Australian Tourism Export Council

The Missing Link: A Discussion Paper

April 2007

Introduction

The submission below is the product of the outcome of the retreat of the national Board of Directors of the Australian Tourism Export Council (ATEC) in March 2007. Where the paper refers to "the industry" it refers to the views of the ATEC Board. However we believe there is significant consensus with these views among the other industry groups we have consulted.

As the industry's remaining broad-based industry association following the collapse of Tourism Council Australia, we find ourselves in a position of national leadership without the resources or, more importantly, the charter, to perform the national, generic leadership, development and coordination role. We believe there is a strong case for a new body funded by the consumer, similar to many bodies in the commodities sectors.

In advocating a new body, we are not proposing that ATEC "become" that group. However, with our charter for export development, we believe we would have a significant role.

Executive Summary

- While government support for the demand-side of the tourism industry, in particular export marketing, is appreciated, the industry is concerned about our capacity to deliver the high-quality tourism services promised by our marketing.

- These supply-side concerns relate to a number of pressures impacting the industry including:

    - fierce international competition for the traveller's custom;
    - major investment in marketing and infrastructure by our competitors in the region;
    - high relative labour costs compared to our region;
    - the difficulty in accessing suitable skilled and unskilled labour;
    - the continued high AUD stimulating outbound travel (imports) and therefore impacting the domestic market;
    - new export growth is coming from non-traditional and non-English speaking markets, requiring a major "re-tooling" of the industry.

- These pressures are culminating in a significant pressure on costs. The industry is concerned that this will see a decline in a re-investment in the industry and service levels will suffer. We are concerned over the development of a "profitless volume" paradigm.

- While major corporate players in the sector are better equipped to cope with these pressures, the impact is falling disproportionately on the vast bulk of SMEs (small to medium enterprises) that constitute the industry.

- Since the collapse of Tourism Council Australia, there has been no major, generic, national industry group coordinating a response to these pressures. A number of state and national sectoral groups exist but they are limited by both their charter and their business model of membership subscriptions from the hard-pressed SMEs. There are two national lobby groups, both of which are unable to fulfill the classic industry association role. TTF Australia is an exclusive lobby group for the 200 most prestigious corporations and institutions in Australian tourism, transport, property, infrastructure and investment. The National Tourism Alliance is a loose council of sectoral groups with no permanent staff.

- A non-political national body, similar to many found in the agricultural sector, is needed to drive and coordinate national industry development and policy on a range of issues including:

    - Export development
    - Innovation, research and development
    - Sustainable development, in particular climate change
    - Standards and regulation
    - Risk Management
    - Labour market
    - Policy

- Unlike the agricultural sector, the tourism industry – as a service industry defined by consumption – is a difficult sector on which to place a *grower's* levy on the extremely wide range of commerce through which tourism revenue flows.

- There is a strong case, however, for an extremely small proportion of the significant wealth generated by the industry ($19.5 billion in exports alone) to be re-invested in the ongoing development and coordination of the industry, 91 percent of which are SMEs.

- The fairest mechanism is via the Passenger Movement Charge (PMC), a broad-based levy on travellers which is being used as a cost recovery mechanism for a range of services, in particular CIQ services at ports.

- In 2004-2005 the PMC collected $363 million. The industry is seeking an annual shadow toll of $1 per passenger from *within* the existing PMC. In 2006 this would have raised approximately $9.5 million.

- If the government agrees in-principle to investigate this further, a small working party of industry representatives would be assembled to scope the development of the body with government officials.

Abstract

According to the Australian Bureau of Statistics, inbound tourism is Australia's second largest export earner after coal. The Commonwealth Government makes a significant commitment to the *marketing* of the Australian tourism industry, a commitment commenced in 1967 and recently confirmed through the Tourism White Paper in 2003. The Commonwealth marketing effort is augmented with a strong uptake of the EMDGS (Export Marketing Development Grant Scheme) and cooperative marketing investment by private companies such as Qantas Airways and Emirates.

Tourism, in particular the export (inbound) sector, is a relatively young industry compared to the commodity and manufacturing sectors. As such, it has not yet developed the same levels of supportive institutional infrastructure in academia, bureaucracy, organised labour and industry representation.

This submission addresses the latter point. The commodity sectors are well represented by industry groups and research and development corporations which provide a unified voice for industry representation, and a national approach to industry standards, innovation and research and development. Crucially, they are funded by a *grower's levy* which allows even the smallest businesses to participate in and benefit from industry development.

The tourism industry, on the other hand, is not represented by a single, national industry organisation. The Tourism Council of Australia was wound up because of significant financial difficulties. The National Tourism Alliance is an umbrella group of industry bodies with no permanent staff. It acts as a council and coordination point for the industry to lobby on issues of national importance. Outside its organisation of the National Tourism Awards it has no formal industry development role. The Australian Tourism Export Council is the closest approximation to a national generic industry body, however its charter is to support and promote the export tourism sector only. Each state has a tourism industry council (STIC), which is responsible for general tourism development. Beyond that, a range of specific sectoral groups exist such as Hotel and Motel Accommodation Association (HMAA), the Australian Hotels Association (AHA) and the Restaurant and Catering Australia (RCA).

At the national level, there is also a lobby group, TTF Australia (formerly the Tourism Task Force). While TTF is relatively well-resourced, it is an exclusive think-tank whose high subscription fees mean the vast bulk of the tourism industry that are SMEs cannot afford to participate in its activities. TTF is largely aimed at the CEO level of major corporate entities in the tourism, transport, infrastructure and finance sectors.

For the rest of the sector, industry bodies rely on the annual subscription fees of SMEs in the sector, and the sponsorship of a handful of major corporate players (this latter point is important as outside of Qantas and a couple of hotel groups, there are no major global players of the scale of BHP Billiton, Xstrata or Rio Tinto). With the SME sector under constant cost pressure, this means the *development* of the tourism industry, the supply-side, is significantly under-funded. While many worthy federal and state development programs exist, there is a significant question mark over the overall coordination of these programs. Further, the philosophical point is that the industry should be driving its own development in cooperation with governments rather than the other way around.

The state of the industry

On the *demand* side, the tourism industry, in particular the export sector, is in the best shape it has been in for a number of years. 2006 saw a small rise in the number of people visiting Australia (0.6% to just over 5.5 million) but a significant rise in the length of stay and the yield from each traveller (both up 12%), and the Tourism Forecasting Committee still predicts that the number of inbound arrivals will nearly double within ten years. Notwithstanding a short-term constriction in global aviation capacity ahead of the arrival of A380s and Boeing 787s, a number of international airlines are seeking new or increased access to Australian ports.

Having said that, global competition for international arrivals is intense, particularly in our region. India, Malaysia, Singapore, Vietnam and Hong Kong are conducting aggressive marketing campaigns, as is Southern Africa. Ultra low-cost carriers within the EU are presenting particular challenges to our backpacker market. China, in particular, is a magnet for business travellers, which may account for a decline in our Japanese market. The strength of the AUD is another factor impacting some markets.

It is on the *supply* side that the industry is facing its most serious challenges. Tourism businesses are faced with a range of threats that require research, guidance, leadership, investment and mentoring.

Externally, while foreign governments and funds are investing hundreds of millions of dollars in marketing, they are also investing billions in infrastructure. This has particularly exposed Australia's Business Events sector, the sector responsible for developing the meetings, incentives, conference and exhibitions sector. Singapore and Macau, in particular, are developing convention and hotel infrastructure on a mammoth scale.

The development of tourism stock across our region is placing pressure on our industry to respond, as travellers' expectations increase. At the same time, further pressure is being placed on tourism operators through a shift in the mix of our markets. While the "western" markets of UK, Western Europe, USA and New Zealand, along with Japan, will remain the cornerstone of our export sector, the real growth for the future will come from "non-western" markets such as South Korea, China, India, the Middle East, Eastern Europe and Latin America. This growth demands a "re-tooling" of our tourism sector to cope with new markets with different languages, cultures and expectations. While this may be relatively easy for the main players such as airlines and hotels, it is more difficult for the diffuse SME sector.

While the export sector offers tourism business with strong opportunities for growth in yields, the "bread and butter" cash-flow of the tourism industry is in the domestic market, which accounts for over 70 percent of tourism industry activity. Notwithstanding some growth in the first quarter of 2007, for the last decade the domestic sector has been in the doldrums, with growth barely keeping place with overall population growth. More recently, the strength of the Australian dollar, the entry into the market of new aviation capacity (including low-cost carriers), a relatively stable geo-political climate and the growth of new and exciting product in the Asia Pacific region is proving to be an unrelenting stimulus for outbound tourism (representing tourism imports). To compete, tourism businesses need to carefully control costs to offer product to Australians that compete with external competitors. This is resulting in significant downward cost pressure on the industry - which risks the level of R&D and reinvestment in capital at the enterprise level. At the same time, it is placing pressure on businesses which have hitherto catered mainly for the domestic market to more aggressively enter into the export sector, thus requiring mentoring and guidance.

Perhaps the largest impediment to the development of the Australian tourism industry is a lack of human capital. The massive investment in tourism marketing and infrastructure by our regional competitors has the advantage of a significantly lower labour cost base. While Australian tourism businesses compete at a disadvantage here, they are also subject to a major shortage of skilled and unskilled labour (as has been well documented elsewhere). Therefore, while labour is a crucial and unavoidable element of any tourism business, operators are caught between the hammer of trying to contain costs and the anvil of offering above-average remuneration to attract scarce employees. These pressures are having a severe impact on the quality of service in the tourism industry and is being exacerbated by the lack of a consistent regulatory regime across the industry and consistency in other quality-assurance tools such as accreditation.

The demand/supply gap

Senior tourism industry players are concerned about a widening gap between the promise of Australia as marketed, and the industry's capacity to deliver on that promise. To live up to the image promoted by Tourism Australia, the state tourism organisations and the airlines, we need commercially healthy, sustainable, flexible businesses with an aggressive approach to the maintenance of high standards, including a commitment to excellence, a commitment to investment in innovation and an ongoing betterment of their operations. If we do this then we will secure the repeat visitation which is so crucial to the Australian tourism sector.

As noted above, the export sector is performing reasonably well. The dollars invested by the public and private sector in marketing is benefiting the government(s), whose KPI is still measured by external stakeholders as arrivals, or "numbers through the gate". There is no doubt some businesses at the top end of the tourism "food chain" are doing very well from this marketing. These include airlines, airports (and their owners) and five-star hotels in capital cities. They are capturing the value generated by the marketing efforts of governments, their own efforts and the *collective efforts of the 91 percent of SMEs that make up the Australian tourism industry.*

It is at this last stage, the stage beyond the airport gate and hotel lobby, where there is a missing link in the development of the Australian tourism industry. The vast bulk of the tourism industry that are SMEs are making a major contribution to the billions of dollars generated by the export sector alone, yet very little of the value is being reinvested back into that sector for its ongoing development – an effort that, as we have seen above, is badly needed. Governments have to carry most of the responsibility through programs and the Sustainable Tourism Cooperative Research Centre. While their efforts are appreciated, they are limited in that they are subject to long processing times and, in many cases, competitive tender. This puts government in the position of having to second-guess what it believes is in the best interests for the sector. Beyond that, the investment in the ongoing development of the sector is limited to the small membership subscriptions of a range of existing tourism groups.

The need for industry leadership

While the many associations in the tourism industry are working hard, within their limited means, to develop the sector, there is a good case for a strong, national industry body to provide leadership and resources to coordinate the sustainable development of the Australian tourism industry. As the expectations of external stakeholders of the level of policy engagement by the industry increases (for example, no less than four current parliamentary inquiries touching on labour market issues), the strain on the management of existing industry associations is evident. More of our scarce resources are being diverted to policy engagement and less to industry development and mentoring.

A new body would be less structured towards industry segments but more to outcomes. Below is a list of some of the areas requiring national attention:

- Export development
- Innovation, research and development
- Sustainable development, in particular climate change
- Standards
- Risk Management
- Labour market
- Policy

A strong national body (for the sake of brevity we will entitle it the Australian Tourism Industry Council) would also be to the benefit of government, providing a single, united, well-resourced entity for public sector policy-makers to access industry advice and support.

A grower's levy for tourism?

The funding of a national, generic, broad-based, inclusive industry council in tourism is problematic. Even with the best efforts to coordinate the output from the range of existing industry groups it is unlikely that the level of resources required to fund an Australian Tourism Industry Council would be available. Further, the existing sectoral groups provide unique services to their sectors such as export development workshops (ATEC), gaming policy (AHA) and industrial advocacy (AHA and RCA). This necessitates the retention of both the sectoral groups and the bulk of their resources within their associations.

The difficulty for the tourism sector in applying a "grower's levy" is that it is a services sector defined by *consumption* rather than *production*. The commodity sector is represented by a finite number of suppliers producing a finite number of real items through a tightly defined supply chain. It is therefore relatively easy to apply a grower's levy - the cost of which is ultimately paid for by the consumer.

It is much harder to apply a *grower's* levy on the tourism industry because the units of production are services, the supply chain is diffuse and there is a large proportion of the economy that enjoys a "free ride" from the efforts of specific tourism operators – for example retailers in regional towns with a tourism economy. Efforts to levy the industry in the past have fallen disproportionately on specific industry sectors – such as a bed tax. Where levies have been more successful is at the highly localised level where businesses, through local government, have paid a small levy for marketing purposes.

An Australian Tourism Industry Council would require a *consumer* levy that is broad-based, fair and relatively easy to collect. That mechanism in fact already exists in the face of the Passenger Movement Charge (PMC) which collected $363 million in 2004-2005 ($255 million net of expenses).

The Australian Government would argue that the PMC is for cost recovery for funding that benefits the Australian tourism industry through CIQ services at Australian ports. It has also been used to fund a range of other services such as Olympic development. At times the consumer has been further levied for uses such as the $10 Ansett Ticket Levy following the collapse of Ansett Airlines.
There is a strong argument that a very small percentage of the receipts from the *existing* PMC be re-invested in the development of the Australian tourism industry beyond the airport gate. This levy would equate to $1 for every passenger departing Australia, generating around $9.5 million per year. It would rise and fall with the strength of the export sector, providing a powerful incentive for the Australian Tourism Industry Council to grow the sector. This would see foreign arrivals paying directly for the ongoing development of the tourism industry they have enjoyed and departing Australians helping domestic tourism businesses to cope with the challenges of a growing outbound market.

Characteristics of the organisation

The template that should be considered is the same template for growers' levy groups in the agriculture sector. It is noted that the agricultural template forbids funds being used for "agri-politics". While the nature of the of the Australian Tourism Industry Council would require a daily interface with governments on issues of policy, aspects of "tourism politics" - or lobbying - would be best left to sectoral groups, the TTF and the NTA. It would therefore be acceptable for the government and industry to agree on a charter for the use of the funds, by regulation if necessary. The Levies Revenue Service could be tasked to collect the funds from the administrators of the PMC.

A working group

If the government agrees in-principle to a small consumer levy within the existing PMC, it is suggested that a small working group be established to develop the proposal further.

If the initial scoping is successful, it is recommended that the group could be further extended to include an independent consultancy which could advise on organisational issues.

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