Australian Tourism Industry Council

Pre-Federal May 2024 Budget Submission

ATIC Pre-Federal May 2024 Budget Submission

Executive Summary

The Australian Tourism Industry Council (ATIC) is recommending the 2024-25 Federal Budget support the Australian tourism industry through the following measures. Without these actions, the unintended consequences might be:

1. Significantly increased outflow of Australian consumer spending through outbound tourism (imports) and a drop in associated tax revenue;
2. Missed opportunities for growth and market share in inbound tourism, leading to lost economic activity and tax revenue as other nations progress faster in the global tourism recovery at Australia's cost;
3. A rapid increase in job losses within regional Australia; and
4. The continuation of international business events choosing locations outside Australia, missing the chance to reinforce Australia's industry competitiveness and community application of best practice approaches.

The tourism industry was the industry sector hardest hit by the COVID-19 pandemic and is still struggling with its aftereffects (including a harsh hangover on business investment/marketing and costs).

ATIC suggests the first priority for this industry in the Federal May 2024 budget should be to support visitor economy demand. This is essential, as international travel continues to recover with outbound tourism economic leakage set to accelerate far faster than inbound Australian tourism economic benefits. The investment in driving tourism demand can be achieved by restoring the real value of Tourism Australia funding.

This submission also outlines initiatives to support the supply development side of Australia's tourism industry that could be funded in the 2024 budget or 2025 budget. In total, compared to tax revenues received from tourism, the funding proposals to grow the tourism industry in this submission are modest.

Even with the Australian tourism industry in 2024-25 struggling to recover international visitation in the aftermath of COVID, the Federal Government increased the Passenger Movement Charge (PMC) to $70 per head from July 2024. This budget measure promises revenue of around $6.8 billion over the four years from 2025 to 2028[1], the vast majority of which is in excess of Government costs for passenger facilitation. This is on top of tax on tourism products that even in the COVID affected year of 2022-23 summed to $5.7 billion. Total taxation revenue from tourist spending in Australia is expected to sum to well over $30 billion in the next four calendar years.

The Federal Government, over the last two decades, has increased tourism taxation which has hindered the industry's growth, particularly in inbound international tourism (exports). Even with full adoption of all the proposals in this submission, this is set to continue.

[1] Calculated using TRA forecasts for inbound and outbound passengers issued in late 2023.

Budget Recommendations for 2024-2025 Budget

1. Increase base funding for Tourism Australia by $90 million annually, starting in 2024-25, dividing the additional funds equally to:
    a. $30 million to enhance international leisure marketing across all 15 priority markets to mitigate future market-specific risks;
    b. $30 million to establish a dedicated budget to amplify international business event promotions by Tourism Australia, enticing more global business events to choose Australia as their destination; and
    c. $30 million dedicated aviation development funding for: strategic new direct inbound international flights (i.e. not just to Sydney, Melbourne and Brisbane) and new interstate leisure route services between from major cities and regional leisure destinations.
2. Legislate to freeze the Passenger Movement Charge for the next decade at $70 per passenger.
3. Supply-side initiatives
    a. $140m for a new round of National Icons funding to provide matching funding with State Governments to create or enhance a new demand-driving iconic attraction in each State and Territory.
    b. $300m for overdue funding to enhance visitor facilities in World Heritage Areas, including for the Great Barrier Reef and Kakadu
    c. $70m in Tourism Product Development Grants for tourism SMEs, providing matching funding to invest in product, equipment and technology that improves product quality and competitiveness and which enhances accessibility, reduces emissions, improves First Nations cultural tourism and/or enhances long-term sustainability.

In total, the proposed spending initiatives in this submission involve new spending of $870 million in the four-year forward estimate period:

- Less than 3% of total taxation revenues from tourist spending (including the PMC) in this period; and
- Less than 1% of PMC revenue in this period.

This submission would, therefore, not end the long-standing status of Australian tourism as a major source of taxation revenue for the Federal Government but provide for a modest level of investment to retain the taxation revenue, economic and employment outcomes of tourism, particularly tourism businesses in regional Australia which face a very tough four-year period ahead.

About the Australian Tourism Industry Council (ATIC)

ATIC represents the diverse interests of Australia's visitor economy, which, before the pandemic, accounted for over 700,000 jobs and more than 3% of Australia's GDP. Recognised as a crucial economic pillar, tourism was rapidly expanding with a significant workforce in various regional communities.

Representing state and territory tourism councils, ATIC includes 10,000 members, mainly small to mid-sized enterprises, which are pivotal in delivering tourism experiences.

1. Why increased support for tourism industry recovery is urgently needed in the national interest in the upcoming Federal Budget?

The economic contribution of Australian tourism[2]

In the fiscal year 2022-23, tourists contributed $165 billion of spending to the economy, which had a direct impact of $63 billion on Australia's Gross Domestic Product (GDP), constituting 2.5% of the national total. This is a decrease from pre-pandemic levels, which stood over 3%. The industry provided 626,000 jobs in 2022-23, an 11% decrease resulting in 74,500 fewer jobs compared to 2018-19. Tourism's role in the total job market also declined, from 5.1% down to 4.1%. Returning to the sector's previous industry employment share could inject an additional 95,000 jobs, but this rebound is uncertain.

A key consideration for policymakers is the significant taxation raised from tourism products. The just released 2022-23 National Tourism Satellite Account from the Australian Bureau of Statistics estimated that net taxes on tourism products was $5.7 billion, which was up 100% on the previous more COVID affected year.[3] This figure does not include the revenue generated by inbound tourism through the Passenger Movement Charge.

COVID-19 increased policy recognition of tourism's economic importance

The pandemic underscored the economic value of the tourism sector to government policymakers and the Australian community:

- The absence of international visitors significantly impacted major cities and key destinations like tropical north Queensland, central Australia, and the Gold Coast.
- State border closures heavily disrupted domestic travel.
- Lockdowns, especially in Victoria, halted tourism spending.
- The industry faced escalating costs due to labour shortages and increased material prices, partly caused by workers shifting to less impacted industries and slowed immigration.
- Tourism investments declined, with recovery complicated by aged infrastructure needing upgrades to stay competitive globally.

Thankfully, Federal Government assistance such as JobKeeper and associated business support programs and state grants helped many tourism businesses stay afloat that would otherwise have disappeared.

Post-Pandemic Sector-Specific Challenges

Post-COVID recovery in tourism is threatened by a range of hangovers from the pandemic:

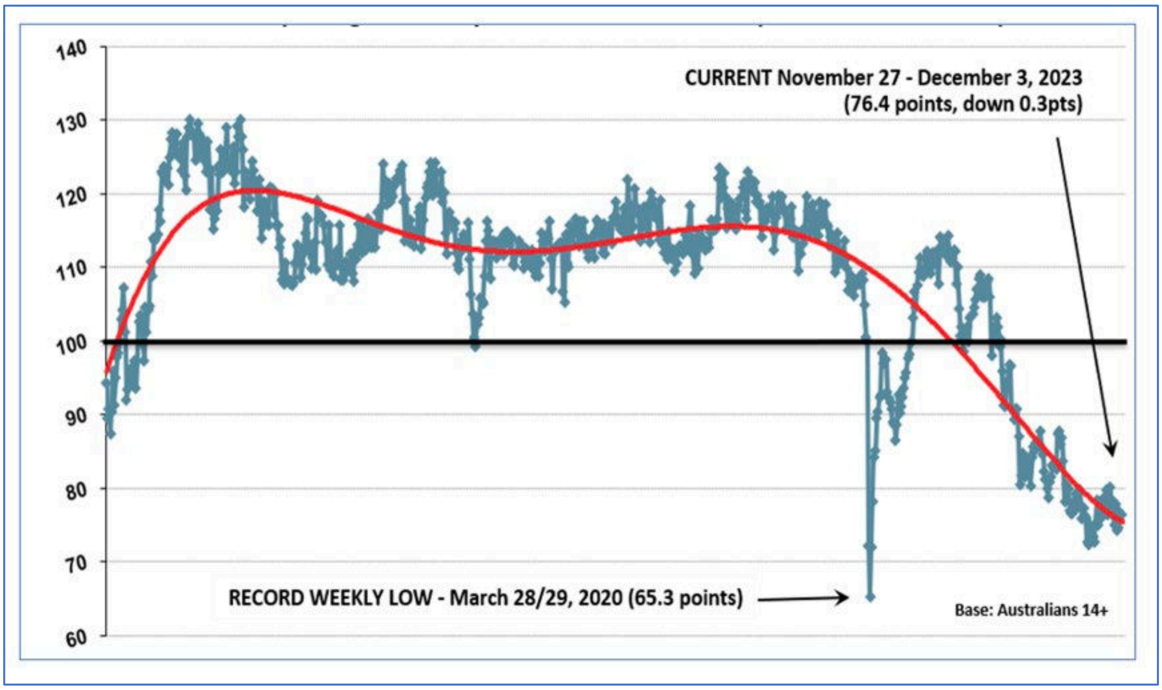
- Higher business costs, particularly for labour in a rare labour-intensive export industry.
- Australia's much diminished global marketing presence.
- A continued investment drought.
- A surge in overseas travel by Australians, recovering four years of suppressed outbound tourism.

These sector-specific challenges come in addition to broader economic concerns, like weakened consumer confidence due to inflation, increased living costs, and depleted savings, which will reduce discretionary spending on domestic travel (illustrated in **Figure 1**).

[2] Australian Bureau of Statistics (2023), National Tourism Satellite Account, as reported in https://www.tra.gov.au/en/economic-analysis/tourism-satellite-accounts/national-tourism-satellite-account

[3] https://www.abs.gov.au/statistics/economy/national-accounts/australian-national-accounts-tourism-satellite-account/latest-release#data-downloads

Figure 1. ANZ-Roy Morgan Weekly Consumer Confidence (Oct 2008-Dec 2023)



Challenging Times Ahead for Australian Tourism, Especially in Regional Areas for 2024-25 and 2025-26

Australian tourism, particularly in regional locales, is facing a tough period for the 2024-25 fiscal year and beyond, just as the next Federal election approaches by the end of September 2025. Despite the gradual resurgence of inbound tourism, buoyed by more international flights and lower airfare costs, the sector is bracing for an even stronger continued rebound in outbound tourism. This uptick in Australians travelling abroad is expected to result in a significant dip in domestic tourism. Across calendar 2024, 2025 and 2026 there are now official forecasts of 6 million more Australian overseas departures than international visitor arrivals.[4]

This shift poses a threat to the tourism job market in regional Australia. In 2018-19, Australians spent a staggering $64 billion on outbound international travel, not even twice the amount spent on domestic overnight trips. Historical data from the Australian Bureau of Statistics shows a steady increase in money spent on international travel compared to what inbound tourists spend in Australia and on domestic overnight trips, as depicted in **Figure 2**. Over the 15 years leading up to 2018-19, the amount Australians spent on international travel (tourism imports) grew almost twice as fast as domestic overnight travel spending, and three times the growth after adjusting for inflation.

[4] Tourism Research Australia (2023), https://www.tra.gov.au/en/economic-analysis/tourism-forecasts#ref4

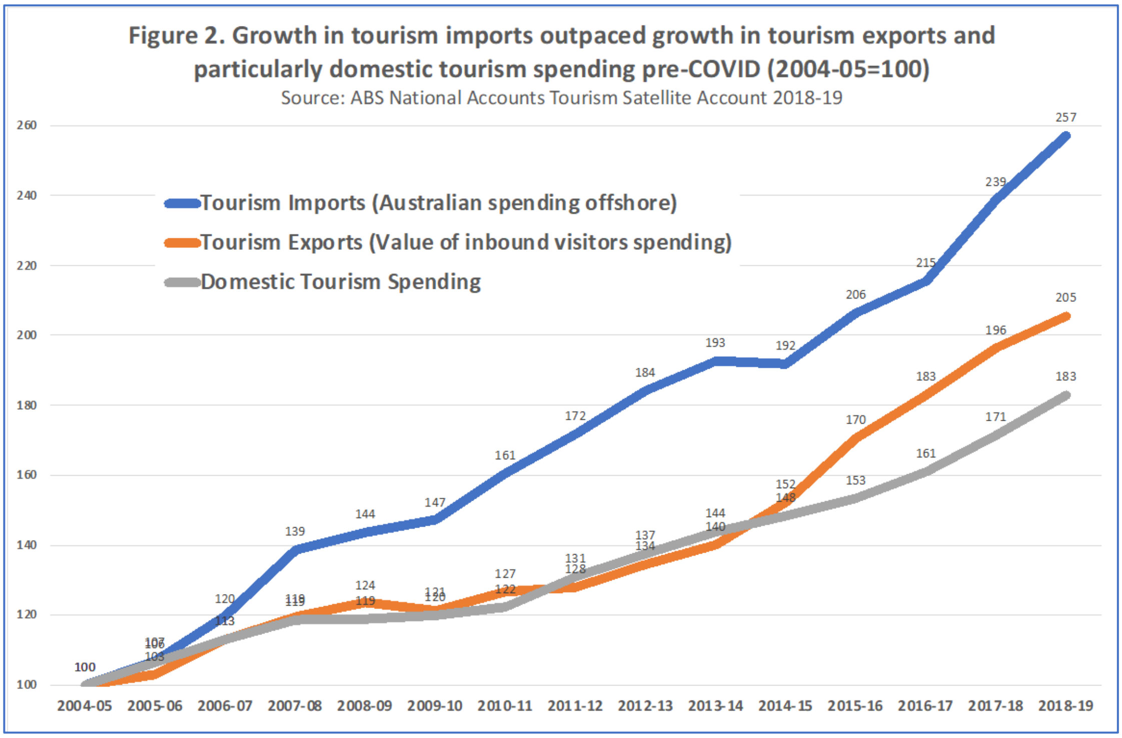


Figure 2. Growth in tourism imports outpaced growth in tourism exports and particularly domestic tourism spending pre-COVID (2004-05=100)
Source: ABS National Accounts Tourism Satellite Account 2018-19

Australians typically balance their budgets and available vacation time between domestic and international travel. Whereas in 2005-06 there were three domestic holiday nights for every international night, by 2018-19 this had dropped to a ratio of 1.7 domestic nights for each night abroad. An acceleration in this trend is now expected, and it will not be long before Australians spend as many nights offshore on overseas holidays as they do holidaying domestically. In the five years before 2018-19, there were 62 million short-term trips abroad by Australian residents, surpassing the 47 million short-term visits to Australia by international guests.

According to the pre-pandemic trend, there should have been around 51 million outbound short-term trips from 2019-20 to 2022-23, as shown in **Figure 3**. However, due to COVID, there were only 20 million, leading to 31 million fewer outbound trips. This represents a significant backlog of international travel that many Australians are now eager to catch up on.

Unfortunately, it appears a further reminder for economic policymakers of tourism's regional economic importance is imminent in the run up to the next Federal election due before the end of September 2025.

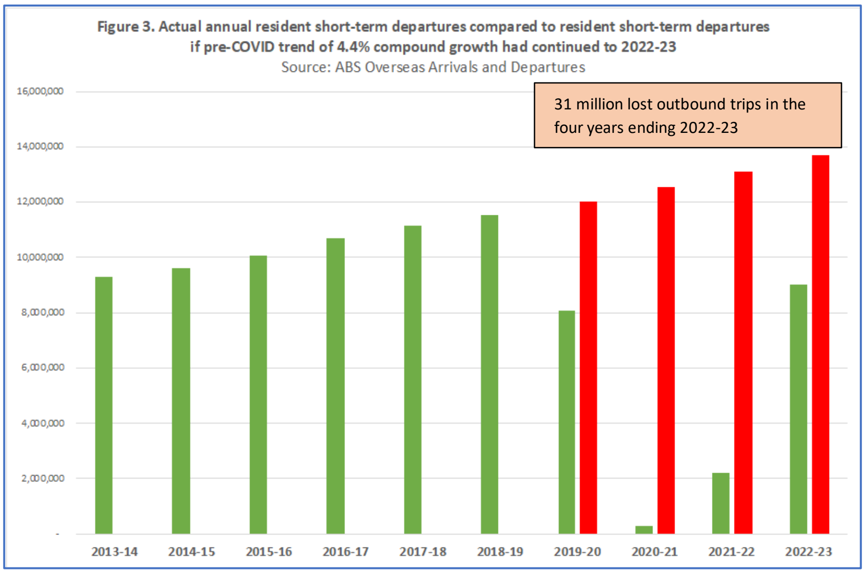


Figure 3. Actual annual resident short-term departures compared to resident short-term departures if pre-COVID trend of 4.4% compound growth had continued to 2022-23
Source: ABS Overseas Arrivals and Departures

An important further challenge faced by the Australian tourism industry and economic policymakers concerned with regional economic impacts arises from the uneven geographical distribution of the benefits from inbound and domestic tourism.

International visitors in 2019 mainly stayed in the capital cities and the Gold Coast, accounting for 80% of international visitor nights. However, domestic tourism is crucial for regional areas beyond these popular destinations, with 65% of all domestic visitor nights in 2022-23 occurring in these locales. This means that **regional areas are especially vulnerable to the decline in domestic travel as outbound and inbound tourism pick up in 2024-25, putting them at a disproportionate risk**.

Additional factors influencing the future of tourism post-COVID include:

- The dangers of over-reliance on any single market for inbound tourism. For example, in 2018-19, China comprised 19% of total inbound arrivals, a dependence that poses risks in a world of escalating geopolitical tensions. In recent years Chinese authorities have used outbound travel bans to signal disapproval of policies of Japan and South Korea, and other countries have noted the effectiveness of this economic sanction.[5]
- The disparity in competition levels between domestic and international airlines presents another problem. There is less competition domestically, which tends to make internal flights in Australia less cost-effective compared to international travel, potentially discouraging Australians from touring their own country.

ATIC policy priorities for tourism industry recovery in the coming Federal Budget

1. Enhancing Funding for Tourism Australia for inbound leisure, international business event and strategic international/domestic airline route development

The last major increase in Tourism Australia funding came a decade ago in response to the first Tourism White Paper, which infused $166 million in new funds over four years into Tourism Australia. In the 2014-15 fiscal year, Tourism Australia received $132 million, which by 2023-24 had only increased by nine percent to $144 million. Considering inflation, this actually translates to a reduction of over 10% in real terms.

Government funding support for inbound tourism marketing dipped from 0.45 of a cent per dollar of visitor spending in 2014-15 to an expected 0.37 of a cent, assuming 2023-24 inbound tourism spending returns to the levels of 2018-19. Furthermore, from November 2013 to end January 2024, the Australian dollar depreciated by 41% against the US dollar, diminishing the buying power for inbound marketing from Tourism Australia's budget.

International Consumer Marketing Challenges

Australia's prolonged border closure during the COVID-19 pandemic led to a marked decrease in Australia's visibility among consumers and the travel industry abroad. This situation requires an increase in funding for Australia's inbound marketing efforts if lost ground is to be made up.

The value of prior investments in tourism marketing, notably by Tourism Australia and the Australian tourism industry, has been significantly diminished by the much longer extended closure of Australia to international visitors that the Federal Government mandated. While destinations such as Europe, the USA, and the UK experienced shorter border closures if at all, Australia's borders to tourists were shuttered for nearly two years from March 2020 to late February 2022.

Due to the COVID regulations and the financial effects on the industry, Australian tourism enterprises currently have less than normal capacity to self-fund the marketing necessary to attract inbound visitors.

As countries have rushed to reclaim their tourism market share with the wholesale reopening of global travel, Australia faces a large challenge. Not only have we re-entered the competition late, but we've also been

[5] The Economist (2023), https://www.economist.com/asia/2023/01/12/south-koreas-travel-spat-with-china

handicapped by a decrease in the real value of Tourism Australia's funding over the last decade, compounded by unfavourable currency fluctuations and increases in media buying costs.

While Tourism Australia identifies 15 priority inbound tourism source markets, the current budget of Tourism Australia precludes more expensive brand and tactical marketing in most of these markets. This leaves the Australian tourism industry dangerously exposed to few inbound tourism sources compared to what a more diversified Tourism Australia marketing strategy would deliver.

Boosting Australia's International Business Events Hosting Capacity

International business events, such as medical conferences, play an integral role in maintaining Australia's competitive edge in various sectors. Hosting such events provides Australian professionals and the general public with better access to global best practice.

Pre-pandemic, Australia had secured a commendable standing with global conference organisers who generally plan events several years ahead. Unfortunately, Australia's prolonged border closures led to event cancellations or relocations, aimed at mitigating cancellation risks later. Australia now faces the substantial task of regaining confidence among international associations and business event planners. Historically, funds for business events from Tourism Australia have been diverted from consumer marketing, which consequently reduced the consumer marketing budget over the past decade as business events gained more focus within Tourism Australia.

Dedicated aviation development funding for strategic new direct inbound international flights to all international airports (i.e. not just Sydney, Melbourne and Brisbane) and new leisure route services from capital cities to regional destinations

Affordable international aviation access is critically important to net visitor spending and associated tax revenue in Australia, particularly when there is a significant imbalance in favour of inbound visitors over outbound Australians. This imbalance is most obviously in Australia's favour from markets that include China, South Korea, Taiwan, Japan and India.

An increase of one daily A330 international service provides around 120,000 seats a year. If 80% of these seats are occupied, this is associated with PMC revenue, ignoring other taxation revenue from incremental international tourism, of nearly $7 million annually. The Australian Government has a strong economic self-interest in investing in selective international airline route development. Whereas a further key player in international airline attraction of Australian airports is less concerned whether a new daily airline service is from Bali or Seoul this is not the case for the Australian economy.

Similarly, getting increased domestic aviation competition is critically important to encouraging Australians to travel at home rather than go outbound and for dispersing international visitor spend outside the major arrival airports of Sydney, Melbourne and Brisbane. The comparative lack of competition in domestic aviation compared to international aviation has damaged Australia's tourism industry, as analysed in more detail in the ATIC submission to the Aviation White Paper.

ATIC recommends an increase in base funding for Tourism Australia of $90 million annually, starting in 2024-25. It is further recommended that one-third of this new funding be allocated specifically to enhancing inbound tourism marketing, one-third assigned as a separate fund aimed at expanding business event activities, with the goal of attracting more international business events to Australia and the final third for selectively sponsoring new international and domestic aviation route development of most advantage to incremental tourism spending in Australia.

2. Legislate to freeze the PMC at $70 for the next decade

A key consideration in international airline route development decision-making is the level of taxes and charges – this directly influences the relative profitability of alternative routes for overseas carriers in deploying their fleet. The level of the passenger movement charge has become a tax both on consumers and on international airlines in making the long-term decision of where to send the relatively scarce aircraft capacity most international airlines have post-COVID.

By backing a commitment to freeze the PMC for a decade with legislation, any future increase in the PMC during this period will at least require a Parliamentary debate about costs and benefits, as well as the support of the Parliament.

3. Supply-side initiatives from the Federal Government

COVID has set back private sector investment in tourism in two ways. The first is the direct impact on tourism business finances, and the second is the reduction in the financing appetite of lenders and investors. Lenders in the aftermath of COVID and associated Federal Government measures are requiring lower levels of gearing and higher interest rates and project internal rates of return.

At the same time there are major economic, environmental and social benefits associated with investments in improving tourism industry quality, competitiveness, sustainability and accessibility. These community benefits are important to Australia but less likely to be funded in the post-COVID environment where direct private returns are paramount to justifying investment.

Similarly, the Governments directly manages key tourism infrastructure across Australia in World Heritage Areas, public attractions and other key iconic facilities, and these areas/facilities are often overdue for investment to improve visitor services and better protect sensitive environments and cultural heritage.

This is the background to four key supply-side initiatives recommended for the 2024 Federal Budget or in pre-election commitments in four-year spending programs of:

a. **$70m in Tourism Product Development Grants for tourism SMEs, providing matching funding to invest in product, equipment and technology that improves product quality and competitiveness and which enhances accessibility, reduces emissions, improves First Nations cultural tourism and/or enhances long-term sustainability.**

b. **$140m in a new round of National Icons Program funding to provide matching funding to create or enhance an iconic attraction in each state or territory.**

c. **$300m for funding to enhance visitor facilities and support associated infrastructure/environmental management in World Heritage Areas, including for the Great Barrier Reef and Kakadu.**

d. **$120m for major First Nations cultural centres, which educate Australians and international visitors on the long history of settlement, pre-colonial life, impacts of colonisation and First Nations peoples in Australia today.**

Evan Hall
Chairman
Australian Tourism Industry Council