



# SUBMISSION

## Barriers to growth in Australian Services Exports

**May 2015**

Review of Service Exports

ATEC © 2015

## About the author

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The Australian Tourism Export Council (ATEC) is the peak industry body representing the thousands of companies throughout Australia that provide tourism services to foreign visitors.

Our core functions are to:

- Represent the collective views of our membership to governments and other external stakeholders;
- Provide business-to-business opportunities for our members;
- Provide business development advice, opportunity and support to our members;
- Foster and promote excellence in service delivery and business best practice management;
- Liaise with industry and government to facilitate cohesion between commercial imperatives and policy development.
- Raise the profile of the tourism export sector to the broader community.

## Tourism exports at a glance

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*For Australia...*

VISITORS	NIGHTS	EXPENDITURE	JOBS
6.3 MILLION	221 MILLION	\$30.7 BILLION	929,000

Source: TRA International Visitor Survey, September Quarter 2014.

*and globally...*



## Foreword

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ATEC welcomes this review of services exports and thanks the Treasurer for the opportunity to comment on the barriers to growth and international competitiveness in the context of Australia's tourism sector.

The tourism industry is proud of its contribution to the Australian economy. With international expenditure now pegged at \$30.4 billion<sup>1</sup>, it is clear that tourism is the single largest sectoral contributor, with clear increases in expenditure from key markets. However, the important statistic to heed is Australia's global market share(s) of priority source markets. Despite strong growth in the total number of visitors travelling to Australia, our share of global international visitors declined from 0.7% in the year ending 2000 to 0.6% in the year ending 2013<sup>2</sup>. Whilst Australia's export earnings from tourism (and other sectors) is growing, we must ensure we keep pace with our competitors to maintain our proportion of the growing international travel market. Other competing destinations are investing, innovating and actively targeting the lucrative international traveller. Australia must ensure it is "working smarter" with a strategy to reduce red tape, limit barriers to growth and innovate to drive demand.

Australia's 2020 growth forecasts for international tourist arrivals are heavily reliant on China. Visitors from China are the world's fastest-growing source of international tourism, with total tourism expenditure by visitors from China increasing almost tenfold since the year ending 2000. Visitors from China now lead the world in total international tourism expenditure. As a result, there is strong competition amongst countries to attract visitors from China. Of the 109 million trips abroad from China, Australia can lay claim to 805,000 – or 0.7%, compared to the US and France at around 2%, and Australia's competing Asian neighbours with a collective 90%<sup>3</sup>.

Destinations such as the United States, the UK and Singapore all aggressively compete with Australia in attracting Chinese outbound tourists, and they are all investing significantly to drive demand. As a result of greater competition, Australia has been losing market share. The pace of growth in mainland Chinese visitor arrivals to Australia has nearly halved over the last year (19.3% to 10.5%). At the same time, destinations such as the United States are increasing their Chinese visitor growth rates. Chinese visitors to the US increased by 23% and Canada by 30%<sup>4</sup>. This illustrates the importance of Australia's need to maintain global competitiveness if we are to achieve even our low-end targets set out in the Tourism 2020 strategy.

Furthermore, tourism is highly exposed to global economic factors, including shifts in the exchange rate and the impact of financial turbulence in the global economy. Tourism exporters have been particularly impacted by significant changes in consumer purchase behaviour, including:

- The source markets and activities where export growth potential lies;
- Increased online and short lead-time purchasing of travel; and
- Major shifts in the distribution system for travel and tourism.

ATEC has been active in presenting the views of the tourism export sector via numerous channels, including submissions to other government inquiries currently in progress. This submission should be considered alongside and in context with the industry views presented in submissions to the following:

- Joint Review of Border Fees, Charges and Taxes
- Review of the skilled migration and 400 series visa programmes
- Productivity Commission research project into Australia's international tourism industry
- Review of the Export Market Development Grants Scheme

ATEC also supports the submissions to this inquiry from the Export Council of Australia, the National Tourism Alliance and the Tourism & Transport Forum.

As per the Productivity Commissioner's Terms of Reference, this submission will present the key trends in, drivers of and barriers to tourism export growth, as well as potential policy remedies that will contribute to and facilitate that growth as we strive towards our Tourism 2020 targets.

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<sup>1</sup> International Visitor Arrivals, Tourism Research Australia September 2014

<sup>2</sup> Tourism Economics 2014

<sup>3</sup> UNWTO, 2014

<sup>4</sup>Source: Productivity Commission Report into Australia's International Tourism Industry, content credit to Crown Resorts

## Trends in service exports

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### China travel boom

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The single largest shift in market trends has stemmed from the rapid growth in outbound travel from China. Australian businesses are actively competing for a slice of outbound Chinese tourism, which now tops approximately 109 million trips abroad, and is expected to grow by around 17% in both numbers and revenue year on year<sup>5</sup>.

Global tourist arrivals are increasing at an annual rate of around 4%, with more than 1.1 billion people travelling abroad in 2014.<sup>5</sup>

With this trend and steady increase of 50 million passengers per year, comes elevated effort from key global destinations for a share of the market. Numerous critical factors impact upon a destination's ability to attract international visitors, ranging from currency fluctuations, to accessibility, access, travel time, destination desirability and cost.

For businesses, there are numerous factors that impact on their ability to compete globally: market penetration, product development, cost of international trade and competition.

Importantly for Australia, our traditional markets are also seeing a return to growth as Europe recovers from severe economic downturn. Trips from markets including the UK and USA have both recorded increases<sup>6</sup> and it is critical that our industry and governments remain committed to these markets. Like any sound business, we need to balance our offering to the world, and not commit all our eggs to the China basket.

### Global easing of visa policy

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In the last four years, the number of international travellers needing a traditional visa to visit a destination fell from 77% to 63%. The past two years, in particular, have seen a wave of visa restrictions lifted. Forty-three destinations eased their visa policies from traditional applications to e-visas, visas on arrival, or eliminated their visa requirements all together<sup>7</sup>.

An overly restrictive visa policy can mean lost opportunities for economic growth and jobs. Travellers consider visas as a formality, which also incur a cost. This can be a deterrent to travel if costs – whether monetary or indirect – including distance, wait times, requirements and service, go beyond a traveller's tolerance.

Research conducted by the UNWTO and World Travel and Tourism Council predicts that improved visa processes could generate an additional \$206 billion in global tourism receipts and create up to 5.1 million jobs by the end of 2015.<sup>8</sup>

### The smart stuff – phones, tablets, watches

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Travellers are becoming increasingly autonomous as they facilitate their own passage from domicile to terminal to aircraft to hotel via hand-held or wearable technology. Consumer reliance on their smart device(s) has changed the way they plan, execute and enjoy their travel, as well as how they manage their expectations and provide feedback.

Tourism businesses must consider how they are reaching their customers, and what technology adoption is required to keep pace with consumer demand for seamless in-trip and in-destination services.

### Digital revolution and the rise of the metasearch

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Metasearch as a concept has been around for some time, but more recently it has become the hottest trend in the travel industry and the new battleground for winning consumers between the online travel agencies (OTAs) and travel suppliers. Indeed, metasearch and its potential for hoteliers has aroused some healthy debate in many global conferences.

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<sup>5</sup> Source: UNWTO Media Release, 27 Jan 2015

<sup>6</sup> Source: *International Visitors In Australia: September 2014 Quarterly Results Of The International Visitor Survey*

<sup>7</sup> UNWTO, *The Travel & Tourism Competitiveness Report 2013*

<sup>8</sup> UNWTO & WTTC, *The impact of visa facilitation on job creation in the G20 economies* May 2012

The backdrop to this debate is the reality that metasearch is part of an increasingly diverse distribution landscape that can no longer be regarded as a silo. Distribution now needs to be seen in the context of everything from content syndication and online marketing to connectivity and revenue generation.

Online travel revolutionised the way people shop for travel products and the popularity of metasearch can be seen as part of that evolutionary journey. In recent years the sector has witnessed impressive growth and investment with:

- New sites appearing, many relying on the dubious practice of content scraping from other sites;
- Expedia and Priceline the dominant global OTAs aligning their business interests with metasearch by buying (arguably) the two best platforms around at that time, Trivago and Kayak respectively;
- TripAdvisor boosting its powerful review engine with metasearch capabilities;
- Google building a business empire around its metasearch engines Hotelfinder and Flightsearch with strategic acquisitions (ITA) and licencing agreements.<sup>9</sup>

Distribution encompasses how a tourism product (whether that be hotel, attraction, transport etc) is shopped, perceived, rated, booked and shared across the travel eco-system. It is complex, and if not understood or effectively managed, can have serious implications to a business' bottom line. As a result, distribution and marketing strategies and functions are becoming increasingly intertwined. Businesses are now forced to understand the impact of distribution options and connect the dots between distribution costs, marketing costs and revenue potential.

Social media has had a vast impact on every industry across the world and travel and tourism is no exception. The role of social media plays a critical role in the traveller's journey: from how they research and book their travel, to on-going engagement in-trip, and post-trip review.

The travel and tourism industry depends heavily on word of mouth and the spread of opinions and, as such, social media is one of the most powerful forces driving travel planning today – businesses failing to adopt could suffer significant impacts as a result.

The monumental rise of Tripadvisor and OTAs like Expedia has changed the way operators do business. Consumer engagement is constant, in real-time and highly dynamic.

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### The sharing economy

Increasing consumer trust of the internet and online purchasing has driven a major shift in accessing and consuming goods and services. The tourism industry is the sector most impacted by the rapid growth of sharing and "collaborative" consumption.

The sharing economy is not a new phenomenon, but it has grown exponentially in recent years thanks to consumers' increased awareness of unused private assets. New ventures such as *Airbnb* and *Uber* have sustained tremendous growth. They now operate on such a scale that they are matching mainstream hotels and transport companies in convenience, and often beating them on price.

The sharing economy has spread to every sector of the tourism industry and every corner of the globe pushing it from a small community of global explorers to a full-fledged industry needing regulation and customer protection like the traditional market it sought to complement.

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### The continued rise of the low-cost carrier

The increasing penetration of the low-cost airline is another continuing trend affecting service exports. Whilst Australia stands to benefit from greater capacity to our shores from liberalised air services agreements via negotiation or FTAs, other competing destinations are also the beneficiary as more airlines open up routes to more destinations.

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<sup>9</sup> *Travel Analytics, August 2014: Metasearch – Threat or Opportunity for Travel Suppliers?* Matthew Goulden

## Barriers to growth

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### Australia's visa policy

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Australia is a long haul destination for many of our key source markets. Conversion remains our greatest challenge as we strive for greater visitation, high yielding business and penetration of new and emerging markets. According to a 2013 study conducted by Tianxun.cn, most Chinese tourists admit that visa applications influence their travel plans. More than 90% of the consumers polled take visa applications into consideration before choosing a destination. The survey also showed that the US, Australia and France would be the top three desired destinations if there were no visa restrictions: desire to travel is high but conversion impacted because of visa policy.

Whilst the tourism industry recognises the importance of border security and anti-terror measures, the current visa policy has not kept pace with the rest of the world, and Australia is losing market share.

Australia's universal visa system requires that all those travelling to Australia who are not Australian citizens or residents have a visa to enter Australia, except New Zealand citizens who can apply for a visa on arrival. Visitors to Australia, depending on their country of citizenship, require one of the following visas:

#### Electronic Travel Authority (subclass 601)

- for nationals of low risk countries
- application can be completed online and must be made from outside Australia
- valid for 12 months with three months' stay permitted on each entry
- service charge of AUD20

#### eVisitor (subclass 651)

- for European nationals
- application can be completed online and must be made from outside Australia
- valid for 12 months with three months' stay permitted on each entry
- no charge for the application

#### Subclass 600 visa

- has four streams – tourist, sponsored family, business visitor and Approved Destination Status (ADS)
- either paper-based or online application depending on nationality, must initially be made from outside Australia but can also be applied for to extend a person's stay
- generally granted for a three, six or 12-month period for either single or multiple entries
- cost of AUD130

Our global competitors are not only relaxing visa policies across the board, many are introducing visa-free travel: the use of technology to create efficiency a major component of reform.

As a travel destination, we have a responsibility to deliver simple, efficient, cost-effective and seamless entry protocols. Simpler, faster visas translate into increased visitation and positive consumer sentiment.

The impacts of visa policy on travel are closely examined in the recent joint industry submission on the *Review of Borders, Taxes and Charges*. A copy of this submission is annexed to this document.

At the T20 Ministers' Meeting in 2012, the World Travel & Tourism Council (WTTC) and the United Nations World Tourism Organisation concluded that cumbersome visa procedures have a direct impact on intention to travel and, conversely, "easy and hassle-free availability of visas is one of the basic ingredients for attracting foreign tourists". The joint report presented, *The Impact of Visa Facilitation on Job Creation in the G20 Economies*, found that tourism development in the G20 is limited by visa regulations and reforms in visa facilitation hold the potential to create 5.1 million additional jobs in the G20 economies.

Australia's visitor visa regime has been identified by federal and state government tourism authorities – including Austrade and Tourism Australia – as one of the key barriers to growth in international tourism. Both government and industry support reform to visa policy as a "game-changer" that will help drive Australia to reach its 2020 tourism targets.

The Federal government's 2015 budget announcement that visa fees were again being increased is of major concern and will do little to assist in any significant revenue to the government. Rather, it will further impede the passage of genuine travellers to Australia as well as create commercial costs for small businesses that promote Australia – particularly those who are seeking a working holiday. The announcement shows that the government is still resistant to change and prefer to implement insignificant fee hikes rather than consider a holistic reform to visa policy that could deliver exponential benefit to both industry and government. The 2012 study prepared by ATEC, *The Importance of the Working Holiday Visa* found that working holiday makers stay an average of eight months and spend \$13,000 each during their stay. Much of their earnings from the work performed whilst in Australia is channeled back into the Australian economy.

## The Passenger Movement Charge

The Passenger Movement Charge (PMC) was introduced in July 1995 (replacing the “departure tax”). The PMC was introduced to recover the cost of customs, immigration and quarantine processing of inbound and outbound international travellers and fully offset the cost of issuing short-term visitor visas.

Modelling by the International Air Transport Association suggests that holiday visitors (as distinct from those travelling to visit friends or relatives) are most sensitive to departure taxes such as the Passenger Movement Charge (PMC), with every price increase of 10% estimated to generate a decline of 5-7% in the number of leisure passengers travelling globally.<sup>10</sup>

The table overleaf illustrates the top five departure taxes in the OECD – with Australia featuring prominently as the second-highest. Further in-depth intelligence about the Passenger Movement Charge as a barrier to growth in service exports is examined in the joint industry submission on the *Review of Borders, Taxes and Charges*, annexed to this document.

TOP FIVE DEPARTURE TAXES IN THE OECD					
Country	Tax name	Rate (short-haul)		Rate (long-haul)	
		Local currency	Australian	Local currency	Australian
United Kingdom	Air Passenger Duty	£13 <i>Band A (0 – 3220km)</i>	<b>\$23.50</b>	£97 <i>Band D (&gt;8000km)</i>	<b>\$175.70</b>
Australia	Passenger Movement Charge	\$55	<b>\$55</b>	\$55	<b>\$55</b>
Germany	Luftverkehrssteuer	€ 8 <i>Band A countries</i>	<b>\$11.50</b>	€ 45 <i>&gt;6000km</i>	<b>\$62.50</b>
Austria	Flugabgabegesetz	€ 7 <i>EU countries</i>	<b>\$10</b>	€ 35 <i>Long-haul countries</i>	<b>\$50</b>
Mexico	Derecho de No Inmigrante	Mx\$ 294	<b>\$24.81</b>	Mx\$ 294	<b>\$24.81</b>

## Marketing investment constraints

Countries across the globe are actively and aggressively vying for a bigger slice of the \$USD 1.4 trillion tourism pie. Innovative and savvy campaigns flood consumers' inboxes, social feeds and TV screens with strategic messages designed to convert aspiration to actual travel.

Australia has to work harder than other nations to penetrate the clutter of global travel messaging – we are a long haul destination for most markets, and it is comparatively expensive to get here compared to our European, Asian and American counterparts.

<sup>10</sup> International Air Transport Association, 2013



As such, our commitment to international marketing is critical to any purported forecasts for international tourism growth.

The government currently funds Tourism Australia to the tune of AUD137.3 million. The tourism marketing budget of the United States tops AUD840 million<sup>11</sup> and the UK AUD265 million<sup>12</sup>. The falling Australian dollar also increases the costs of buying advertising in foreign countries, thereby reducing our purchasing power in key markets, particularly those pegged against the USD.

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#### Inherent lack of cross-portfolio collaboration

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Tourism continues to suffer by a lack of recognition by government of the sector's contribution to the Australian economy. Whilst there has been some improvement in recent times with the collaborative work on the 2020 Strategy, the tourism industry needs an all-of-government approach to ensure the sector is elevated to a similar stature as agriculture and mining. The "visitor economy" as tourism is often termed, touches all sectors and is a main artery for prosperity in regional Australia.

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#### Export Market Development Grant caps

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ATEC is a vigorous supporter of the EMDG scheme. It is the only government support program of which we are aware that philosophically suits SMEs 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.

Since the last review of EMDG, (September 2008), there have been a number of significant changes in the Australian tourism export market. Industry welcomed the comments presented in *"Winning in World Markets"*, the Commonwealth's last commissioned research paper into the EMDG scheme, including the effectiveness indicators and the notion that the scheme has a positive net benefit. As the paper states, each dollar of EMDG generates some \$13.50-\$27.00 of exports.

The EMDG scheme is fundamental to the realisation of tourism's full potential. The recent Free Trade Agreements and other trade negotiations underway will serve to improve Australia's terms of trade and global competitiveness. EMDG is a critical component that will continue to contribute to the growth from the work that governments have already undertaken.

The current provisions of the scheme result in many SMEs being forced out of markets after they have exhausted their grant eligibility. With the cap currently at eight, this often results in businesses withdrawing from markets that they have been actively trying to penetrate. Success in international markets is not a short-term investment and external forces including exchange rates have a significant impact.

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#### Airport processing

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First impressions are paramount. Airport capacity, passenger processing, airside infrastructure and technology all contribute to a traveller's first touch of Australia and its people.

With airside challenges already prevalent, it is of concern that with growing visitor arrivals to Australia's primary international gateways, our systems and capabilities will be inundated and unable to cope efficiently.

The potential for growth in international tourist visitation is heavily mitigated by:

- inadequate international gateway access, particularly in regional Australia
- slow adoption of eGate/SmartGate technologies
- inadequate resourcing at the primary and secondary immigration/customs airside checkpoints

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<sup>11</sup> Skift, *The Haves and Have Nots of U.S. State Tourism Budgets July 2013*

<sup>12</sup> BBC News, *Tourism marketing in Wales 'must double'*, June 2014



- poorly administered tourist refund scheme (GST refund)
- lack of premium processing and/or off-terminal processing options

The Tourism & Transport Forum submission “*Open More Doors*” presented a number of key recommendations surrounding the benefits of greater international access at regional Australian airports via a two-tiered approach to airport categorisation and function.

## Taxes and charges

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The Australian tourism industry comprises tens of thousands of small to medium enterprises, as well as large multinational corporations – all of whom are dedicated to growing their profits from international visitors.

Recent research from the Institute of Chartered Accountants Australia has shown that tax compliance is costing the 1.7 million Australian businesses in the small to medium sector \$18.4 billion every year, and representing 1.2% of GDP and 14% of total tax revenue collected by the Commonwealth<sup>13</sup>. Whilst the Federal Government’s budget 2015 announcement of a 1.5% reduction in company tax for SMEs is welcome, ongoing compliance costs and the challenges of the absence of a level playing field as foreign companies competing in Australia remain exempt from local taxes remains acutely present.

Global companies in both supply and distribution are syphoning profits off-shore at the same time as diluting the market share for Australian small businesses through tax exemptions, consolidation or operating outside regulatory frameworks such as licenses and insurances.

The fact that the Australian Tax Office has not been recognising inbound tour operator margins as exports and therefore not GST-free has been a significant fiduciary issue for Australian distributors for a decade. Whilst ATEC is close to finalising a Class Ruling on behalf of its members that will recognise the margin as an export, this has been a major barrier to growth for operators in offshore markets.

## Labour and skills

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Current labour and skills shortages acutely felt by the tourism and hospitality sector limit its productive capacity and hamper efforts to compete with other global destinations. Current policy settings have restricted the tourism and hospitality industry’s access to a variety of skilled staff at different skill levels. Access to adequate and properly trained staff is critical to ensuring we have a tourism workforce capable of giving visitors a world-class experience. ATEC supports and refers the Commissioner to the submission from the National Tourism Alliance on this inquiry, which outlines in detail the challenges and proposed remedies to the labour and skills issues facing tourism.

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<sup>13</sup> Review of the impediments facing small business, Institute of Chartered Accountants, May 2014

## Policy remedies

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Growing Australia's international tourism is critical to our economic strength and prosperity. Industry and governments alike must adapt and partner to embrace new technology, facilitate policy change and invest in marketing.

The following section presents ATEC's recommendations to government for policy reform that will assist in driving increased visitation from international tourists, thereby creating investment opportunities, exponential gains in export earnings, jobs in regional Australia and small business innovation.

### Visa policy

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Australia's visitor visa program, once a world leader, has fallen behind other competing destinations which have recognised the benefits of visa facilitation and are acting accordingly. While there is work being carried out currently to improve visa processes, there is much to be done if we are to address the significant issues within current visa policy, including processing times, caps, paper-based English-only applications, complicated supporting documentation requirements and limited entry / re-entry conditions.

The Australian tourism industry recommends the following critical visitor visa reforms:

#### **1. Prioritise the implementation of online visitor visa processing for key markets including China and India**

The implementation of online visitor visa processing across all countries must prioritise key growth source markets. While recognising the overall workload in implementing online processing to markets such as China and India is significant, the current approach of tackling smaller but less important markets is delaying the benefits which could be achieved from the move to online applications for these key markets.

The move to online applications presents an opportunity to reduce processing costs, enabling resources to be redirected to reducing processing times and other passenger processing responsibilities.

#### **2. Continue to review and simplify documentary requirements of visitor visa applications.**

The current visitor visa documentary requirements can prove prohibitive to potential visitors. Recent work to simplify the list of information and document requirements is welcome and should continue. Other countries are taking further steps to streamline requirements for repeat visitors or those with a specific frequent flyer status – to minimise requirements for frequent travellers.

Visitors who have already been to Australia and have complied with all visa requirements should face a significantly reduced evidentiary burden. This approach should allow for faster processing of repeat visitors while enabling additional resources to be dedicated to first-time visitors.

4-6 weeks for a visa for nationals from South American countries is far too long and needs urgent attention.

#### **3. Extend multiple-year multiple-entry visas to leisure visitors and other countries.**

The option of three-year multiple-entry visas for the business visitor stream for Chinese visitors presents a real opportunity to improve Australia's competitiveness while reducing processing costs. The further roll-out of similar options for leisure visitors and to other markets is essential if Australia is to match the offering of other competitors who have introduced similar products over recent years.

Similar to other reforms above, multiple-entry visas reduce processing costs but would also encourage repeat visits.

#### **4. Review whether the needs of key source markets are being met and roll out forms in other languages.**

Recognising that the department, individual embassies and consulates, and in-market travel agents produce forms, instructions and other materials in a number of languages to assist visitors in applying for visitor visas, there is a need to review current practices to ensure that potential visitors are provided with the relevant information required in their language to facilitate the visitor visa application process.

#### **5. Examine the current visitor visa fee structure with a view to introducing a more equitable approach that recognises the economic contribution of tourism.**

There is a need to examine the current visa fee structure with a view to introducing a new approach to address inequities in

visitor visa costs between Australia's traditional and emerging source markets. Visitors from Malaysia, Hong Kong and Singapore face an AUD20 service fee and visitors from Europe can apply for free, while visitors from our key target markets such as China face an application fee of AUD130.

With the eventual roll-out of the electronic platform to all nationalities and simplified forms with reduced evidentiary requirements, the cost of processing should be reduced across all visitor visa classes facilitating a review of the current fee structure.

There is also a need to consider the significant economic benefit derived from international visitors and to not view the visa fee as a revenue source to government.

#### **6. Introduce a fee-for-service premium option for faster processing of visitor visas.**

Introducing a user-pays premium visitor visa processing model would provide a faster option for passengers willing to pay for this service. A number of competitor destinations are introducing this service responding to shifts in trip planning behaviour and visitor demand. A premium visitor visa processing model should include an option for premium customs and immigration clearance on arrival.

The development and ongoing administration of a premium service should be designed to not impact on resourcing for other visitor visa processing.

#### **7. Build on the Cricket World Cup single visa initiative to move towards common visitor visas for Australia and New Zealand.**

There is an opportunity to examine the outcomes of the current Australia-New Zealand joint visitor visa processing approach for the 2015 Cricket World Cup to assess opportunities for further joint visitor visa initiatives in the future. The experience of working together and having established information-sharing and data-transfer protocols should provide a head start to future work. Common visas would provide a competitive advantage for both countries, recognising the attractiveness of multiple country visitor visas such as those offered by Schengen countries and an increasing number of neighbouring countries.

*Content adapted from Tourism & Transport Forum, Visitor Visa Reform Jan 2015*

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#### Cross-portfolio collaboration

Governments need to increase cross-portfolio collaboration on tourism issues within all levels of government. ATEC and industry recommend cabinet sign-off on a national visitor economy policy statement and action plan to incorporate tourism into the government's economic growth framework.

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#### Investment in marketing

Global competitors are investing in tourism as an economic development strategy. Governments must consider opportunities to increase tourism marketing funding recognising the positive return on investment it generates for GDP, jobs and export earnings.

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#### Passenger facilitation and aviation policy

There exists an opportunity to overhaul Australia's passenger facilitation functions in a holistic context to create efficiencies including:

- allow for premium processing including off-terminal processing;
- continue negotiation of air services agreements that enable Australian and foreign airlines to expand services to meet future demand;
- improve customs and immigration systems to allow for rapid exit;
- integrate technologies like SmartGate and eGates;
- reform the Tourist Refund Scheme to allow private refund providers to process GST refunds to outbound passengers.

Further proposed reforms are discussed in more detail in the annexed submission on the Borders, Taxes and Charges Review.

## Maintain and improve access to EMDG

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ATEC supports the Export Council of Australia's proposal to increase the number of businesses accessing the EMDG scheme, and to remove the current cap. Furthermore, ATEC proposes that government facilitate EMDG reforms including:

- Special consideration for SME/regional organisations to increase their capacity to be able to access the grants;
- Operators with management rights to be granted access to EMDG; and
- The quantum of grant monies available to be restored to its previous equivalent of \$200 million in 2009/2010, which in 2015 amounts to \$228 million.

## A focus on export ready

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In order to maximise the opportunity that a growth in tourism exports presents, it is vital that businesses have access to relevant, accessible and practical education and training. We need to foster the development of new and emerging products to ensure Australia's offering to the global traveller is desirable and export ready. Australia must be in a position to cater to a range of different markets with different expectations and cultural needs. A vibrant and progressive export ready program and toolkit is essential.

## In conclusion

As part of their study on the Economic Impact of Travel and Tourism, the World Travel and Tourism Council published the diagram below which outlines the exponential flow-on effects of travel and tourism:



*Economic Impact of Travel and Tourism 2015 Annual Update, World Travel & Tourism Council 2015*

ATEC urges the Commissioner to consider the barriers to growth for Australia's tourism export industry with a view to instigating selective and targeted policy reform to facilitate growth, investment and employment across metropolitan and regional Australia. We must remain internationally competitive to ensure we continue to reap the economic, social and cultural rewards of tourism.

We thank you for the opportunity to make a submission to this inquiry.

For further information please contact:

Peter Shelley  
Managing Director  
Australian Tourism Export Council

ANNEXURES

# AUSTRALIAN TOURISM INDUSTRY SUBMISSION TO **JOINT REVIEW OF BORDER FEES, CHARGES AND TAXES**

## **Prepared by**

Tourism & Transport Forum

## **Endorsed by**

- Accommodation Association of Australia
- Australian Business Aviation Association
- Australian Federation of Travel Agents
- Australian Tourism Export Council
- Casinos and Resorts Australasia
- International Air Transport Association
- National Tourism Alliance
- Restaurant & Catering Australia



# CONTENTS

<b>EXECUTIVE SUMMARY</b>	<b>17</b>
<i>A snapshot of key recommendations</i>	17
<i>New products and services</i>	17
<i>Current fees and charges</i>	17
<b>TOURISM AS A SUPER GROWTH INDUSTRY</b>	<b>18</b>
<b>THE IMPACT OF TAXES ON TRAVEL</b>	<b>18</b>
<b>CURRENT OVER-COLLECTION</b>	<b>23</b>
<b>NEED FOR NEW PRODUCT INNOVATION</b>	<b>29</b>
a. Premium processing	29
b. Automated departures control	30
c. Reduced visitor visa fees	31
d. Priority visa application	31
e. Joint visitor visas	32
f. Small, flexible border processing teams	33
g. Passport cards	33
h. Tourist Refund Scheme	34
<b>TOWARDS A NEW EQUILIBRIUM</b>	<b>35</b>
User charges can offset general charges	35
<b>WORKS CITED</b>	<b>36</b>

## **Executive Summary**

Australia's visitor economy is a \$110 billion industry, employing close to one million people and supporting 280,000 businesses across metropolitan and regional Australia. Tourism has been identified as one of Australia's five super growth industries with the sector expected to grow more than 10 per cent faster than global gross domestic product.

Tourism has long championed the need for reform in visa policy and passenger facilitation. It is critical that we position ourselves to be internationally competitive, visionary, accessible and efficient. The Australian government, with all the states and territories, has endorsed an aggressive tourism target as part of the Tourism 2020 Strategy. In order to achieve these targets, we must consider the current impediments to growth in conjunction with the opportunities to drive demand.

There is much work being done in this area and we invite the Department of Immigration and Border Protection, the Australian Customs and Border Protection Service and the Department of Agriculture to consider this submission in the context of the other bodies of work presented, including the recent industry submission to the Review of the Skilled Migration and 400 Series Visa Programme, and the industry-supported Tourism 2020 Draft Strategy.

We welcome the opportunity to comment on current charges within the scope of this review.

## **A snapshot of key recommendations**

### ***New products and services***

1. Introduce user-pays premium processing options:
  - a) Customs, immigration and quarantine clearance within premium lounges
  - b) Expedited visitor visa applications
  - c) Off-terminal clearance for business jets at fixed base operations
2. Expedite introduction of automated departure processing for standard travellers
3. Introduction of joint visitor visas with New Zealand
4. Develop model for small, integrated border processing teams for regional airports
5. Introduction of Australian passport cards for travel to limited destinations
6. Open the Tourist Refund Scheme processing to private providers
7. Investigate extending electronic travel authorities to more Asian countries
8. Invest in greater use of visual biometric technology to eliminate physical checkpoints

### ***Current fees and charges***

9. Review border fees and charges against federal government cost recovery guidelines
10. Reduce the Passenger Movement Charge for short-haul routes
11. Progressively reduce visitor visa fees for priority source market countries
12. Remove the indexation of passport fee increases
13. Reduce the working holiday maker visa fee from \$420 to its 2012 level of \$280

## Tourism as a super growth industry

Manufacturing is declining. The mining investment boom is waning. Against the backdrop of an economy in transition, tourism continues to emerge as one of the foundations of Australia's future prosperity. Australian tourism offers high-employment opportunities, a rapidly expanding base of potential customers and a strong competitive advantage. Tourism is already Australia's largest service export, employing almost twice as many people as the mining industry, and generating expenditure of over \$100 billion every year - more than all our primary industries combined (see box).

The significant potential of Australia's tourism industry was highlighted in the recent Deloitte Access Economics report *Positioning for Prosperity*. The report identified tourism as one of Australia's five super growth industries capable of collectively delivering an additional \$250 billion to the national economy over the next 20 years (Deloitte Access Economics, 2013). This potential is contingent on good government policy.

### The visitor economy is critical to the Australian economy

- **\$110 billion:** Tourism consumption in Australia totalled \$110 billion in 2012-13
- **\$90.7 billion:** Tourism's contribution to Australian gross domestic product (GDP), a 5.3% share of the Australian economy
- **929,000:** Jobs supported by visitor expenditure, either directly or in related industries. This represents one in every 12 jobs across the country
- **\$10.6 billion:** Total tax revenue generated by visitor expenditure for federal, state and local governments
- **\$270 million:** Spending per day by international and domestic tourists and business travellers

Key to achieving this potential is to maximise the potential engagement and visitation from Asian markets.

Australia's position in the Asia-Pacific presents the industry with an unparalleled opportunity to respond to the increasing number of Asian visitors wanting to come to Australia for holidays, to visit friends and family, for business or for education.

The Australian government, with all the states and territories, has

endorsed an aggressive tourism target as part of the Tourism 2020 strategy. Very strong growth in Asian visitor spending, the fastest growing segment of Australia's visitor economy, underpins the target of doubling nominal overnight visitor spending from \$70 billion in 2009 to \$115-140 billion by 2020. But at the moment even the lower end of the range seems out of reach.

Critical to delivering the upper bracket of the growth target is to deliver a welcoming and high-quality experience for Asian visitors – be they in Australia for a holiday, for business or to study.

With key competitors for the long-haul Asian traveller matching their marketing campaigns with government-wide efforts to cut red tape on business, streamline visa processes, and improve the airport welcome experience, it is clear that it will require effort across many areas of government if Australia is simply to maintain its market share of Asian outbound travellers, let alone grow market share and reach the Tourism 2020 targets.

Although Chinese arrivals continue to rapidly grow to Australia, our market share against rival long-haul destinations is declining. As an indicator of the challenge, both Canada and the USA are seeing significantly faster growth in Chinese arrivals than Australia, with the US up 23 per cent in 2014 and Canada up more than 30 per cent so far this year compared to 15 per cent growth to Australia.

## The impact of taxes on travel

Tourism is subject to a range of taxes, fees and charges, which combine to reduce Australia's competitiveness as an international destination. Border fees and charges

increase the cost of coming to Australia and act as a demand dampener at the decision-making phase of a trip. The most obvious of these in the Australian context is the Passenger Movement Charge (PMC), a \$55 tax on all international travellers over 12 years of age. Tourism is also the only export industry subject to the Goods and Services Tax (GST).

For a large proportion of inbound visitors, there is also a visa application fee, while all outbound Australians pay a tax in the form of a passport application fee in addition to the PMC.

The impact of these charges cannot be underestimated. Air travel is price-sensitive and the cost of an airline ticket is the first trigger in the decision process that leads to travel. In fact, the price sensitivity of air transport has increased in recent years due to online competition, low-cost carriers and corporate travel agreements. This has led to greater transparency of airfares and a greater expectation of ever-cheaper ticket prices. Several studies demonstrate that leisure travellers are the most price-sensitive and that demand is reduced by the introduction of any new tax on airline tickets that pushes up the price. This in turn makes government-funded promotion of Australia as a destination harder and will lead to a reduction in the potential growth of the industry.

### **The Passenger Movement Charge**

Modelling by the International Air Transport Association suggests that holiday visitors (as distinct from those travelling to visit friends or relatives) are most sensitive to departure taxes such as the Passenger Movement Charge (PMC), with every price increase of 10 per cent estimated to generate a decline of 5-7 per cent in the number of leisure passengers travelling globally (International Air Transport Association, 2013).

Using the average return airfare paid to Australia in early 2014 of \$1,628, IATA calculates the removal of the PMC would represent a decrease in total fare of 3.3 per cent. This in turn would drive an increase in passenger traffic of around 2.3 per cent annually, leading to 348,000 additional international passenger return journeys each year (International Air Transport Association, 2014).

The most comprehensive review of the market depression that departure taxes exert was conducted on behalf of the Netherlands Ministry of Infrastructure and the Environment to understand the impact of its short-lived Air Passenger Tax, levied at €11.25 for European destinations and €45 for long-haul routes. For the period of one year from July 2008 to July 2009 Amsterdam Airport Schiphol recorded a net loss of approximately two million origin-destination passengers, leading the Dutch government to repeal the tax. Although half of the two million chose to fly from airports in neighbouring countries, the remainder opted not to travel (Gordijn & Kolkman, 2011). Following its removal, air transport grew rapidly, with the country's main airport Schiphol recording record passenger figures in 2011 of almost 50 million. In total, despite the effects of the global financial crisis, total air passenger figures rose from 22.8 million in 2010 to 25 million in 2011.

European countries are moving away from departure taxes, as the impact on tourism is becoming more widely understood. Malta led the European movement away from taxing tourists, becoming the first country to repeal its departure tax in 2008 (Camilleri, 2008). Another country to repeal its tourism tax is Ireland, which abolished its Air Travel Tax in April this year (Irish Government, 2013) after economic modelling showed the losses to the economy of around €482 million (Veldhuis & Zuidberg, 2009). Ireland has had a number of new international air services introduced from the United Kingdom and long-haul routes following the zero-rating of the tax. Even the United Kingdom government has announced it is to reduce its Air Passenger Duty for long-haul travel from April 2015 to stimulate the travel industry (Her Majesty's Treasury, 2014).

Similarly, Mexican legislators recently voted down an increase to their departure tax, mindful of the decrease in US travellers the move would provoke (Román, 2011). Germany's parliament resisted calls to raise the country's departure tax, the Luftverkehrsabgabe, after finance ministry modelling showed it cost the aviation industry over two million lost passengers through its 2.3 percent increase in flight prices (Bundesministerium der Finanzen, 2011). Immediately after the tax's introduction in 2011, low-cost carrier Ryanair closed over 400 services from its German bases at Hahn, Berlin, Weeze and Bremen (Gordijn, 2012).

Closer to home, the New Zealand government abandoned plans to impose a NZ\$35 border charge ahead of its 2013 budget (Small, 2013). Its own studies found that the NZ\$179 million revenue the new tax would have brought to the New Zealand government would have been offset by a depression in tourism numbers, especially from Australia. The price sensitivity is most pronounced on short-haul routes, where the tax makes up a larger overall proportion of the fare. Analysis by the Tourism & Transport Forum (TTF) shows, for example, that the \$55 PMC represents around 18 per cent of the cheapest low season return air fare to New Zealand (Wastnage, 2014).

This is due to the PMC's inherent poor design as a flat tax. The PMC is the second highest departure tax among the member countries of the Organisation for Economic Cooperation and Development (OECD) after the United Kingdom's air passenger duty (APD). But unlike the APD, the PMC is not distance-tiered, making it the highest in the developed world for journeys under 3220km (see table). For example, a passenger flying from London to Istanbul – about 2500km - would pay around \$22 in tax under the APD, whereas a passenger on a comparable journey from Sydney to Auckland (2200km) pays \$55.

TOP FIVE DEPARTURE TAXES IN THE OECD					
Country	Tax name	Rate (short-haul)		Rate (long-haul)	
		Local currency	Australian	Local currency	Australian
United Kingdom	Air Passenger Duty	£13 <i>Band A (0 – 3220km)</i>	<b>\$23.50</b>	£97 <i>Band D ( &gt;8000km)</i>	<b>\$175.70</b>
Australia	Passenger Movement Charge	\$55	<b>\$55</b>	\$55	<b>\$55</b>
Germany	Luftverkehrsteuer	€ 8 <i>Band A countries</i>	<b>\$11.50</b>	€ 45 <i>&gt;6000km</i>	<b>\$62.50</b>
Austria	Flugabgabegesetz	€ 7 <i>EU countries</i>	<b>\$10</b>	€ 35 <i>Long-haul countries</i>	<b>\$50</b>
Mexico	Derecho de No Inmigrante	Mx\$ 294	<b>\$24.81</b>	Mx\$ 294	<b>\$24.81</b>

In New Zealand, Australian leisure destinations like the Gold Coast and Cairns in particular, compete with Pacific beach resorts such as the Cook Islands, Fiji, Vanuatu and Hawaii for family holidays in the New Zealand market. So for New Zealanders, the impact of the PMC is more immediate: at the decision-making stage of a potential visit to Australia. For every New Zealand family of four with teenage kids who take a holiday in Australia, the tax represents an additional NZ\$250 hidden in the airfare or in the holiday package deal.

The additional \$55 charged by the Australian government is a serious demand inhibitor. In economic terms, the PMC is a per-unit tax on a price-elastic good, passed through and thus the burden is borne by consumers (Griffiths & Wall, 2008). On a \$440 return air fare, the \$55 tax represents a 12.5 per cent price increase over base fare, suggesting a dampening of demand of around 9.3 per cent on leisure fares, based on the industry-accepted air fare price elasticity modelled by InterVistas for IATA (InterVistas Consulting, 2007). In its 2014 paper on the trans-Tasman leisure market, TTF calculates that an additional 110,000 New Zealanders would have visited Australia last year had there been no PMC, assuming a total elasticity of -0.74 (Wastnage, 2014).

Air New Zealand calculates that a halving of the PMC would increase demand on trans-Tasman flights by four percent, adding a further \$1 billion in expenditure in Australia (Air New Zealand, 2014).

The savings to airlines of any removal of the PMC could translate into a 13 per cent additional yield which could underwrite new route development, reduce fares or boost seat capacity on existing routes. In simpler terms, unfeasible routes would become feasible and existing routes more profitable (Tourism Industry Association, 2014).

As found by InterVistas, the price sensitivity of short-haul routes is far greater than on long-haul, where the tax makes up a smaller proportion of the fare (InterVistas Consulting, 2007). The tax is also more of a deterrent to inbound travel than outbound, since the tax applies equally to all destinations to which Australians may wish to travel, but for residents of most of Asia, Australia is \$55 more expensive than other destinations.

Tourism-dependent destinations such as Cairns or Darwin are within short-haul aircraft range of many Asian cities. Yet despite their proximity to South-East Asia, the rate of the PMC is a significant barrier to attracting new international passenger services to each city. Many low cost carriers in the region charge less than \$300 each way on short-to-medium haul flights within the region, making every additional dollar highly noticeable. This PMC effect is multiplied by high visa costs applied to the citizens of the Asian countries with growing low-cost carrier sectors (such as Indonesia) and the federally-mandated airport security charges that apply disproportionately to smaller international airports thanks to lower economies of scale.

### **Visas fees**

The impact of visa application fees and processes on decision to travel is also high. A 2013 report for the United Nations World Tourism Organization and the World Travel & Tourism Council found that if the cost of obtaining a visa (including both the fee and associated costs) exceeds a threshold, potential travellers are simply deterred from making a particular journey or choose an alternative destination with less hassle (World Tourism Organization and World Travel & Tourism Council, 2013). This threshold is also relative, meaning Australia can gain a competitive advantage by making it easier and cheaper to visit than rival destinations.

TTF studied Australia's visitor visa system as a barrier to greater travel. It found, inter alia, that although Australia's visa regime is on par with other advanced economies in some respects, a more ambitious reform agenda is required if Australia is not to lose market share further in key Asian markets (Labine-Romain, 2014), including to reduce the cost of visas for key growth markets like China, India and Indonesia.

### **Working holiday schemes**

A concrete example of the impact visa fees can have on visitation is the two recent hikes in the cost of working holiday visas. In the 2012-13 budget the then-federal treasurer Chris Bowen increased the two classes of visa 28 per cent from \$280 to \$360 from 1 January 2013. The increase had an immediate effect: the total number of first working holiday visa

(subclass 417) applications fell from 139,090 in the second half of 2012 to 116,632 in the first six months of 2013 (Department of Immigration and Border Protection, 2013). In the following six months, there was a 6.9 per cent reduction in working holiday scheme applications compared to the same period in 2012-13. This was particularly marked in Taiwan and South Korea, where applications fell by around one quarter (Department of Immigration and Border Protection, 2013).

The 2013 increase represented a 30 per cent fee increase relative to the year before. Rather than reflect on the damage done in the previous budget, working holiday visas were again targeted by the previous government in the 2013-14 budget, when application costs rose a further 15 per cent to \$420. With increasing volume delivering efficiencies of scale, greater use of technology in processing and with a demonstrated low-risk cohort, it is impossible to believe the former federal government's explanation that the charge increases represented realignment towards true cost recovery (Minister for Immigration and Citizenship, 2011).

WORKING HOLIDAY MAKER VISA FEES			
Year	Fee	Increase	Percentage
2005	\$180	-	-
2006	\$185	+\$5	2.7%
2007	\$190	+\$5	2.7%
2008	\$195	+\$5	2.6%
2009	\$230	+\$35	17.9%
2010	\$235	+\$5	2.2%
2011	\$270	+\$35	14.8%
2012	\$280	+\$10	3.7%
Jan 2013	\$365	+\$85	30%
Sep 2013	\$420	+\$55	15%
Source: Department of Immigration and Border Protection			

In total, the visa fee has more than doubled in the past nine years (see table left).

When coupled with a rise in the value of the Australian dollar, the rise in cost of Australian working holiday maker visas in key markets has been dramatically steep. In Euros, the visa is now 2.51 as expensive it was in 2005, in Japanese yen it is 2.65 times as expensive, in US dollars some 2.73 times as expensive and in pounds Sterling it is 2.92 times as expensive. The fee for British backpackers wishing to work and travel in Australia has risen from £77 in 2005 to £225 today.

Had the fee been indexed to inflation (which has averaged 2.8 per cent) the fee would today be \$226.

This repeated increase is counterproductive when set against Tourism 2020 goals. Working holiday makers are particularly valuable as visitors, since the visa stipulates a minimum savings level, which is invariably spent in

Australia, together with any earnings from work over the course of the stay. The Australian Tourism Export Council found in 2012 that the gains in gross domestic product from the working holidaymaker schemes are conservatively estimated at \$85 million or up to \$700 million over 10 years (Australian Tourism Export Council, 2012).

### International students

Similarly, education is both a source of visitors, as well as being one of Australia's main services exports, with many synergies across these two sectors. International students drive a large portion of the visiting friends and relatives market into Australia. The National Industry Innovation and Competitiveness Agenda identified and forecast growth in the



international education sector, to increase to export value of more than \$19 billion to the Australian economy by 2020 (Department of Industry, 2014). Earlier research shows much of this growth will come from attracting students from China and India (International Education Advisory Council, 2013).

In this highly competitive market, where Australia competes with the prestigious education providers of North America and Europe, the cost of processing and supplying a student visa needs to be reviewed and reduced to a cost recovery basis, from its current high level of \$535. The downstream benefits of international students are seen in two ways: international students are travellers in Australia, with 82% taking at least one overnight trip, and day-trips and short breaks with friends. Visiting friends and relatives are a much higher proportion of international visitors than believed prior to a Sustainable Tourism Cooperative Research Centre study done in 2010: 78% of students hosted visitors from their home country while studying in Australia (Davidson, Wilkins, King, Hobson, Craig-Smith, & Gardiner, 2010).

### **Current over-collection**

The Australian government collects three taxes or charges from international travel. None of the income sources meet the Australian Government Cost Recovery Guidelines for fees or charges (Department of Finance, 2014). These are defined as charges imposed when a good, service or regulation is provided. A cost recovery levy is a tax that is earmarked to fund activities provided to those who pay the levy.

Each of the income streams was introduced as a cost-recovery mechanism, but each has now expanded to become another source of general taxation. As such, each now constitutes a tax on international travel.

Together, receipts from the PMC, visa fees and passport applications total almost \$3 billion. Spending on passenger-related facilitation across all Australian government agencies and departments reaches \$1.7 billion (see table below).

The total budget for the border management function of the Department of Immigration and Border Protection is higher than the passenger-related expenses. Specifically the cost of mounting maritime patrols is a significant cost. Elsewhere maritime patrols to prevent clandestine arrivals of migrants by boat are managed as military function under the coast guards of relevant navies. *Operation Sovereign Borders* is often portrayed by the government as a military operation. As such, it is right that its budget be administered separately from the passenger processing element of border management.

AUSTRALIAN BORDER FEES AND CHARGES, 2014-15		
Income	Collected by	Amount
Passenger Movement Charge	Australian Customs and Border Protection Service	\$908 million
Visa fees and fines	Department of Immigration and Border Protection	\$1.7 billion
Passport fees and consular service charges	Department of Foreign Affairs and Trade	\$376 million
	<b>TOTAL INCOME</b>	<b>\$3 billion</b>
Expense	Administered by	Amount
Passenger facilitation	Australian Customs and Border Protection Service	\$230 million (est)
Passport issuance	Department of Foreign Affairs and Trade	\$263.3 million
Consular assistance	Department of Foreign Affairs and Trade	\$12.8 million
Biosecurity	Department of Agriculture	\$360 million
Migration and temporary entry	Department of Immigration and Border Protection	\$872 million
	<b>TOTAL EXPENSES</b>	<b>\$1.7 billion</b>

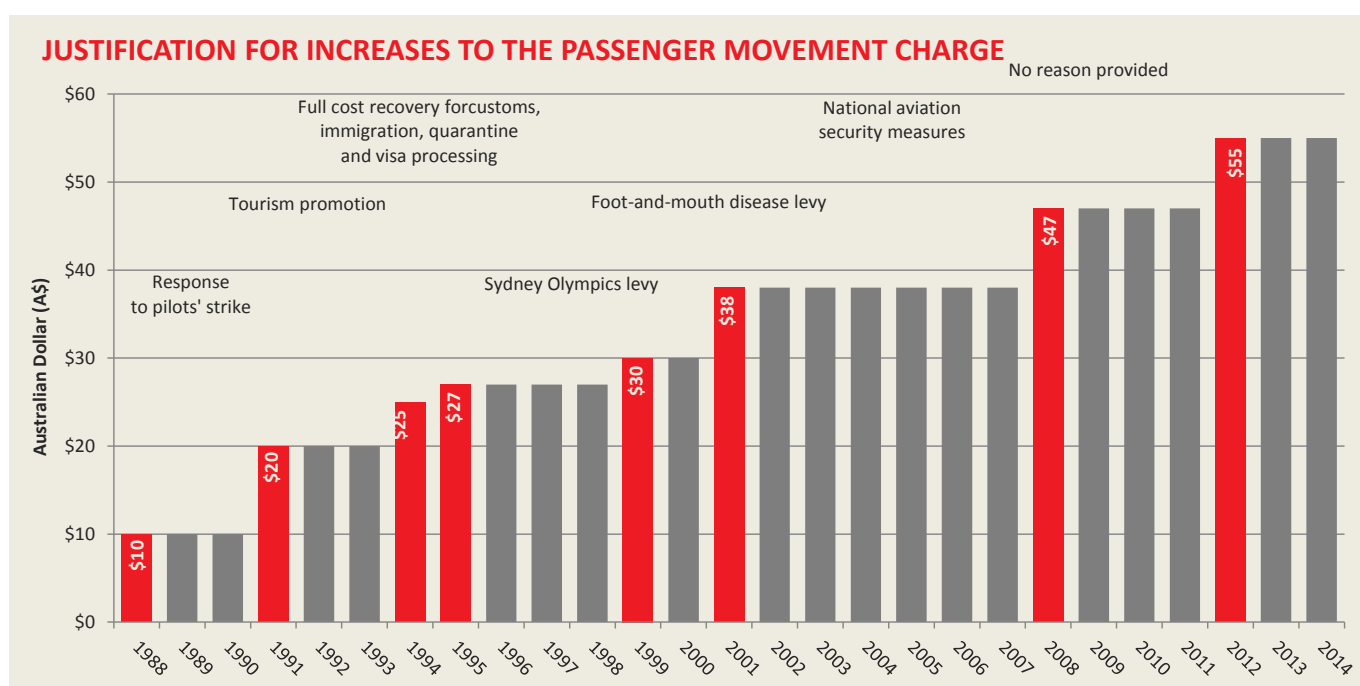
**Sources:** Budgeted Expenses for Outcome 2 (passport and consular services), Department of Foreign Affairs and Trade Annual Report 2013-14; Australian Quarantine Inspection Service Special account, Department of Agriculture Budget Statements 2014-15; Programme Component Expenses for Outcome 1, Department of Immigration and Border Protection Budget Statements 2014-15, Estimate for passenger facilitation based on Australian Customs and Border Protection Service Budget Statement 2012-13 with annualised programme reduction forecast

## The Passenger Movement Charge

The Passenger Movement Charge (PMC) was introduced in July 1995 (replacing the departure tax). The PMC was introduced to recover the cost of customs, immigration and quarantine (CIQ) processing of inward and outward international travellers and fully offset the cost of issuing short-term visitor visas (Willis, 1994).

Recognised as an excise tax since 1996, the official hypothecation of the tax continued until 2001, when the federal government conceded that the PMC had moved beyond cost recovery and was a contributor to consolidated revenue (Auditor-General, 2001). That year the then-Department of Finance and Administration admitted an over-recovery of around \$80 million, created by the non-removal of the \$3 per passenger additional levy to cover Sydney Olympics passenger processing (Williams, 2001). Successive governments have since raised the PMC rate, often using aviation security or health pandemics as justification. None of the rate rises has been reversed.

Government revenue from the PMC is now significantly more than the amount required to fund the Australian Customs and Border Protection Service's passenger facilitation programme



Instead of funding passenger processing at airports and seaports as originally designed, the PMC has become, in the view of the Centre for Economics and Policy Study, "a transfer payment from tourism to non-tourism industries ... (as) an additional export tax, on top of existing taxes that international tourists pay. (Forsyth, Hoque, Dwyer, Pham, & Spurr, 2011)"

The passenger facilitation programme administered by Customs was appropriated \$234 million in 2012-13. The sum likely to be spent on passenger facilitation this financial year is unclear, as passenger processing now falls under two new programmes: border enforcement and border management. However, based on the previous year-on-year decline in funding, TTF estimates Customs funding on passenger facilitation to total no more than \$230 million in 2014-15. For Customs alone, the actual direct spend across airport operations in 2013-14 is \$1104 million.

Additionally, the Australian Quarantine Inspection Service, the secondary examination by biosecurity officers employed by the Department of Agriculture, will cost the federal

government \$360 million this year (Commonwealth of Australia, 2014). It is unclear how much of the funding associated with the former Australian Quarantine Inspection Service is purely devoted to passenger processing. But even allowing for the total \$360 million, combined, primary and secondary examination lines would cost the government \$585 million this year while Customs forecasts receipts of \$907.9 million from the Passenger Movement Charge (Commonwealth of Australia, 2014). PMC revenue collection is forecast to total over \$1 billion by 2016-17, but expenditure on passenger programmes continues to drop. The profit made by the government from the tax flows into consolidated revenue.

### **The PMC is a breach of international treaties**

In this regard, Australia is likely to be in breach of its Chicago Convention obligations by levying a departure tax far in excess of any cost to government of administering services necessary to facilitate civil aviation. Article 15 of the treaty specifically outlaws departure taxes, stating that:

*"No fees, dues or other charges shall be imposed by any contracting state in respect solely of the right of transit over or entry into or exit from its territory of any aircraft of a contracting State or persons or property thereon."*

The International Civil Aviation Organization (ICAO) also makes a distinction between a charge (levied to defray the costs of providing facilities and services for civil aviation) and a tax (levied to raise general governmental revenues that are applied for non-aviation purposes) (International Civil Aviation Organization, 2000). Australia confirmed to ICAO in 2009 that the PMC, by this definition, was "non-hypothecated tax levied on international passengers departing from Australian airports," qualifying that it "contributes to recovering the costs of a range of aviation security initiatives".

Aviation security, however, is assumed under international law to be the responsibility of the sovereign state, funded from general revenue rather than through a levy or charge. As a member of ICAO Council, the Australian government has a duty to ensure that ICAO policies are followed in both letter and spirit.

Although ICAO has no enforcement power, the Chicago Convention is the reference text for the World Trade Organization General Agreement on Tariffs and Services (GATS) Annex on Air Transport Services to which Australia is a signatory.

## Visa fees and charges

As the Australian tourism industry looks increasingly to Asian markets to realise its ambitions of achieving \$140 billion in overnight visitor expenditure by the end of the decade, the disparity between the requirements of our traditional source markets and visitors from some of these key Asian markets requires close review.

Existing visa requirements mean a Chinese independent traveller faces a fee of \$130, has to produce considerable evidence, complete a 15-page paper-based application and wait up to 15 days for processing. Similar barriers impact potential visitors from India, Indonesia and Vietnam.

In contrast, a potential visitor from the United States, Britain or even Hong Kong can simply fill in a quick online form and receive an electronic visa for \$20.

Australia's universal visa system requires that all those travelling to Australia who are not Australian citizens or residents have a visa to enter Australia, except New Zealand citizens who can apply for a visa on arrival.

TEMPORARY ENTRY VISAS TO AUSTRALIA				
Electronic Travel Authority (subclass 601)	eVisitor (subclass 651)	Visitor (Subclass 600)	Working Holiday (subclasses 417, 462)	International student (subclasses 570, 571, 572, 573, 574, 575)
Nationals of low risk countries	European nationals	All other nationalities  Four streams: <i>Tourist, Sponsored family, Business visitor, Approved Destination Status</i>	Select European, North American and Asian nationalities	People wishing to study in Australia
Service charge \$20	No fee	\$130-\$335	\$420	\$535
Online	Online	Paper or online depending on nationality	Online	Paper or online
12 month validity	12 month validity	3, 6 or 12-month validity	12 month (initial visa)	Varies
<b>Source:</b> Department of Immigration and Border Protection				

This year the Department of Immigration and Border Protection estimates its income from fees and fines to be \$1.7 billion (Commonwealth of Australia, 2014). Over the same period, its expenses for all permanent migration and temporary entry programs, including border management and visa processing, will reach \$872 million.

Looking specifically at visas applicable to tourists, the cost to government this year will be \$147.5 million to process visitor and working holidaymaker visas (Commonwealth of Australia, 2014). Student visas add a further \$86 million in expenses to the federal government. Many of these visas are issued free of charge (for European short-stay visitors), or for a nominal administration charge (for Electronic Travel Authorities). However, other nationalities bear disproportionate burden.

For example, Australia granted nearly 500,000 visitor visas to Chinese citizens in 2012-13, some 13.3 per cent of the total (Department of Immigration and Border Protection, 2014). Visa application fees for Chinese visitors are usually \$130, with a \$30 visa application centre service fee. This represents \$80 million in fees from mainland China alone.

The federal government is progressively increasing the visa application charges (VACs), which are being indexed to the rate of inflation using the Consumer Price Index. The previous federal government embarked on a “user-pays” approach to visas, to ensure that “taxpayers no longer subsidise visa applicants (Minister for Immigration and Citizenship, 2011)”. These changes largely applied to the least price-sensitive visa classes such as skilled migrants, partners of existing residents and family members.

### Passport fees

Unlike comparable countries, the Australian government views passport applications fees as a tax, rather than a cost recovery exercise (Australian Customs and Border Protection Service, 2014). This is largely because demand for passports is relatively price inelastic, in that fee reductions do not materially stimulate demand (Foreign and Commonwealth Office, 2009).

PASSPORT FEES, SELECTED COUNTRIES		
Country	Fee (local)	Fee (Australian dollar)
Australia	\$244	\$244
Canada	C\$160	\$161
New Zealand*	NZ\$140	\$126
Singapore	S\$80	\$71.50
United Kingdom	£72.50	\$133
United States†	US\$110	\$125

Based on in-country passport application for 10-year adult passport books. \*NZ passports are only valid for five years. †US initial applications also attract a US\$25 execution fee  
**Sources:** Australian Passport Office, Passport Canada, New Zealand passports / Uruwhenua Aotearoa, Singapore Immigration and Checkpoints Authority, Gov.uk, US Department of State

The Australian passport attracts the second highest fee in the world, far outstripping those in comparable countries (see table). Unlike most of these peer countries, Australia views passports as a tax revenue source, rather than a cost-recovery exercise. Other countries, notably New Zealand legislate that fees from passport applications can only be used for passport-related costs and cannot be used for general government revenue (Department of Internal Affairs / Te Tari Taiwhenua, 2014).

The Department of Foreign Affairs and Trade received \$368 million from passport applications and a further \$8 million from consular service charges (Department of Foreign Affairs and Trade, 2013). Meanwhile the passport programme is forecast to cost the government \$263million this year and the cost to DFAT of such consular service is less than \$13 million. (Commonwealth of Australia, 2014).

The damage of this policy is beginning to be understood. Although child passports are half the cost of adult books, for a family of four Australians travelling internationally, passport applications still represents an initial outlay of \$732. For lower income families, this is a considerable investment and can influence

international travel plans. Since outbound travel by Australians assists international airlines in filling seats and making routes feasible, the tourism industry is resistant to any plans to raise passport fees further.

## **Need for new product innovation**

The existing border fees model does not allow for innovation in product delivery. There are several new initiatives the tourism industry believes our border agencies should be prioritising:

### **a. Premium processing**

There is a market for premium border processing, just as there is a market for differentiated premium product for every other stage of the travel supply chain from business class airlines and five star hotels to chauffeur-driven limousines and concierge services.

Border processing is one part of the overall travel experience that Australia is selling to the world. Different airports, airlines and third party providers will propose different models of premium processing. Features common to this kind of service elsewhere in the world are a high level of human touch, a separate arrivals lounge and dedicated passport controls.

Today's high-end travellers increasingly expect excellence in customer services. This is especially true of those originating from, or accustomed to, the service quality of the Arabian Peninsula or Asia. In these regions, border facilitation is seen as an integral part of the airport experience, which is in itself an integral part of the travel experience.

A cost recovery model would set parameters through which private operators could judge the profitability of their options for VIP processing. At present there exists no cost recovery model for border agency staff providing service above-and-beyond standard service.

Any enhanced passenger processing options that go beyond standard service should be priced at the level of cost recovery to government. The private companies marketing the service will build this into their offering, which will also include personnel and facility costs.

For example, At London's Heathrow airport a full concierge service through the UK border is offered to guests of five-star hotels, celebrities, sports teams and captains of industry. The Heathrow-by-Invitation services are charged to the traveller directly.

Elsewhere in the world these services are paid for by airlines on behalf of their top status flyers. The German airline Lufthansa has a first class terminal where its highest-ranking passengers can undertake all check-in, security and border formalities at no extra charge to them.

Another good model is to be found at Singapore, where a private provider, Jetquay, provides a door-to-door service from hotel via limousine to the airport and private immigration clearance and entry into a premium lounge. The service is sold through travel agencies and to airlines directly.

This kind of product innovation is critical if Australia is to attract the high net worth individual essential to achieving the aim of doubling expenditure under the Tourism 2020 targets.

### **Off-terminal clearance**

Another potential market is in fixed-base operations, or business jet terminals. At present off-terminal border processing is inconsistent, with agents usually available at Sydney and Brisbane's jet bases, but not at those in Melbourne, Perth or Darwin. Business jet customers expect to complete border formalities in FBOs, as is customary elsewhere in the world.



Elsewhere, such as at the PrivatAir terminal in Geneva, baggage porters collect bags on behalf of travellers and process through Customs inspection. Thus the level of infrastructure required will depend on what service airlines, airports or third parties think will be market sustainable in the Australian context.

The tourism industry has advocated for enhanced passenger facilitation for all travellers to and from Australia. It is important to note, therefore, that whatever model be adopted has provisions to ensure no diminution of current service be permitted to allow for premium processing.

Principally this applies to roster period of existing staff. Any premium processing staff should be rostered in addition to existing staff and be returned to the standard line when not involved in premium or off-terminal processing, thus creating a bonus pool of occasional staff for the primary and secondary lines.

#### **b. Automated departures control**

Australia is unusual in having emigration controls in addition to immigration controls (Harzig, Hoerder, & Gabaccia, 2013). The human check on persons exiting against an alert list has developed over time, but was always chiefly a law enforcement function delegated to Customs by state and federal agencies.

The use of Customs officers to perform the function of checking passengers' right to fly is inefficient in the digital age; Technology has allowed more offenders to be intercepted onshore. Officers no longer stamp passports on exit and there is a strong case to be made for the full automation of departure controls at major airports.

Replacing humans with electronic barriers using facial biometric technology (eGates) for face-to-passport verification will allow border agents to focus their attention on travellers who pose a risk at the border, while legitimate travellers can be travel more efficiently with less manual intervention.

The tourism industry welcomed the announcement that the initial trial of departure eGates at Brisbane Airport for trans-Tasman departures will be extended in 2015. Funding for the 62 eGates was found as part of the federal government's \$630 million counterterrorism drive, with its focus on authenticating travel documents of departing passengers (Morrison MP, 2014).

An added benefit of the installation of departure eGates is the reduction in physical footprint of the emigration control checkpoint area. This provides a commercial opportunity for airport operators if the area vacated is returned into the lease portfolio. In this scenario, were further enhancements required, airports could work collaboratively with border agents to develop co-funding models.

#### **Digitise departure and arrival cards**

In the next stage of electronic gates, the security function could also be integrated, further reducing the inconvenience to passengers. Key to this move will be the digitisation of outgoing and inbound passenger cards. For travellers between Australia and those countries also requiring both outbound and inbound forms, the same information has to be written out four times. For a family group, this can be especially onerous.

Nor is it necessary in the age of international-standard digital passenger name records. The passenger data required by border agencies can be transferred by the airline and matched against either visa or electronic travel authority (ETA) data. The questionnaire required to collect tourism statistics can be built into check-in kiosks and online

procedures. While the sample rate would drop as a result of a delinking with compulsory biographical data on the card, the sample size would still be adequate.

In the US, the replacement in 2008 of its famous I-94w green arrivals form with digital data transfer has proved very successful. The move has resulted in a decrease in service times for front line service personnel of 25 to 30 seconds including finger printing per traveller (Wagner, 2012).

### **c. Reduced visitor visa fees**

Once a visa pioneer, Australia is now falling behind comparable countries when it comes to visa policy. Our competitive set is beginning to make changes to their visa application processes and charges. The consideration of the tourism industries in these countries has been at the forefront of these reforms. For example, in 2012 the United States agreed to loosen the stringent visa restrictions imposed on Brazilian citizens in the decade since September 2001. Lobbying from the tourism industry backed up intense diplomatic efforts from Brazil. The tourism industry contrasted the situation in Europe, where visa fees were waived and the application process was swift with the US situation of a US\$160 per person visa fee coupled with an interview and electronic vetting (Lawson, Roychoudhury, & Murphy, 2014).

With evidence mounting around the world on the economic benefits of eliminating visa restrictions, governments are examining ways in which to reduce or remove the barriers (Neumayer, 2010). For example, South Korea spotted an opportunity, in 2008; to break away from the pack of developed countries and offer visa free travel for Chinese nationals, first to its resort island Jeju, then more widely across the whole country. The result of the visa waiver scheme was immediate and impressive: In 2009 Chinese arrivals to South Korea grew 64.5% above 2005 levels. By 2011 South Korea had become China's most popular overseas destination with more than two million Mainland Chinese visitors (World Tourism Organization and World Travel & Tourism Council, 2012).

Elsewhere, too, other countries are remodelling their visa regimes in light of this growing evidence of the damage such policies do to inbound tourism flows. The cost of data profiling has dropped exponentially, making the cost recovery exercise in collecting and analysing data on foreign nationals a less compelling reason to retain high fees and charges than in the last century. Underscoring this point, India announced in February that it is to replace traditional visa applications with Australian-style electronic travel authorities to citizens of almost every country, thanks chiefly to the roll-out of its new passenger data profiling tool (BBC News India, 2014). The result, in the first six months was impressive, with a 28.9 per cent increase in the number of visitor visas issued in September 2014 compared to September 2013 (Sushma, 2014).

Australia's ETA visitor visa is used as a model for other pre-travel visa waiver schemes and, as such, should be prioritised for key tourist markets currently requiring paper visas. Extending the scheme would be a low-cost, low-risk option for the Australian government to rapidly grow visitation from key Asian nations.

### **d. Priority visa application**

Introducing a user-pays premium visitor visa processing model into the Australian visa application process would provide a faster option for passengers willing to pay for this service. A number of competitor destinations are introducing this service responding to shifts in trip planning behaviour and visitor demand. Australia already has priority visa application product for Skilled Migration class of visas. This could provide the model for a new product in the visitor visa space.

The best global example is the United Kingdom. Responding to growing demand from China, already their largest visa market, the UK government recently announced that 24-

hour Super Priority Visas would be available to potential visitors in Beijing, Shanghai and Guangzhou (Home Office, 2014). The fee for this service is £600 (\$1090) and is in addition to the 3-day Priority Visa application process costing £ 150 (\$271), thus creating a three-tier visa product that responds to consumer demand.

The UK government consulted with the tourism industry and airlines before launching its new user-pays fee structure for its immigration products. A large majority (80 per cent) of respondents to a survey by the UK's immigration and security ministry, the Home Office, felt that visitors should be able to choose either individual premium services or a complete premium package depending on their needs (Home Office, 2014).

The New Zealand government is aiming to introduce three-hour visa processing for high net worth individuals by the end of 2015, starting in China (Bickle).

The US government allows expedited visa application appointments under certain conditions (US Government, 2014). These differ depending on country of application but cover emergencies and humanitarian reasons. Currently the US government does not charge extra for these expedited appointments.

The development and ongoing administration of a premium service should be designed to not impact on resourcing for other visitor visa processing.

#### **e. Joint visitor visas**

New Zealand is often viewed as a complementary destination to Australia, particularly among long-haul travellers. In total, around 40 per cent of all non-Australian visitors to New Zealand are dual-destination visitors to both Australia and New Zealand (Carboni & Schiff, 2010). For the Chinese, this rises to 54 per cent of visitors cross the Tasman when the two are brought together.

This is despite Asian visitors requiring separate visas for each country. The tourism industry on both sides of the Tasman welcomed the announcement decision by Prime Ministers Abbott and Key in February 2014 to allow Cricket World Cup visitors to apply once for a visa to visit both countries (Department of Prime Minister & Cabinet, 2014). The visa pilot programme will run for the duration of the tournament and apply Australian visa rules for visitors wishing to visit both countries during their trip.

Asian visitors will increasingly expect multi-destination visas as they travel. Most are aware of the pioneering Schengen visa, which allows free travel to the 28 European states covered for a single application fee. This, in turn led the UK and Ireland to launch their own joint visitor visas and to offer a passport pass-back service that allows Chinese visitors to apply for the UK and Schengen visa at the same time (Home Office, 2014).

Other joint visa examples can be found in Indonesia, Myanmar, Cambodia, and the Philippines who plan to launch a common electronic visa and then extend to other members of the Association of South East Asian Nations (ASEAN) as their immigration systems comply with joint standards (Association of South East Asian Nations, 2013). Elsewhere Gulf states, African safari destination countries and Central American neighbours also offer joint visas.

In attempting to model the impact of visa reform in the trans-Tasman context, replacing two visa applications with a single process represents the major reform that would induce demand for dual destination itineraries. The inducement could be greater if the cost of this common visa were also significantly cheaper than the \$270 applicable today through two sets of visa processing fees.

A conservative estimate of the impact of a move to an affordable common electronic travel authority valid in both countries shows such a product would lead to an additional 132,000 Chinese arrivals to Australia and New Zealand by 2020 and 190,000 additional visitors from all target Asian countries whose citizens currently require a full visa to complete a trans-Tasman itinerary (Wastnage, 2014).

Once the formal evaluation of the Cricket World Cup visa experience is completed by both governments, the tourism industry would like to see a permanent joint visitor visa partnership established. In addition to the Asian markets, there may be other burgeoning markets such as Brazil that could be used as a pilot. The Cricket World Cup model is not a fair revenue share with New Zealand authorities and would not be equitable in the long term.

#### **f. Small, flexible border processing teams**

There is also an opportunity for the federal government to develop a lightweight border processing model for regional airports that leverages off the technological advances in border processing to deliver secure borders with fewer personnel.

Work towards this goal is already well progressed. Using a risk-based approach, the border agencies handling passengers from New Zealand at Sunshine Coast Airport were able to significantly scale back their presence between the 2012 and 2013 seasons from an average of 20 to eight. This was achieved through delegation of responsibilities and greater use of technology to risk profile passengers.

Any new model would be in line with the vision set out in the Customs Blueprint for Reform 2013-2018, which envisages border force officers deployed regionally by locale or function, using mobile technology to communicate back to larger bases in times of unusual operational needs (Australian Customs and Border Protection Service, 2013).

Without designation as a full international airport, any regional airport wishing to trial international services or offer seasonal flights is liable to pay an additional levy to fund the border agencies required to process the flights. Yet without proving the viability of a service through a series of trials, airport operators would be loath to embark on the lengthy and costly process of obtaining full international status.

Any new lightweight model would need to be available to regional airports as a clearly defined product, with a clear nominal cost attached to allow airports to plan. There is currently very little transparency around how much airports will be charged and little influence over the quality of service provision.

#### **g. Passport cards**

There has been innovation in passport issuance elsewhere in the world. Throughout the European Union, government-issued identity cards can be used for crossing land borders, even into the United Kingdom, which is not a signatory to the border-free Schengen Area (European Union, 2014).

However, in recognition that the passport application process and fee acted as a disincentive to international travel, the United States introduced a new product into the market in 2009 in the form of the People Access Security Service Card (PASS Card), an identity card valid as a travel document for land crossings between the United States and Canada or Mexico and sea travel to several Caribbean islands and Bermuda (US Passport Services Directorate, 2014).

Now re-branded as the US Passport Card, the card application fee stands at US\$55 as opposed to \$110 for a conventional passport book, and almost eight million US citizens hold the card either in place or in addition to conventional passport books.

The Passport Cards cannot accept stamped visas and are currently not valid for international air travel. However, it has allowed many US citizens who would have deferred or declined international holidays to take a cheaper and easier way. Such innovation would be possible in the Australian context for travel to those countries that do not require visas from Australian leisure travellers, chiefly New Zealand, the European Union and Singapore.

#### **h. Tourist Refund Scheme**

Australia's retail offering is a key attraction for international visitors, particularly those from the growing Asian visitor markets. It is also a key part of achieving the yield targets associated with growing overnight visitor expenditure. To increase competitiveness in this area, Australia needs to reform its Tourist Refund Scheme (TRS). The TRS is the program under which departing travellers can claim back either the Goods and Services Tax (GST) or the Wine Equalisation Tax (WET) on purchases.

However, the current system, administered by the Australian Customs and Border Protection Service can be cumbersome and time consuming. It also costs the Australian taxpayer some \$14 million per year to administer, funded from the Customs budget.

The current system provides a negative impression of Australia to travellers as they depart, making them less likely to recommend Australia to their friends and them less likely to return. There has been significant reform to the TRS process in recent years, notably with the introduction of online claim forms and through a revision of the rules around multiple purchases and the minimum claim amount.

Take-up of the scheme is still far below that of comparable schemes in other jurisdictions; meaning Australian retailers are missing out. We believe that if the TRS scheme were easier and more heavily marketed to international tourists, total spend in Australian stores would rise. This is evidenced by many other jurisdictions globally where the processing of tax refund schemes have been placed with private operators who have incentive to market destination shopping. Economic modelling, undertaken by KPMG on behalf of the Tourism Shopping Reform Group, estimates that by 2017 this reform could attract an extra 18,000 international visitors to Australia (KPMG, 2012). The reform could increase international visitor shopping spend by \$226 million.

We believe that opening up the Australian TRS to a private provider would between private refund providers would deliver even greater benefits, including promotion of Australia as a shopping destination in key source markets and an improved visitor experience. This is the model adopted very successfully by rival destinations in our region, such as Singapore, and used in more than 40 countries worldwide.

## Towards a new equilibrium

### User charges can offset general charges

There exists a market for each of these new products the tourism industry would like to see from the Australian government. Each can make a difference in improving the customer satisfaction perceptions of visitors to Australia as they enter or leave our country.

The Australian Customs and Border Protection Service already performs well by international standards when measured for customer satisfaction. The percentage of passengers processed within 30 minutes of joining the inwards queue reached 93.7 per cent so far this year, compared with a global benchmark of 85 per cent.

However, border agencies in Asia and the Middle East in particular are redefining the passenger experience at government checkpoints. Automation is making formalities less intrusive while simultaneously more secure for governments.

As illustrated in the case of the UK's Super Priority Visas or in premium processing options available in Europe and the US, there is a clear market for new border processing product. Yet the government is ill equipped to charge for these new products through the existing Passenger Movement Charge, passport application and visa fee structure.

Instead, a new model need to be developed that allows government to charge a commercial rate for premium products at a market-defined rate. The launch of such products would enhance the customer experience of those high net worth travellers who would avail themselves of premium services. We would expect this new revenue source would allow for a reduction in the rate of the PMC for price-sensitive short-haul routes and visitor visa application fees for ordinary travellers from Asia.

To ensure that any new fees and charges regime complies with international conventions and Australian guidelines on cost recovery, any new regime should be reviewed to ensure compliance. The model for this is the US series of departure and arrival charges, which are charged under the Airport and Airway Trust Fund revenue model to ensure the funds generated do not flow back to the general treasury (US Department of State, 2009).

The Australian Customs and Border Protection service is to merge with its department from July 2015. The new Australian Border Force will become a law enforcement arm of the department. As a revenue collector, the new merged entity may not be the most efficient option. As is understood to have been recommended by a Customs internal review of the PMC in 2013, the Australian Tax Office, rather than Customs might better administer any replacement border fees regime.

What is needed by the tourism industry is a new, fairer regime that is responsive to price sensitivity and open to new product innovation. The inequity between visitor visa charges needs to be evened out and a way to lessen the disproportionate burden on short-haul travellers needs to be found. The new border force needs a new revenue stream and passengers need a new equilibrium.



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