sectors mean that governments are far more comfortable supporting them. It is easier to measure success and failure and therefore easier to regulate to mitigate risk. The traditional industries find it easier to demonstrate a *financial* commitment to innovation, through large individual investments or through the cash-flow of “grower’s levies”. Governments reward these demonstrable cash contributions with *more* support, such as R&D tax breaks and top-ups for growers-levy funded R&D Corporations.
 - Governments find it much harder to partner with the services sector and in particular the SME’s that largely drive innovation in industries such as tourism. For the services sector, innovation cannot be measured in dollars, but in entrepreneurial activity, nimbleness, time invested, relationships and risk taking. In this sector, success or failure is likely to be rapid. All of these concepts are alien to traditional “industrial” government support programs with their long lead times, heavy regulatory obligations and aversion to risk.
 - There is also a *hidden* bias against the services sector in government support. Put simply, government programs are unlikely to support those ideas that make politicians nervous. ATEC has demonstrated this elsewhere in relation to our proposal to develop “health tourism” to Australia. This is a hidden institutional impediment against export market growth.
 - For Australia to see a flowering of innovation in export market development in the services sector, it must find a way to capture some of the value those sectors generate for re-investment in market development and innovation. The EMDGS is a critical support measure for individual SME’s, however a new mechanism should be found for the collective innovative efforts of service-industry sectors. While the R&D Corporation model in agriculture is too bureaucratic for service

exporters, investments of the same orders of magnitude would, we believe, see a significant increase in export market innovation in tourism.

- For the reasons noted above, and with the exception of EMDGS, government departments and their “industrial” assistance programs are a poor delivery platform for assistance in services exports.
- Governments should engage the National Approved Bodies as the delivery platform for export assistance. Put simply, we know our industries better than the best government employees – our members are driven by the profit motive, the most important driver of innovation and commercial success.
- Governments should not be in a position of “picking commercial winners” when it comes to innovation in services exports. Government’s primary responsibility should be to oversight service delivery to encourage efficiency and negate fraud and wastage. This is a similar philosophical approach as the agricultural R&D Corporations, however the formal contractual approach in this instance may be too restrictive for services.
- In providing export innovation income to Approved Bodies, there will be a significant ancillary benefit in terms of training potential new entrants. ATEC, like many service industry associations, has limited funds, and therefore is only able to provide “export ready” training for its members. In a perfect world we would like to be able to transfer our IP to the 20,000 + (mostly) small businesses listed with the Australian Tourism Data Warehouse, all of whom have aspirations as tourism exporters. It should be noted that ATEC applied for a range of competitive grants under the former Government to educate non-members with *export ready* programs. They all failed.
- How the income stream to Approved Bodies is structured would be on an industry-by-industry basis. In *The Missing Link* ATEC proposed a “user pays” income stream from within the existing Passenger Movement Charge. It should be noted that the

export tourism sector is heavily taxed via the PMC (\$38 per departing passenger), the GST (tourism exports, with few exemptions, attract the GST - unlike commodities and manufactures) and, in the past, the Ansett Ticket Levy.

- Australia cannot afford a “do nothing approach” to innovation in export tourism. With our economy likely to remain relatively strong, it is likely that the negative balance of trade in travel will grow. At the same time, competition is escalating, particularly with planned economies backed by sovereign wealth funds (in some cases in the trillions of dollars) investing heavily in tourism, health and related services.
- This intensity of competition and our inability to compete on spend means Australia must be smarter in the way we leverage our trading brands. A Brand Council, to coordinate our national branding across sectors, is a must.

Response to Questions

Our responses below relate to the key issues raised above. ATEC has not commented in detail on trade negotiation and market access issues, noting that we are a member of the Australian Services Roundtable, whose submission covers this area.

C2

Most of the questions asked in this section are covered above. ATEC believes that a flowering of export innovation in the services sector can occur if the Government can find ways to allow sectors to capture some of the value they create to re-invest in innovation.

The Government can “encourage export focused innovation” by recognizing its own limitations in understanding and regulating the services sector. The Government should not place itself in the position of “picking winners”.

For example, in the last three years, ATEC and associates have identified a potential multi-billion export market for Australia which combines health and tourism services. Latest reports place the size of the global health economy as US \$100 billion by 2012. We failed in securing any government engagement because, firstly, the whole Australian innovation support system cannot cope with such a “left-field” idea, simply because those making the decisions in bureaucracy have no institutional frame of reference. Secondly, people fear what they do not understand, and in government particularly. Because *politicians* were reluctant to embrace the idea of foreign patients being serviced in Australia, there was a built-in bias against the idea in the bureaucracy.

The approach to combining both tourism services and health services is based upon the successful “marriage” of tourism and education. As a consequence of export education dollars being bought to Australia, the tertiary education system’s resources and capabilities have been significantly enhanced.

The “Health Tourism” opportunity for Australia is explored in depth in a discussion paper released by ATEC this month. It can be found on www.atec.net.au, from early May.

This Discussion Paper asks what influences the domestic economy has on export market performance. The overlap is critical in tourism because with the exception of Inbound Tour Operators (wholesalers), there are very few Australian tourism businesses that are exclusively export focused. In fact the majority of businesses are primarily engaged in the domestic market.

However with the strength of our domestic economy (and the dollar), Australians are traveling overseas in record numbers. The consequent pressure on the domestic sector, exacerbated by rising costs, is increasing pressure to diversify into export markets – thereby increasing the demand for “export ready” mentoring.

C3

As noted above ATEC defers to the Australian Services Roundtable on market access issues.

However there are two areas of ongoing concern on which we feel necessary to comment. The first is the issue of Australia's immigration arrangements. While travel is notionally "free", all countries are obliged to protect their borders and Australia is no different in that respect. However, evidence indicates that where visa arrangements can be liberalised and better applied, tourism growth will follow. Recent examples include the Approved Destination Status arrangement with the People's Republic of China, which has created double-digit annual growth from that market, and slow but steady liberalisation of visa arrangements with most Gulf States, which has created a high-yield Arab market particularly for the Gold Coast. It is hoped that the announcement of the reciprocal work-and-holidaymaker visa with the United States during last year's APEC Summit will lead, in time, to the expansion of the US youth market.

The Commonwealth is currently considering a range of proposals to ease Australia's labour-market shortages through the immigrant work-visa system. These proposals are often couched in the needs of the manufacturing and agricultural sectors. Tourism and Hospitality suffers from no less a skills and labour shortage and we have asked that in all cases the needs of our sector are also addressed.

ATEC is a member of the Department of Immigration and Citizenship's Tourism Visa Advisory Group (TVAG). This group has been responsible for a number of very productive outcomes for all parties and we certainly hope it will continue.

The second area of market access on which ATEC feels obliged to comment is in the area of Climate Change. ATEC accepts the responsibility our industry has to understand and ameliorate our impact on the environment and on carbon emissions in particular. As such, we are a member of the joint Tourism and Climate Change Taskforce which will be reporting on a range of matters to COAG later this year.

However we, along with our colleagues in New Zealand and through the Asia-Pacific, remain concerned at the prospect of an artificial trade barrier with the EU (in particular), emerging through the climate

change issue. Our concern is that long-haul destinations in the southern hemisphere will be unfairly punished for aviation's contribution to climate change when in fact it could (and has) been argued that it is the rapid expansion of short-haul aviation in Europe that makes the most significant contribution. Our concern is heightened by the increasing contractual obligations placed on Australian suppliers to those markets. We would appreciate DFAT keeping a watching brief on this issue.

C4

ATEC welcomes the Discussion Paper raising the issue of tax. Again, the institutional infrastructure in this area does not serve the tourism industry and the broader services sector well. We contend that the ATO approach to tourism is a brake on export market development activity and innovation and we submit two examples:

- In 2005 the Commissioner overturned previous private rulings which said that the margin Inbound Tour Operators charge foreign wholesalers (travel agents) did not attract the GST. ATEC vigorously opposed this about-turn, arguing that this is a payment for a service that is clearly exported, but was unsuccessful. A recent survey of our ITO members found that this decision cost businesses an average of \$100,000 annually, which they told us was lost from the export marketing activities.
- In 2006 the ATO released a ruling on the GST treatment of deposits. Designed for circumstances in the "older" industry sectors, the ATO admitted publicly that they neglected to consult the services sector, which had immediately pointed out the negative impact of the ruling. One would have thought that such an astonishing admission would beget instant redress however we are still, in 2008, awaiting a response to our request for a clarifying ruling.

ATEC would like think that this inquiry could "shake out" a better relationship between the ATO and service exporters, however we are not optimistic. We recognise the ATO has a significant workload, and

suffers the same labour-market issues as the private sector. However that should not be an excuse for inertia.

C5

Most of these questions are addressed above and in the conclusions and recommendations below.

In terms of international comparisons, the short time scale for submissions to this inquiry does not permit an in-depth study.

Nevertheless, in general terms it should be noted that until recently, Australia was viewed as “World’s Best Practice” for national tourism marketing. The combination of a well funded National Tourism Office in Tourism Australia (formerly the Australian Tourist Commission) and support for individual businesses via the EMDGS was seen as a powerful mix.

However success has its imitators and Tourism Australia now competes with other NTOs, many in our region, with budgets many times theirs.

Marketing, however, is only part of the story. Our most overwhelming competition comes from planned economies backed by sovereign wealth funds, who are investing hitherto undreamed-of resources into the whole travel supply chain. Thus the Gulf States alone have over US \$3 *trillion* of planned tourism projects on their books, and the airlines to serve them. Singapore is aggressively seeking to dominate the health and business travel sectors while Macau’s investment in gambling and entertainment infrastructure is simply breathtaking. Thailand is currently responding with a US \$30,000 rebate for any conference of over 1000 delegates.

The Business Events market is a critical sector of the Australian tourism industry. Beyond the direct economic benefits, business events expose global investors and traders to broader Australian products and services. An aggressive globally trading economy such as Australia cannot afford to be without a well-resourced meetings and conventions strategy – but the competition is fierce.

Australia is now a minnow in this astounding battle for international travelers, but we are not without our unique advantages – clean air, clean water, clean food and a safe and friendly environment being among those.

The rise of the planned economies in the tourism sector has another “sting in the tail” for the Australian tourism sector. While the Gulf States, China, Singapore et al can certainly build things, many do not yet have the entrepreneurial professional classes to service them – and Australian tourism and hospitality professionals are much in demand – creating a “brain drain” from our sectors. We believe health services are also facing the same syndrome.

This professional and entrepreneurial brain drain is another reason why the Government should act to apply resources through Approved National Bodies to collectively develop new market opportunities.

Other destinations, notably in the United States (Las Vegas and New York for example), place a consumer levy on gambling or bed nights to fund marketing and innovation programs. Until recently, the United States had no national tourism promotion body – but this is not an argument against the maintenance of Tourism Australia. It has been argued that the United States did not need a national tourism office because it has Hollywood and the US is therefore promoted on our TV sets every day of the week. This changed recently when, faced by years of under-performance, Congress voted for the establishment of a national tourism office.

EMDGS

ATEC is vigorous supporter of the EMDGS. It is the only Government support program of which we are aware that philosophically suits SME's in the export services sector. It recognises that businesses need to be flexible in their expenditures and even with the most careful management, some ideas take many years to develop.

As an Approved Body, ATEC is using the EMDGS to innovate in export markets. For instance in July we will be conducting a Trade Mission to South America to establish trade relationships and distribution arrangements in a market not currently attended to by Tourism Australia. We are also drawing on EMDGS to help us study other sectors, such as Health Tourism and we may conduct activity in the United States to leverage the new “Work and Holiday” visa for youth.

The problem with the EMDGS is, of course, that it’s funding is limited and there is built-in uncertainty over the size of the final refunds. For Approved Bodies its scope is limited as well, allowing us to merely “scratch the surface” of opportunities for innovation into new markets.

If an alternative mechanism can be found to support the efforts of Approved National Bodies, they can be removed from the EMDGS regime, allowing more resources to be available for businesses and regional bodies.

One specific change that ATEC supports is the endorsement of “start again” provisions in approved “Emerging Markets” for those companies who have exhausted their claims in established markets. We contend that our members that have successfully applied EMDGS to establish markets in the United States and Japan are just as likely to do so in Chile, India and Poland. This was a recommendation of the Emerging Markets Strategy, from the expert committee appointed by the previous Government.

C6

ATEC is unaware of any tourism exporter using EFIC as a source of finance. We note, with interest, that all the “case studies” referred to in “SME” section of their website relate to producers of manufactured real items. There are no service suppliers featured.

It would be tempting to point this out as another example of the institutional bias against support for services exports, but we are simply unaware if EFIC has been tested by service exporters.

C8

ATEC is a strong and enthusiastic supporter of the services provided by Tourism Australia and Austrade and Invest Australia.

We are also strong supporters of the tourism promotion services provided by the States, however there is significant overlap and duplication between various Commonwealth and State agencies while other areas of activity (for example policing of rogue operators in the Chinese and Korean travel supply chain) require better co-operation. Since the adoption of the Tourism White Paper, much good work has been done to remove duplication between the States and the Commonwealth in trade promotion and a Memorandum of Understanding exists between Tourism Australia and Austrade.

It is in the area of branding and cross-sectoral leveraging that ATEC (and other tourism bodies) believes some significant advances can be made. ATEC supports the notion of a “Brand Council” to oversee the development of an Australian trading brand – the vision being that that brand should have the same cadence as, for example, the Swiss Cross applied to such products as Swissair, Swatch and Victorinox or the Silver Fern associated with the “100% pure” products of New Zealand. One wonders if an Australian Government was selling Qantas today if they would have retained the right to the “Flying Kangaroo” brand.

Further, with Government-sponsored trade activities more should be done to cross-market sectors. All Australian trade-show stands should, for example, include promotional activity for travel to Australia for business conferences, etc.

Conclusion and Recommendations

- If the Government is serious about encouraging export market innovation in the services sector then it should empower Approved National Bodies by assisting them to capture an income stream relative to their contribution to the economy.

This would follow the broad philosophy behind the Research and Development Corporations in the agricultural sector.

- In doing so it should recognise that the “industrial” approach to innovation funding in traditional sectors does not suit the SME-dominated services sector.
- In terms of export assistance, the Commonwealth Government should recognise that its role is as a facilitator and inquisitor (against fraud, waste and mismanagement) and not a judge of what may or may not be (legally) commercially successful.
- In assisting Approved Bodies to access a stream of income, they could be removed from the EMDGS, providing more resources for individual businesses.
- In harnessing the collective profit-motive of their members, National Approved Bodies could therefore play a robust and market-driven role in developing new export markets.
- This would complement the national “branding” role undertaken by Tourism Australia, Austrade, etc by converting the interest created in Australia into bookings and purchases.
- The national effort could be further augmented by improved cooperation in national branding between public agencies and the private sector under a National Brand Council.
- An important obligation of Approved National Bodies under an augmented funding model would be to develop “export ready” training for non-members. ATEC would have no problem in transferring its IP to non-members under this model as our core business is the provision of business to business services.

Appendix

The ATEC discussion papers *The Missing Link* and *Destination Health* (early May) can be found at:

www.atec.net.au