



**Accommodation
Association
of Australia**

Pre-Budget Submission – 2012

**Submission of the Accommodation
Association of Australia**

EXECUTIVE SUMMARY

- There should be a broader debate about the merits or otherwise of recalibrating the Passenger Movement Charge so that it benefits domestic tourism.
- Taxation incentives, such as up-front tax exemptions and a 50 per cent capital works deduction bonus, should be considered to promote refurbishment and development of tourism accommodation businesses.
- Should additional government revenue be made available for tourism, then Tourism Australia – as the nation’s principal international destination marketing agency – must be a beneficiary.
- Given the number of Australians employed in the tourism industry and the recent downturn experienced by many businesses within the industry, robust policy development is critical, therefore special consideration should be given to the Tourism Division within the Department of Resources, Energy and Tourism when funding allocations are considered.
- Outcomes resulting from the current redevelopment of the Australian Bureau of Statistics survey of tourism accommodation should receive appropriate funding to ensure the effectiveness of this statistical information area is enhanced, which will significantly benefit forward planning undertaken by tourism accommodation businesses.
- Given the high level of dependency on the internet that accommodation operators have, the Federal Government should consider establishing a formal digital strategy support mechanism for small businesses to promote take-up and utilisation of the National Broadband Network.
- At the very least, the existing allocation of Export Market Development Grant funding is preserved, in particular, for tourism businesses.
- The 2012/13 Federal Budget must take into account the impact of the introduction of a carbon tax on the tourism industry, including the accommodation sector.

INTRODUCTION

1. The Accommodation Association of Australia welcomes the opportunity to put forward the following formal submission to be considered as part of deliberations by the Commonwealth Government, including The Treasury, for the 2012/13 Federal Budget.

ABOUT THE ACCOMMODATION ASSOCIATION

2. The Accommodation Association of Australia (the Accommodation Association) is the national industry body for the Australian accommodation industry.
3. Members of the Accommodation Association include major hotels, resorts, motels, motor inns, serviced and holiday apartments, bed and breakfasts, guesthouses, backpackers and timeshare establishments in metropolitan, regional and rural Australia across all states and territories.
4. The Association's membership base includes almost 2000 properties and more than 110,000 guest rooms.
5. The Association's members include major hotel chains, including Accor Hotels, Mirvac Hotels and Resorts, Hilton Hotels, Toga Hospitality, Mantra Group, Rydges Hotels, Amora Hotels, InterContinental Hotels Group, 8Hotels and Quest Serviced Apartments.

TOURISM AND ACCOMMODATION – OVERVIEW

6. Tourism contributes \$34 billion to Australia's gross domestic product (GDP), a 2.6 per cent share.¹
7. Around 500,000 Australians are employed in the Australian tourism industry – 4.5 per cent of total employment.²
8. Employment within Australia's accommodation sector is 71,500 – 14.3 per cent of the total employment in tourism.³
9. Tourism is Australia's leading services export and it is the sixth-largest total export earner.⁴
10. Tourism contributes \$23 billion or 9 per cent of Australia's total export earnings for all goods and services.⁵
11. There are 4279 tourism accommodation establishments in Australia.⁶
12. There are 227,320 tourism accommodation rooms within Australia and 640,454 bed spaces.⁷

¹ Tourism Industry Facts & Figures (at a glance), Department of Resources, Energy and Tourism/Tourism Research Australia, May 2011, Page 44

² Ibid, Page 44

³ Ibid, Page 51

⁴ Ibid, Page 45

⁵ Ibid, Page 45

⁶ Ibid, Page 55

13. Tourism's share of the Australian economy has been declining.
14. The number of domestic overnight trips taken by Australians has fallen by 1.1 per cent on average each year over the period 2001-2010.⁸
15. The total number of domestic visitor nights fell by 1.2 per cent on average each year between 2001-2010.⁹
16. Tourism has a number of unique characteristics in comparison to other industries. These include:
 - It is highly labour intensive;
 - It requires the input of many service providers into a single "product" to the end consumer;
 - It is dominated by a significant number of small businesses;
 - Tourism competes against all other discretionary expenditures for the "hearts and minds" expenditure of the consumer; and
 - Tourism businesses operate in a highly complex environment requiring significant compliance skills and costs.

FISCAL CONTEXT

17. The Accommodation Association acknowledges the Federal Government's publicly stated fiscal context and specifically, that it is in the Government's intention to bring the Budget back into surplus by 2012/13.
18. Consistent with this, the Association's submission contains taxation policy proposals that would result in less government revenue, as well as proposals that may generate additional government revenue, so that in broad terms overall, the Association's policy proposals are revenue neutral.

PASSENGER MOVEMENT CHARGE (PMC)

19. The Accommodation Association is fundamentally opposed to the Passenger Movement Charge (which replaced departure tax in 1995) because it is a virtual tax on tourism.
20. In essence, the PMC remains a departure tax because it is imposed on a person who is departing from Australia to another country, whether or not the person intends to return to Australia.
21. In 2010, outbound tourism (departures for overseas from Australia) increased by 13.2 per cent, while inbound tourism (international visitor arrivals to Australia) increased by 5.4 per cent.

⁷ Ibid, Page 55

⁸ Ibid, Page 26

⁹ Ibid, Page 26

22. Since 2008, the number of outbound passengers has outstripped the number of inbound visitors and this is a gap that continues to widen.
23. Despite representations from industry, the Federal Government has signalled that it is determined to retain the PMC and the quantum of the tax has increased.
24. In this context, if the PMC is to remain, then the Accommodation Association submits that consideration should be given to focusing the financial impost on outbound travellers for the benefit of domestic tourism.
25. As far leisure tourism is concerned, the growing gulf between the number of international departures and arrivals confirms that more Australians are making a conscious decision to travel overseas in preference to domestic travel, reducing the benefits of tourism to the Australian economy. Decisions to travel overseas are made because of the high Australian dollar, the relatively low cost of overseas destinations and a range of other factors.
26. It is highly likely that such travellers will not be deterred from going overseas by having to pay an even higher PMC, but for international visitors to Australia who are forced to pay the PMC on their departure from Australia, this remains an issue because it effectively penalises inbound tourism.
27. Therefore, consideration should be given to there being a broader debate about the merits or otherwise of increasing the PMC for persons who have been in Australia for more than three months (i.e. Australians travelling overseas) and reducing it for persons who have been here for less than three months (i.e. international visitors).
28. Such a debate should involve careful analysis of the long-term future of domestic tourism within Australia in comparison to outbound travel, particularly to emerging destinations such as many within Asia.
29. In addition, if there is to be additional revenue raised by recalibrating the PMC, then this extra funding should be quarantined specifically to benefit the slowing domestic tourism industry.
30. For example, funds generated could be used to fund proposed tax relief on refurbishment and/or development of tourism accommodation properties in Australia.

REFURBISHMENT OF TOURISM ACCOMMODATION

31. One of the principal challenges facing Australia's tourism accommodation sector is return on investment when refurbishing room stock.
32. While accommodation rooms within Australia are, by and large, of a high standard in comparison to other countries, continual refurbishment is required for businesses and the broader industry for it to remain globally competitive.
33. The stagnation in the number of overseas visitor arrivals in the second half of the last decade, together with the drop in domestic tourism has created a difficult trading environment for accommodation businesses, notably those in locations outside Australia's capital cities.
34. The returns for many investors in accommodation businesses have not been adequate enough for them to make major commitments to capital expenditure on upgrading existing

rooms and other parts of their businesses (restaurants, function rooms, meeting/convention space, leisure facilities).

35. In this environment, it is the submission of the Accommodation Association that there should be tax incentives as a way of promoting refurbishment in tourism accommodation businesses.

36. Such incentives should include:

- Refurbishments to tourism accommodation businesses should be eligible for tax relief through deductions/exemptions;
- Exemptions should be available up front, instead of the current system where taxes are imposed (GST) and incurred then offset through input credits;
- The introduction of a major refurbishment allowance to promote reinvestment in fixtures, furnishings and equipment every 5-7 years. Such an allowance could be claimed once in each cycle on a “per room” or a “per square metre” basis up to a specified level; and/or
- The introduction of a short-term 50 per cent capital works deduction bonus so that investment in accommodation businesses could be written off over 12.5 years, instead of the current 25 years.

NEW TOURISM ACCOMMODATION

37. Tourism Australia’s “2020 Tourism Industry Potential”, which was publicly released in November 2010, outlined an ambitious set of goals to promote long-term, sustainable growth of Australia’s tourism industry.

38. For industry, realising this potential, according to Tourism Australia, would:

- Double overnight expenditure from \$70 billion in 2009 to as high as \$140 billion in 2020;
- Increase tourism’s contribution to GDP to up to 3 per cent in 2020; and
- Increase tax revenues from tourism from \$9.3 billion in 2009 to as high as \$14.5 billion in 2020.

39. To achieve the goals in the 2020 Tourism Industry Potential, Tourism Australia estimates between 40,000-70,000 new accommodation rooms will be needed in Australia (at occupancy rates of 75 per cent). These new rooms will be needed mainly in capital cities, with improvements on quality, rather than quantity being the focus for regional Australia.

40. It is critical that any increases in room inventory are not overly detrimental to existing tourism accommodation businesses.

41. The number of new accommodation businesses which have been developed (new builds) in Australia in the past decade is extremely low and for the accommodation rooms target in the 2020 Tourism Industry Potential to be reached, significant investment incentives will be required. For example, it took until October 2011 for the first new five-star hotel in (or around) the Sydney CBD since the 2000 Olympics to be built.

42. Similar to creating incentives for refurbishment, consideration should be given to attracting greater investment in new tourism accommodation properties by introducing:
- Up-front tax exemptions, instead of incurring taxes and then having them offset through input credits; and/or
 - A short-term 50 per cent capital works deduction bonus so that investment in accommodation businesses could be written off over 12.5 years, instead of the current 25 years.

TOURISM MARKETING – TOURISM AUSTRALIA

43. The stagnation of inbound visitation to Australia in the past four years means that promoting the nation as an international tourism destination is more important than ever before.
44. With Tourism Australia being the principal government agency which is responsible for Australia's international tourism marketing, it is imperative that funding for the activities of Tourism Australia are, at the very least, preserved at current levels (taking into consideration indexation).
45. Should additional government revenue be made available for tourism – either through consolidated revenue or funds generated by tourism activity which would be quarantined for assistance for domestic tourism – then Tourism Australia must be a beneficiary.

FEDERAL TOURISM POLICY DEVELOPMENT

46. Development of tourism policies which benefit the tourism industry and, by extension, the accommodation sector is another critical element in the way in which the Federal Government advances the interests of business.
47. It is the submission of the Accommodation Association that when funding of government departments is reviewed, then special consideration should be given to the Tourism Division within the Department of Resources, Energy and Tourism (RET).
48. Specifically, when resourcing of the Tourism Division is being examined by Treasury, the following should be considered:
- The number of Australians who are employed in tourism (around 500,000);
 - The recent downturn within the broader tourism industry; and
 - That the Tourism Division within RET already has far fewer resources per person employed in Australia in comparison to other government departments.

TOURISM ACCOMMODATION – STATISTICAL DATA

49. The compilation and reporting of key data is a cornerstone of future planning by business.
50. Relevant data also assists the tourism industry and accommodation sector to maintain and enhance an economic narrative, which is crucial when developing policy for consideration by governments.

51. While there have been moves to improve the collection of data about tourism businesses, it is vital that outcomes resulting from the current redevelopment of the Australian Bureau of Statistics survey of tourism accommodation receive appropriate funding from the Federal Government to ensure the effectiveness of this statistical information area is enhanced.

DIGITAL STRATEGY SUPPORT

52. The internet is a principal driver of business for Australia's accommodation industry.
53. Even the consumers who do not use the internet to book accommodation utilise it as a research tool to assist them with making decisions about where they would like to stay.
54. In comparison to five years ago, the increase in the number of accommodation businesses which have an online presence (website or similar) has been exponential to the point where in 2012, up to 80 per cent of accommodation businesses now have such a presence.
55. Despite this, the functionality of the online presence of accommodation businesses is continuing to hold the industry back.
56. Specifically, many do not offer consumers the ability to book their accommodation directly through the website of the accommodation business.
57. To assist with overcoming this deficiency and to promote take-up and utilisation of the National Broadband Network, the Federal Government should consider establishing a formal digital strategy support mechanism for small businesses, very few of which have the capacity and/or capital to invest in improving returns from this vital distribution channel.

DESTINATION PROMOTION – EMDG

58. To complement tourism marketing initiatives undertaken by Tourism Australia, accommodation businesses within Australia receive financial assistance from the Export Market Development Grant (EMDG) scheme, which assists export industries.
59. It is the submission of the Accommodation Association that at the very least, the existing allocation of EMDG funding is preserved, in particular for tourism businesses.

CARBON PRICING

60. The accommodation industry is strongly committed to reducing the impact of man-made emissions and businesses within our industry have for several years had in place a raft of measures to reduce their carbon footprint.
61. In July 2011, the Federal Government announced that from 1 July 2012, a carbon price of \$23 for each tonne of carbon dioxide equivalent that is emitted by a facility (business) will apply within Australia.
62. Although this "carbon tax" will be fixed, the carbon price will rise 2.5 per cent per year in real terms until 2015.

63. From 2015, Australia will the move to an emissions trading scheme where businesses will need to buy and surrender to the Federal Government a permit for every tonne of carbon pollution they produce, with the carbon price to be determined by the market.
64. The aim of the introduction of a carbon price is to reduce emissions by 80 per cent compared with 2000 levels.
65. Legislation to give effect to the introduction of the carbon tax and associated measures passed Parliament on 8 November 2011.
66. It is anticipated that hotels, motels, serviced apartments and other accommodation businesses will have to contend with the following as a result of the introduction of this policy:
- Energy costs to rise;
 - With aviation, domestic shipping and rail transport all subject to the carbon tax, it will mean increased flow-on costs; and
 - Consumer sentiment may dip, impacting on discretionary spending.
67. The 2012/13 Federal Budget must take into account this significant change in Australia's economic and environmental direction.

CONCLUSION

68. The Accommodation Association looks forward to further engagement with the Commonwealth Government, including The Treasury, on these policy issues which are of significant importance to Australia's accommodation industry.

Date: 27 January 2012