

The Jackson Report
On behalf of the Steering Committee

Informing the National
Long-Term Tourism Strategy



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LETTER TO THE MINISTER FOR TOURISM THE HON MARTIN FERGUSON AM MP

Dear Minister,

In July 2008 you established the Steering Committee to deliver a long-term vision for the tourism industry to maximise the benefits of tourism to the Australian economy. You directed that the focus be on the supply-side, reflecting the challenges the industry faces in ensuring it has the productive capacity to meet the future demands of tourism consumers.

The Steering Committee conducted wide-ranging consultations with industry and government participants around Australia. All established sources of data were consulted and original research was commissioned. We now present the Steering Committee's report and recommendations.

The Steering Committee has found that the tourism industry in Australia confronts a short-term challenge and a serious long-term decline unless urgent and sustained action is taken. Tourism is a significant and vital industry to Australia. It contributed over \$40 billion to Australia's Gross Domestic Product (GDP) in 2007-08 and employs almost half a million people directly. Furthermore it generates significant export earnings, more than \$23 billion in 2007-08.

Significant changes are occurring in our international markets, but we are failing to recognise them and capitalise on the opportunities. Australia's share of global tourism is in decline, with a 14 per cent reduction in our global share between 1995 and 2008. Tourism peaked as a share of our national GDP in 2001 and has contracted since then. Between 1981 and 2000, international arrivals increased at 9.1 per cent a year. Since the Olympic's boom the growth rate of international arrivals to Australia has been 1.6 per cent a year compared with 3.9 per cent a year globally and 7.0 per cent a year for the Asia-Pacific region. Leisure tourism is declining in relative importance. Education and business tourism continue to grow in importance. Our source markets are changing, with China and India emerging as major new markets with different consumer preferences. A far greater proportion of tomorrow's tourists will be over 60 years old, reliant upon the internet for information, advice and bookings.

Even more worrying, despite a long economic boom, Australia's domestic tourism performance has flat-lined over the past ten years, while outbound travel has soared. A generation of young Australians is growing up without a tradition of an annual local holiday. This poses particular risks to our rural and regional tourism operators who rely more strongly on domestic tourism spending.

Our tourism products need to meet the challenges of this changing world.

Australia has much to build upon. We still have a strong international brand and are widely regarded as an aspirational destination. In our consultations we heard a universal view that Australia needs to focus more clearly on developing our tourism industry products based on our competitive advantages – our Indigenous culture, landscapes, sophisticated cities and regions, and diverse and friendly people.

The Steering Committee believes a vital first step is a strong boost to our national tourism research capacity to enable quality decisions across policy, planning and investment. This integrated and expanded research base for the industry needs the capacity to collect, analyse and disseminate information and insights across governments and industry.

A concerted effort is required to accelerate the online capability of the Australian tourism industry for marketing and booking, backed by agreed and well-publicised accreditation protocols that will give consumers confidence when they select and book their destinations.

Governments and industry need to set global key performance indicators and targets for the industry and develop plans based on Australia's competitive advantages and priority destinations.

More effort is required to develop the long-term skill base and labour pool the industry needs.

Governments at all levels and the tourism industry will need to collaborate more closely to ensure tourism considerations are factored into the wide range of planning, investment and development processes.

To help achieve these goals, the Steering Committee urgently recommends new structures to create a revitalised industry leadership and to improve the linkage between the many government and industry players in tourism. The Steering Committee believes the Australian Government can play a leading role in better resourcing and aligning demand and supply-side approaches.

The tourism industry's importance to Australia is widely under-estimated. It brings enormous benefits through the number and geographic spread of the jobs it creates, the small businesses it supports, the contribution it makes to national exports, its economic role in Australia's regional and remote communities, and its capacity to protect and upkeep Australia's natural heritage and built environment.

The ten recommendations in this report are aimed at fundamental and sustained reforms that will create a platform for our long-term tourism future. If Australia does not make the necessary changes, between now and 2030 we risk foregoing 3.6 million international visitors, \$22 billion of tourism's contribution to GDP, and as many as 100,000 tourism jobs. This cannot be allowed to happen.

If Australia gets it right, we can look forward to growing a tourism industry that can plan, invest and innovate with confidence, creating businesses and jobs, and make a significant contribution to our national economic and social wellbeing.

Yours sincerely,



Margaret Jackson AC
Chair, National Long-Term Tourism Strategy Steering Committee.



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RECOMMENDATIONS

For too long Australia's tourism industry has been complacent. Now it faces major challenges. On top of these, the length and severity of this global downturn may also seriously harm the short-term outlook for the industry. Its long-term future is by no means assured.

With this report the Steering Committee is looking to build a platform for a vibrant and sustainable tourism industry that can increase the prosperity and resilience of our national economy. The aim must be to build on the strength and resilience that the industry has demonstrated, so that it has the capacity to thrive and generate further economic gains for Australia in the face of an intensely competitive environment and the potential for further external shocks to impact on the industry.

This will only be achieved if industry and all levels of government come together to revitalise the industry and secure its future. It will not be enough for government and industry to pursue a 'business as usual' approach.

Australia has a unique Indigenous culture, unrivalled landscapes, sophisticated cities and regions, and people renowned for their diversity and friendliness. Our starting point must be an appreciation of these competitive strengths and a determination to capitalise upon them over the long-term.

Through the course of its deliberations, the Steering Committee has identified specific supply-side issues that must urgently be addressed to counter the Australian tourism industry's relative decline. Only effective alignment between supply and demand-side strategies will deliver optimal long-term outcomes for the industry, and the Australian economy and community as a whole.

The ten recommendations that follow represent the Steering Committee's practical advice on measures to build a strong and sustainable Australian tourism future.

Research

- 1) *Develop a high-powered national research capability focussed on tourism industry development, to complement the existing capability in demand-side research and statistics.*

The Steering Committee has identified a need for greater original research, stronger linkages to the commercial sector, and improved exposition and dissemination of data, as critical issues in the development of Australia's tourism industry.

This new research capability would align market intelligence and forecasting with industry and product development, along the lines of research capabilities within bodies such as the Australian Bureau of Agricultural and Resource Economics (ABARE) or the Bureau of Infrastructure, Transport and Regional Economics (BITRE). This would complement the demand-side research and statistical capability being delivered by Tourism Australia in support of its marketing and promotional functions.

The research agenda must not be targeted only at high level government and industry groups, but should also be a practical resource for tourism operators nationwide to understand trends, take advantage of opportunities and innovate with confidence.

A key focus of the research agenda must be on extension and adoption – putting useful information in the hands of tourism industry participants. An annual conference, along the lines of the annual ABARE Outlook Conference, would be a practical way to achieve this and to facilitate stronger industry networks and linkages. Such a conference would bring together key players, including the State and Territory Tourism Organisations (STOs), industry associations, and private sector specialists, who will be important partners in the delivery of research content and adoption programs. It would become an annual opportunity to engage with Small and Medium Enterprises (SMEs) and provide them with the best possible short and long-term information to enable them to invest, innovate and market their offerings with confidence.

Another useful model for transforming research to practical industry improvement is the Rural Research and Development Corporation model that brings together industry and researchers to establish research and development strategic directions, and also to fund projects that provide the industry with the innovation and productivity tools to compete in global markets.

This new research capability must be sufficiently well-resourced to attract the best people and build credibility rapidly. The funding allocation for the Sustainable Tourism Cooperative Research Centre (STCRC) during its first two rounds represented a significant part of the resource base for tourism research. This funding allocation must be retained for tourism research even though the STCRC's bid for a third round of funding was not successful.

The Steering Committee considers that the funding for the STCRC represented the bare minimum required to support tourism research. The failure of the STCRC rebid does not present the Government with a savings option.

To establish a vehicle to bring together all the necessary research inputs and personnel would require funding of around \$30 million per annum.

Tourism research resources should be consolidated where possible to maximise efficiencies of scope and scale, and to minimise the risk of redundant or competing research efforts.

Supply-side research capabilities are currently spread through the STCRC, Tourism Research Australia (TRA), and industry bodies such as the Tourism and Transport Forum (TTF) Australia and the National Tourism Alliance (NTA). Capacity also exists within agencies such as the Australian Bureau of Statistics (ABS) to contribute to supply-side research, should further funding be made available.

The Steering Committee considered three options for consolidating the research functions: consolidating the research within Tourism Australia; consolidating the research in the Department of Resources, Energy and Tourism; or splitting the research function, with Tourism Australia responsible for the demand-side research and the Department undertaking the supply-side research.

The Steering Committee considers that it would be most efficient and practical to strengthen the research function to ensure that demand-side activities are well informed by supply-side priorities. Significant cultural and operational shifts will need to occur to ensure that the research activity is robust and has credibility among key stakeholders, including industry participants and government agencies. The Steering Committee considers consolidation within a restructured Tourism Australia as its preference.

Research capability is also required to support ongoing policy development and advice to Government. The Steering Committee believes that the policy function within the Tourism Division of the Department of Resources, Energy and Tourism should be enhanced, for example, with the appointment of a Chief Economist role. Such a role would need to be supported by direct access to high quality economic research and analysis, either from a transformed Tourism Australia or from new staff. This would improve the credibility and strength of Tourism Division in its discussions with key departments and the central economic agencies.

Digital distribution

- 2) *Urgently support the acceleration of the online capability of Australian tourism product, working with State and Territory Tourism Organisations to fund programs that expand cost-effective digital platforms for distribution and bookings and accelerate SMEs' uptake.*

Australia has fallen behind in the online marketing of our tourism products. While traditional distribution channels will remain important, we need to more rapidly embrace digital platforms that enable Australian and international visitors to research and book their holidays online. We also need to understand the policy implications of the growth of digital distribution in particular in the areas of customer satisfaction and consumer protection.

The Government's decision to roll-out a national high-speed broadband network will add to the potential for industry to reach their customers. However, the industry will need some support in making this transformation. The dominance of SMEs in the tourism industry demands cost-effective ways in which to engage in the digital economy.

The STOs and Tourism Australia collectively own the Australian Tourism Data Warehouse (ATDW), a digital infrastructure that already contains over 25,000 product listings and makes them available to any digital distribution channel. Such a platform would form the ideal base for an acceleration effort because it is proven technology, has the support of critical stakeholders and has already established links with open booking technology in the form of the Tourism Exchange Australia (TXA).

The Tas e-Connect program developed by Tourism Tasmania with ATDW and TXA also provides an excellent example of a well-focussed digital migration initiative that addresses both technology and adoption challenges. In one example, a lodge in Devonport, Tasmania, reported a rise in occupancy rates from 45 per cent to 90 per cent after starting to distribute their product online.

Tourism Australia needs to work urgently with the states and territories to examine the scope for a national rollout of a program such as Tas e-Connect. Tourism Australia should further consider utilising Australia.com to link to state and territory digital platforms.

The digital distribution of Australian tourism product also requires that the major international online providers have free access to Australian offerings. Providers such as Expedia, TripAdvisor and Wikitravel provide millions of potential international and local visitors with user-friendly resources to learn about tourism options and book their travel, accommodation and attractions. These providers are charged fees for access to Australian product, which is a disincentive for them and a disadvantage for Australian tourism.

It would be strongly in the interests of Australian tourism for these large providers to have open access to Australian product information and bookings.

A key element in the successful migration online of Australian tourism will be an accreditation system that gives consumers confidence and trust in tourism product offerings. The Australian Government is now working with states, territories and industry to bring the myriad of existing accreditation programs under one umbrella, and to guide the development of agreed standards. The Steering Committee strongly endorses the development of the National Tourism Accreditation Framework.

People

- 3) *Ensure tourism has equitable and adequate access to skills programs at national and state level, and focus tourism skills programs and labour policies in two areas: the recruitment, development and retention of career tourism employees; and the facilitation of sufficient part-time and casual employees.*

One of the great strengths of the tourism industry is its ability to employ people with a range of skills, right across the nation. Skills development programs must recognise that the industry requires a dual labour market – higher skilled full-time career professionals and lower skilled workers who tend to take up part-time, seasonal and casual opportunities.

There is also a need to ensure sufficient flexibility in Australia's migration and visa arrangements so tourism can tap into the labour resources that it needs. Specialist skills are required through such programs, but it is also necessary for the industry to tap into unskilled foreign workers when labour demand in Australia is high.

National scorecard

- 4) *Establish a comprehensive national tourism scorecard with targets and key performance indicators (KPIs) for economic impact, environmental impact, social impact and product quality.*

The tourism industry urgently needs to define and declare its ambitions and establish KPIs to assess its progress against articulated targets. A national tourism scorecard will provide Australia with an essential tool to understand and improve the quality of national tourism products and our national tourism performance.

State and territory governments and leading industry associations will need to collaborate in the development of the scorecard, endorse its legitimacy, and actively support it – both through ongoing data collection and the implementation of actions arising from the scorecard.

The development and maintenance of the national scorecard will provide an important process to link government and industry players more effectively, to highlight areas of national deficiency or opportunity, and to enable better planning based on quality metrics.

Investment

- 5) *Improve the case for tourism investment through developing integrated destination development plans and creating a national visitation priorities list.*

Australian tourism must commit to major high potential destinations, and to some key customer segments such as business and major events tourism, by articulating them as 'national visitation priorities'. The Tourism Ministers' Council (TMC) could lead this process. These priorities would be drawn from submissions by industry, state, territory and local governments, and by independent analysis by the industry research resources covered in Recommendation 1. This analysis, while feeding into the priority list, would also help provide a business case for investors.

In particular, the identification of key destinations, complete with comprehensive development plans, would enable all public and private stakeholders to plan and invest with confidence and would also facilitate productive engagement with non-tourism stakeholders. However, it is also important that all destinations are encouraged to develop comprehensive destination development plans. The 'national visitation priorities' will not be a static list. Destinations and customer segments will evolve over time, responding to consumer demand and other factors. Destination development plans, linked to metrics identified in the scorecard, will enable destinations to plan effectively to grow and take advantage of opportunities. It will also be important for the destination development plans to link to regional economic development plans to ensure that the infrastructure, planning and approval processes and capacity development support future tourism activity in the destination.

Case management should be adopted to facilitate projects that meet national priority criteria and that have complex government stakeholder arrangements. Some cases may warrant designation under the Major Project Facilitation status as carried out by the Department of Transport, Infrastructure, Regional Development and Local Government.

The Steering Committee believes that if the industry can successfully argue the case for an Australian Government investment incentive fund, a 'Tourism Infrastructure Fund', could be a means to capture tourism's economic benefits by accelerating the development of visitation priorities in conjunction with state, territory or local governments and industry partners. As a first step, current funding arrangements could be reviewed to examine the scope for providing such a fund.

- 6) *Incorporate a stronger recognition of tourism in government planning and approval process, taxation and infrastructure investment planning. The Steering Committee recommends that the Council of Australian Governments (COAG) undertake an urgent systemic review of planning and regulatory regimes and the Henry tax review take account of issues that impact tourism investment.*

Planning and approvals processes currently act as a block on many tourism investment proposals. Too often planning regimes do not recognise the importance of tourism and the needs of the industry. States and territories need to review these processes urgently and align plans across the country. Without sufficient investment, the tourism industry will not be able to compete internationally or at home. Tourism relies heavily on external infrastructure, the provision of which may be governed by agencies across all tiers of government and in some cases the private sector. All of these aspects need to come together, supported through destination development plans, to facilitate greater investment and capacity development in the tourism industry. The fragmentation of the tourism industry means that strong industry representation, backed by sound research and economic analysis, is essential.

Industry associations and state and territory government tourism development organisations will need to collaborate in contributing to planning processes, in some instances by providing resources to specific project teams.

By definition a high quality tourist operation demands an exceptional location. Often such applications tap into community fears of inappropriate development. Sometimes these fears are valid, other times not. Unfortunately the planning regulations in most instrumentalities are weighted heavily against the proponent who can face years of expensive, time consuming and frustrating legal and consultative battles. This is a serious disincentive to investment in the tourism industry. State and territory governments have the capacity to intervene at a high political level to overrule local concerns. But this is only occasionally used. Moreover, the tourism industry cannot rely on ad hoc political intervention, it needs an efficient, predictable and systemic investment environment if it is to achieve its potential.

Taxation was identified as having a major influence on tourism investment decision-making. The sector operates in an open and highly competitive global environment. It is, therefore, important that the tax system is simple, efficient and transparent, allowing Australian tourism businesses to compete effectively in world markets. The issues that should be considered by the Henry tax review include the complexity and compliance costs of taxation, particularly on small business; the interactions between the taxation and welfare systems; and depreciation schedules as they impact on tourism investment.

The Council of Australian Governments (CoAG) would be an appropriate forum to engage on these issues as it brings together different government agencies and interests. Better linkages also need to be established with the local government sector, given its interest and control over key decision making and infrastructure provision affecting the industry. Industry associations and state and territory government tourism development organisations will need to collaborate in contributing to planning processes, in some instances by providing resources to specific projects and teams.

Product development and innovation

- 7) *Renew and rebuild Australia's competitiveness by developing and maintaining long-term product strategies for Australia.*

Australia's tourism future will be stronger if we fully recognise and capitalise on our fundamental tourism assets. We have a unique Indigenous culture – the oldest continuous Indigenous culture on the planet; distinctive landscapes, flora and fauna; sophisticated cities and regions that integrate a Western heritage with Eastern cultures, and a reputation for diverse, interesting and friendly people.

To maximise this potential, product development strategies must be a collaborative effort between industry, STOs, Regional Tourism Organisations (RTOs), other tourism stakeholders and stakeholders outside the tourism industry. They should stimulate rather than constrain private sector development and competition. And they should be undertaken with an eye to both short and long-term tourism trends, including, for example the ageing tourism population or the long-term growth in visitor numbers from China and India.

The current National Landscapes initiative is an attractive potential model for this process, in particular where the scope is cross-jurisdictional and inter-departmental.

Existing programs that encourage product development, such as the TQUAL Grants program, formerly the Australian Tourism Development Program (ATDP), and the Approved Destination Status (ADS) scheme should continue, but with additional criteria focussed on economic impact and innovation, the involvement of industry experts in the evaluation of proposals, transparency of evaluation results and the evaluation of the impact of completed projects.

Leadership and industry coordination

- 8) *The Prime Minister to establish a federal ministerial taskforce to periodically review tourism issues and opportunities that are shared with key non-tourism portfolios.*

Greater coordination and focus across government and industry would support tourism industry development. As many of the Steering Committee's recommendations will involve coordinated engagement between tourism stakeholders and a range of government non-tourism stakeholders, a high-level ministerial taskforce convened by the Prime Minister would provide an effective high-level mechanism to address and resolve overlapping concerns.

- 9) *Industry associations to lead industry participants to work with the government to make these recommendations successful.*

Government cannot and should not do everything. The tourism industry is complex, encompassing many industries and all governments. A key theme running through this report is the importance of creating stronger and more effective linkages between government and industry players at a Commonwealth, state and local level. The challenge of coordination is exacerbated because participants often have overlapping and even competing goals. Tourism industry associations therefore have a critical role to play to making these recommendations work, by providing the means by which collective resources can be marshalled and aligned to the specific challenges and opportunities targeted by this Strategy.

- 10) *Restructure Tourism Australia to enable it to implement these recommendations.*

This report is about addressing critical gaps in industry development activity at the national level. It is also about making sure that the return from demand-side stimulation is maximised. This can best be achieved by integrating the industry development recommendations of this Strategy into the remit of our existing demand-side agency, Tourism Australia.

The Steering Committee did not begin with an assumption that Tourism Australia should be given additional responsibilities. It reviewed arrangements across the Commonwealth, states and territories and also relevant international examples to clarify where the industry development function occurred, and how it related to the marketing and advertising task.

Among Australian states and territories, Queensland allocates industry development responsibility to its government ministry and Victoria integrates overall responsibility in its ministry: all other states and territories have given that responsibility to their STOs. In New Zealand and Switzerland, by contrast, most of the industry development responsibility resides within the national ministry. These jurisdictions differ from Australia, however, because their national governments have direct control of many tourism-related public assets. In Australia, state and territory governments tend to have far more ownership or control of tourism-related assets and expenditures.

The Steering Committee found that there is no single perfect model. Success is largely determined by the quality of **key leadership individuals** and by the degree of organisational continuity.

On balance, the Steering Committee believes that at a national level the tourism supply and demand functions should be aligned. The Steering Committee also considers that these functions are best carried out in a commercially focussed environment at a distance from the Government.

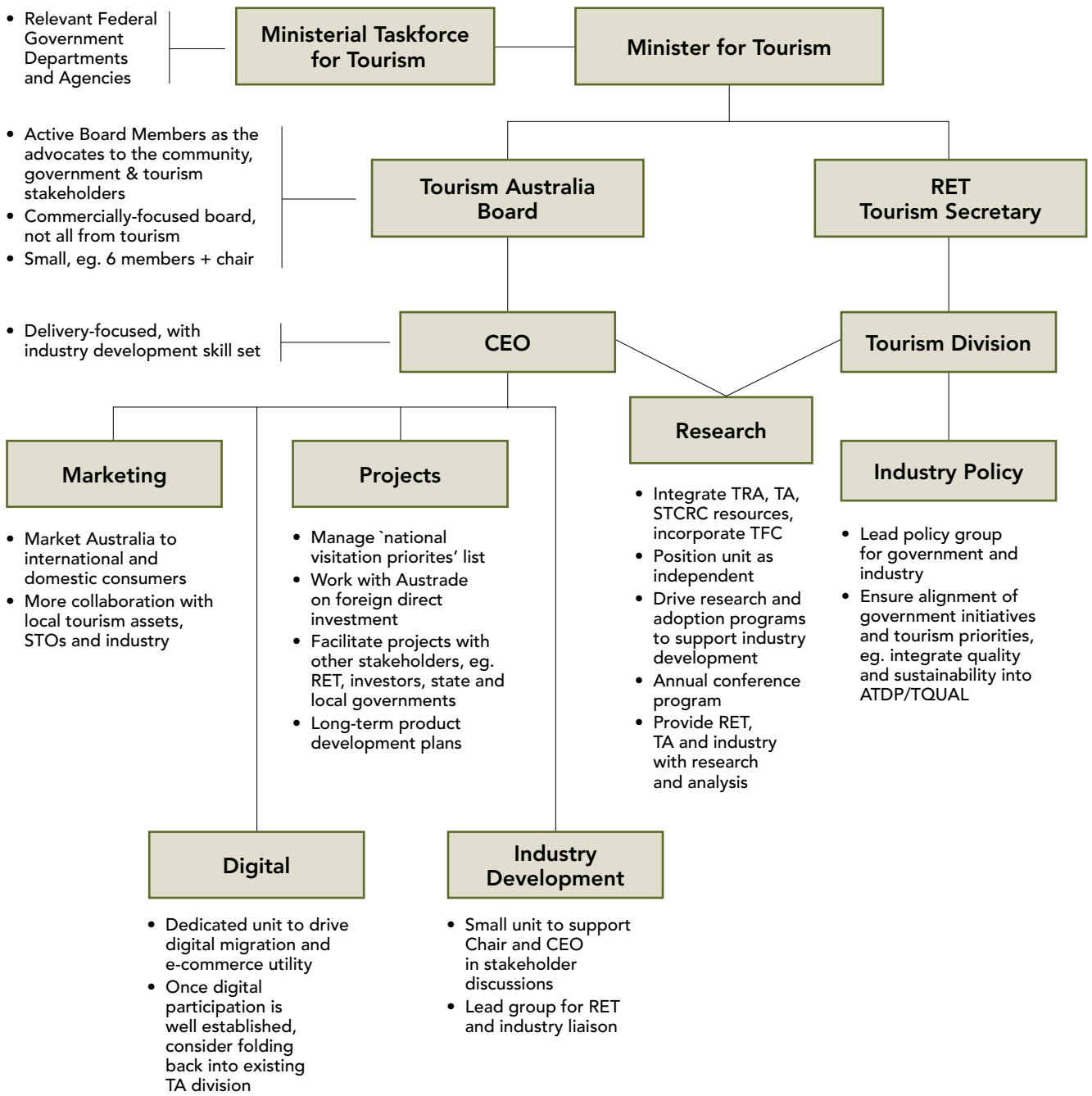
The Steering Committee has concluded that Tourism Australia is best placed to assume the industry development role. Strong policy support and economic research and analysis will be required from the Department to consolidate this role. **Figure 1** illustrates how these functions could be incorporated in Tourism Australia with the Department of Resources, Energy and Tourism retaining its central policy role within Government.

The Steering Committee recognises that there are risks associated with this structural model, given Tourism Australia's strong bias to demand-side stimulation and in consequence, its current weaknesses in industry and government engagement. Tourism Australia will require a substantial cultural and operational shift so that it can effectively prosecute both the supply and demand-sides of the tourism agenda, in partnership with governments and industry.

It is important in this difficult economic environment that existing resource allocations are maintained, and that any future increases in resources are allocated on the basis of clear performance outcomes.

Whatever structure is selected for the implementation of the Strategy, there needs to be a renewed application to the development of strong and effective linkages between government departments, tourism agencies and other government agencies responsible for tourism-related infrastructure, investment, training and skills development. In particular, there needs to be far closer coordination between Austrade and Tourism Australia.

Figure 1: Illustrative structure



TOURISM IS VITAL TO AUSTRALIA'S ECONOMY

Tourism plays a vital role in the strength, diversity and resilience of the Australian economy. In 2007-08 tourism contributed more than \$40 billion, or 3.6 per cent, to Gross Domestic Product (GDP).

Tourism is Australia's largest services export industry, providing 10.1 per cent or \$23.6 billion of Australia's total exports in 2007-08. It generates approximately ten times the employment of the textiles, clothing and footwear industry and five times that of the automotive sector,¹ but receives less government assistance than either. It earns more in export earnings than these two sectors combined.

Tourism provides opportunities for regional and remote communities to grow jobs, diversify their economic base, and generate higher standards of living. Nearly half of total tourism expenditure (47 per cent) occurs in the regions. Domestic visitors spend relatively more in regional Australia – as much as 53 cents in every tourism dollar, compared to the international visitor spend of 21 cents in the dollar.

Tourism is essential in Australia, accounting for nearly one third (29 per cent or 595,516) of all businesses. Ninety-three per cent of all tourism businesses are sole-operator, micro-businesses or small businesses.² Only 6.5 per cent are medium sized, employing 20 to 199 persons, and fewer than 0.5 per cent are large, employing 200 persons or more.

1 ABS *Tourism Satellite Account*, and ABS, *Manufacturing Industry 2006-07*, Cat; 8221.

2 Business definitions: Micro – 1 to 4 persons, Small – 5 – 19 persons, Medium – 20 to 199 persons, Large – 200 or more persons.

In 2007-08 tourism directly employed nearly 500,000 people, amounting to 4.7 per cent of total employment.³ However, it is not only the sheer number of people that the industry employs that is important. It is the breadth of the employment opportunities that needs to be appreciated. Tourism requires employees with a broad range of skills and offers a spectrum of jobs from full-time careers through part-time and casual work, which suits the needs of our diverse and modern workforce. It also disperses jobs across the country providing opportunities in regional metropolitan areas alike. It is the multifaceted nature of the tourism workforce that makes the tourism industry such a significant contributor to the employment base of Australia.

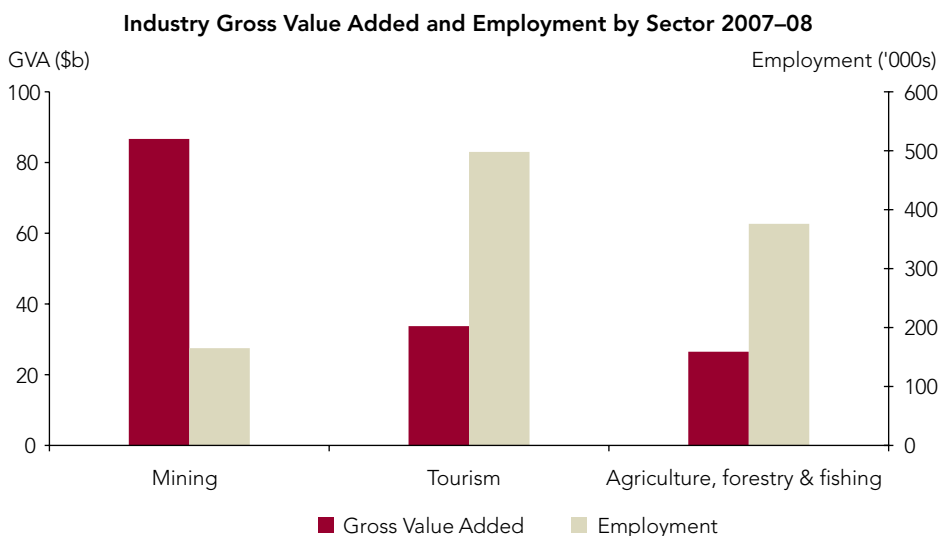
Tourism offers enormous potential to Indigenous communities, both to create sustainable jobs and employment and as a means to protect and nurture cultural and environmental heritage.

Despite its economic significance, tourism is not officially classified as an industry by the international statistical standards which underpin the Australian national accounts. To arrive at an official measure, the Australian Bureau of Statistics (ABS) produces the Australian Tourism Satellite Account. This treatment, which arises due to the nature of the tourism industry, exacerbates the lack of recognition of its broad contribution to the economy.

Of Australia's major merchandise export sectors, tourism employs more people than mining, and adds more gross value than agriculture as seen in **Figure 2**.

3 ABS, *Tourism Satellite Account*, Cat. No 5249.0, (2009).

Figure 2: Comparing Tourism Gross Value Added and Employment



Sources: Australian Bureau of Statistics, Australian System of National Accounts 2007-08, Cat. No. 5204.0, 2008; Australian Bureau of Statistics, *Tourism Satellite Account*, 2007-08, Cat. No. 5249.0, 2009; and Australian Bureau of Statistics, *Australian Labour Market Statistics*, Cat. No. 6105.0, 2008

Note: Labour data for Mining and Agriculture, forestry and fishing are for May 2008

RELATIVE DECLINE IN PERFORMANCE – A CALL TO ACTION

Tourism is an important and vital industry to Australia now. It generates wealth and jobs for Australians and disperses economic activity widely across the landscape. It also provides a vehicle for cultural and environmental preservation, and to earn valuable foreign exchange. However, Australia has become complacent about its tourism industry. In 2000–01 tourism peaked as a share of GDP at 4.7 per cent when it made up 5 per cent of total employment, compared with 3.6 per cent and 4.7 per cent respectively in 2007–08. Since then Australia's tourism industry has under-performed and risks falling into serious decline.

International

Australia's inbound tourism has grown over the past 25 years, but there has been a major drop in growth rates over recent years.

In 1981 there were fewer than a million visitor arrivals a year to Australia. In 1996, 4 million visitors came to Australia and in 2008 Australia had 5.5 million visitors. Between 1981 and 2008 international visitor arrivals increased at an annual average rate of 6.8 per cent. The tourism industry achieved this growth against the backdrop of major external shocks as shown in **Figure 3**.

However, it is important to note that there are two distinct periods of growth. From 1981–2000 international arrivals to Australia increased at an average annual rate of 9.1 per cent. But between 2000 and 2008, international visitor arrivals to Australia increased by only 1.6 per cent per annum. In comparison, the average annual growth rate of world travel was 4.8 per cent between 1981–2000, moderating to 3.9 per cent in the latter period. In the Asia-Pacific region the growth rates were 8.1 per cent and 7.0 per cent a year respectively.

Australia's share of global tourism has actually declined from around 0.7 per cent in the mid-1990s to around 0.6 per cent in 2008, which is a 14.3 per cent reduction in our share of global tourism as shown in **Figure 4**. While there have been some fluctuations in this trend, the rapid downward movement since the mid-2000s should raise alarm bells about the future of the industry. It should be noted that other mature tourism markets have also experienced falling shares of global travel. This points to the emergence of new and highly competitive destinations.

This declining performance stands in contrast with the continuing strength of the Australian brand:

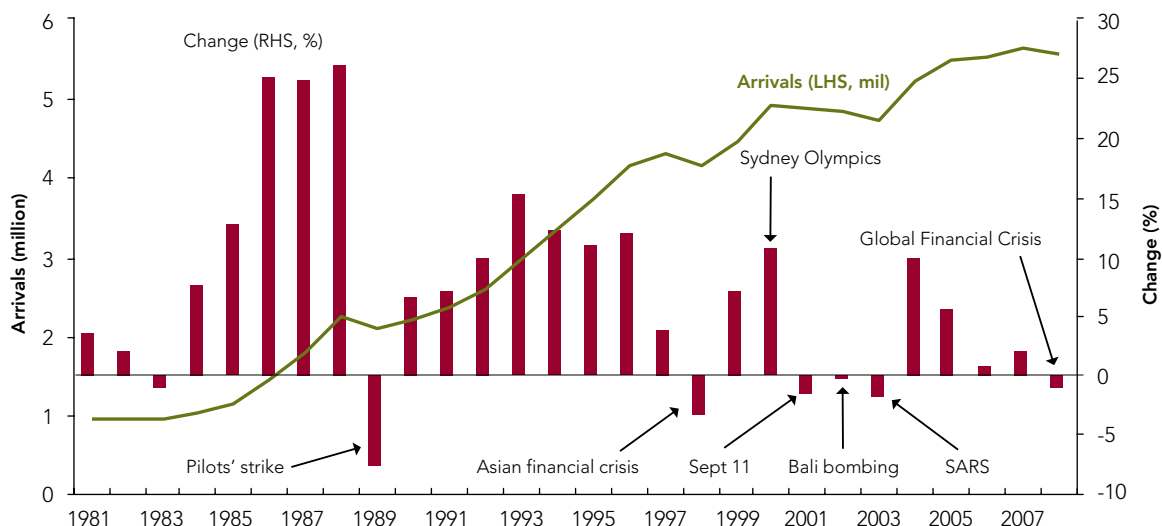
- Australia still ranks highly as an aspirational destination in our key markets;⁴
- In 2008 the Country Brand Index ranked Australia the world's top country brand for the third consecutive year;⁵ and
- According to the World Economic Forum's (WEF) Travel and Tourism Competitiveness Index,⁶ Australia is the highest-ranked country in the Asia-Pacific region and ranked 9th overall out of 133 countries;
 - Australia enjoys a competitive advantage in air transport infrastructure (ranked 3rd), natural resources (4th), and general tourism infrastructure (9th). Australia is also highly ranked for government prioritisation of the tourism sector and effective destination-marketing campaigns.

4 Brand Tracking Research, Tourism Australia.

5 Country Brand Index, Press Release, 2008 (<http://www.countrybrandindex.com/press-release/>).

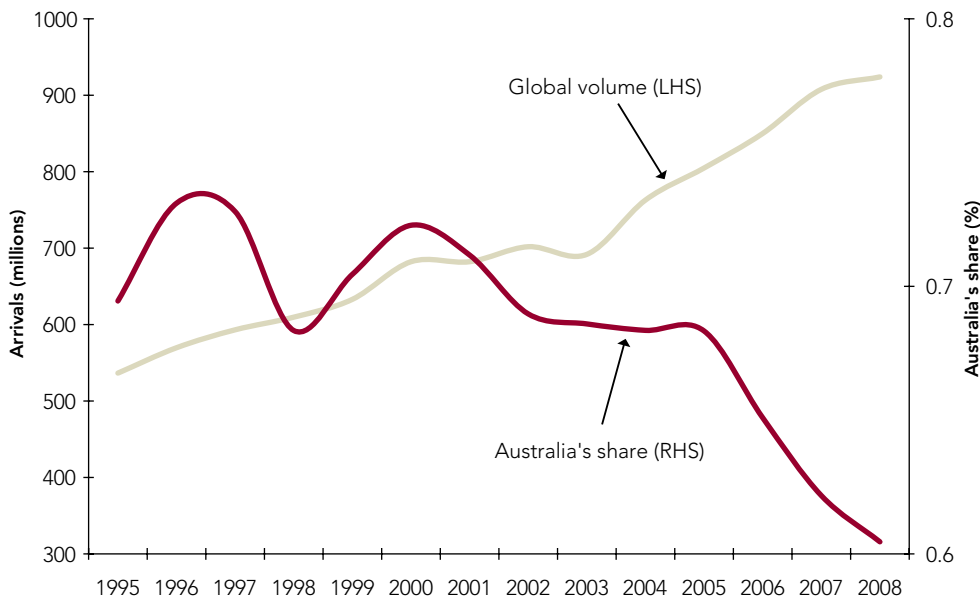
6 *The Travel and Tourism Competitiveness Report*, World Economic Forum, 2009.

Figure 3: International visitor arrivals to Australia, 1981 to 2008



Source: Australian Bureau of Statistics Overseas Arrivals and Departures, Australia (ABS Cat. No. 3401.0)

Figure 4: Australia's market share, 1995 to 2008



Sources: United Nations World Tourism Organisation Tourism Barometer, January 2008; Australian Bureau of Statistics, Overseas Arrivals and Departures, ABS Cat. No. 3401.0

In the most recent WEF rankings, however, Australia slipped from 4th to 9th place. This is due to a perceived weakening of the prioritisation of the tourism sector in Australia, a more negative assessment of Australia's public transport and information and telecommunications infrastructure, and reduced price competitiveness, with Australia listed among the world's most expensive destinations based on high fuel prices, ticket taxes and airport charges.

Unless Australia can reverse this trend and convert its aspirational appeal into visitor arrivals, the industry will continue to lose market share internationally.

The Tourism Forecasting Committee (TFC) predicts that over the medium-term, international arrivals will reach 8.1 million in 2017, with average annual growth of 3.7 per cent from 2007. Total tourism consumption is expected to

increase in real terms from \$91.1 billion in 2007 to \$107.6 billion in 2017 – with most of this growth coming from the inbound sector. In this difficult economic environment, however, with its significant downside risks, these forecasts should be regarded with caution.

Domestic

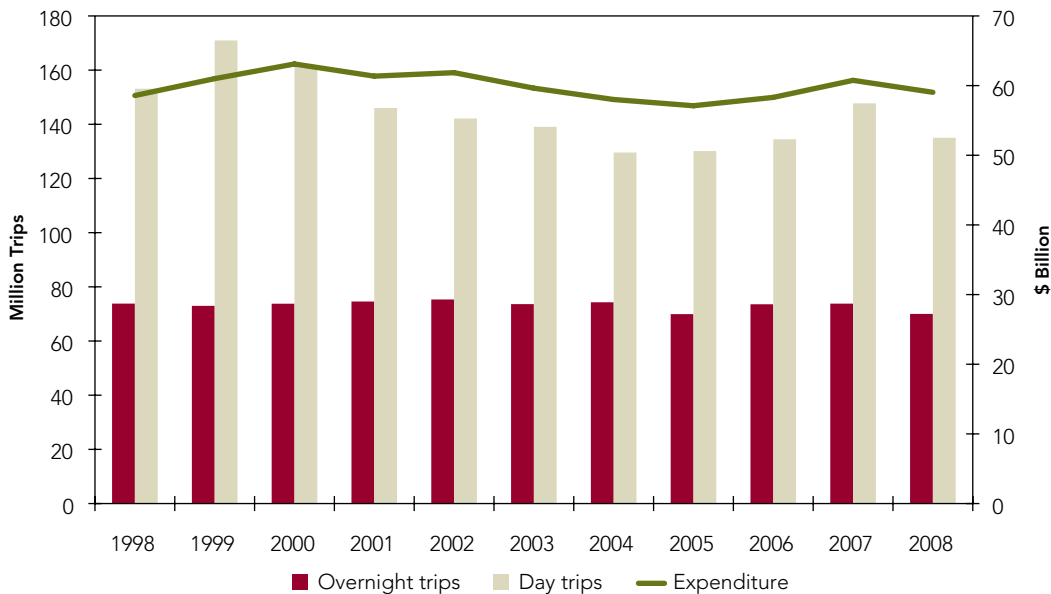
Australian domestic tourism growth has been in relative decline for ten years. During the period 1998 to 2008 domestic tourism activity flat-lined, while outbound tourism rose by a massive 84 per cent – see **Figure 5**.

Between 1998 and 2008 domestic overnight trips and domestic visitor nights fell by 4.5 per cent and 7.4 per cent respectively. Over the same period, day trips declined by 11.4 per cent – see **Figure 6**.

Figure 5: Inbound, outbound, and domestic tourism sectors, 1998 to 2008



Sources: Tourism Research Australia, National Visitor Survey; Australian Bureau of Statistics (ABS) Overseas Arrivals and Departures (ABS Cat. No. 3401.0)

Figure 6: Domestic Tourism – Number of Trips and Expenditure (Constant Prices)

Source: Tourism Research Australia, NVS

Domestic tourism expenditure also remained flat in real terms at around \$60 billion per year, with small annual fluctuations.

A comparison with total consumption expenditure highlights the extent of the slide. Over the period 1998–99 to 2007–08, household consumption of domestic tourism fell from 10.9 per cent to 8.6 per cent⁷ as a share of total expenditure, as consumer preferences turned to consumer electronics, housing and outbound travel.

In 1998 Australians' propensity to travel domestically was almost 5 trips per person while the number of outbound trips was around 0.2 per person. By the end of 2008, Australians' propensity to travel domestically had declined to around 4.1 trips per person while the propensity to travel overseas had increased to 0.3 trips per person, a 63 per cent increase.

Between 2007 and 2017, domestic visitor nights are forecast to decrease from 288.9 million to 285 million, although the number of overnight trips is expected to increase from 73.8 million trips in 2007 to 77.9 million in 2017. Domestic tourism's share of total tourism consumption in Australia is expected to fall from 74 per cent in 2007 to 67 per cent in 2017. Given the importance of domestic travel to regional Australia, this should be a matter of real concern.

Worryingly, research by TRA suggests that Australians no longer regard a domestic tourism experience as compelling, particularly compared to the more immediate and tangible value they derive from items such as large screen TVs and other consumer electronics.

Dual-income families are under pressure to use annual leave to care for children, contributing to a fall in the number of families taking traditional holidays in Australia. This increases the risk that the next generation of Australians will choose against domestic holidays when they have their own families.

Outbound tourism

While international arrivals have grown more slowly in recent years and domestic tourism has been flat, outbound travel has hugely increased. Between 2000 and 2008 outbound travel increased by 66 per cent, from 3.5 million to 5.8 million departures. Outbound travel is predicted to reach 7.8 million departures in 2017, an average annual growth of 3.6 per cent over the period 2007–2017.

The growth in outbound travel has been supported by the strength of the Australian dollar, the price competitiveness of outbound travel, rising incomes driving discretionary expenditure, the advent of low-cost airlines, and the growth of package travel to South East Asia and the Pacific.

A strong outbound tourism sector is not a bad thing. It provides important benefits to the Australian tourism industry, supporting sustainable aviation services, cruise shipping and the travel agent industry. Overseas travel gives Australians the opportunity to experience different cultures, broaden their education and widen their perspectives.

The Australian economy depends upon strong two-way trading relationships, and both inbound and outbound travel help strengthen economic ties. Increased protectionism during this economic downturn would pose a significant risk to global trade and inhibit the economic recovery, which would be likely to hurt the

⁷ Domestic household tourism consumption includes expenditure by outbound Australians before/after international trips.

tourism industry globally. A recent report prepared for the TTF concluded that *“increased protectionism is world trade destroying. Tourism will be a victim of such consequences”*.⁸

Implications for Australian tourism

Despite the rising income levels which would normally drive greater tourism activity, tourism’s share of the Australian economy has fallen over the past decade. While there has been no decrease in tourism activity in absolute terms, the relative decline in tourism GDP and expenditure shares indicate that the sector is under-performing relative to the rest of the Australian economy. Even excluding the expansion of commodity-oriented industries, tourism has under-performed.

The Australian tourism industry needs to do much more to capitalise on Australia’s appeal if it is to arrest its relative decline. If this trend continues it will have serious economic consequences, not just for the tourism industry, but for Australia more broadly.

If Australia’s share of global tourism arrivals continues to decline at the present rate, by 2030 Australia can expect 3.6 million fewer international arrivals than if it maintained its share.

If the tourism share of GDP continues to decline at the present rate, it could fall to as low as 2.5 per cent of total GDP by 2030.⁹ This implies a total tourism GDP of \$50 billion (in constant prices), a \$22 billion shortfall on what would have been achieved if the sector maintained its GDP share of 3.6 per cent.¹⁰

Australia’s trade accounts have deteriorated structurally over the past decade. Given the potential for slower growth in the volume and value of commodity exports, this trend could deepen. Tourism, like other services exports, should offer the potential to contribute to a more diverse and resilient national economy and to an improved balance of payments – but this will only be possible if a serious change program begins now.

Tourism plays a vital role in supporting jobs and output across the economy. Economic analysis commissioned by the Department of Resources, Energy and Tourism demonstrated that the tourism industry has very strong linkages to the rest of the economy. The gross output multiplier for the industry is estimated at 1.85 – meaning that every dollar directly spent on tourism generates an additional 85 cents of activity in the rest of the economy. In terms of labour, for every million dollars spent on the provision of goods and services for the tourism industry, more than 12 jobs are supported across the economy. A \$22 billion shortfall in tourism output, even based on the current share of GDP, implies 100,000 fewer jobs in tourism and industries supplying the sector, than if it maintained its current share.¹¹

Australia cannot afford to let this tourism decline drift along unchallenged. To do nothing would pose serious risks to national growth, jobs, economic resilience and the balance of payments.

8 Australian Tourism: How Deep the Recession? Report prepared by Geoff Carmody & Associates for the Tourism and Transport Forum, March 2009.

9 This is derived by taking the average annual rate of decline in tourism’s share of GDP between 1998-99 and 2007-08 and extrapolating it to 2030. This estimate is used for indicative purposes to show the likely effect of a continued trend decline in the share of tourism GDP. Recent past trends in the tourism share of GDP have been influenced by a range of factors, including the state of the business cycle and the relative performance of other industries. The actual performance of the tourism industry in terms of its share of GDP in the future will also depend on these factors as well as the performance of the industry itself.

10 GDP calculations are based on IMF forecasts of Australian GDP to 2014 in constant prices and then using a long-term average annual growth in Australian GDP (approximately 3.3 per cent) to estimate the value of Australia’s GDP in 2030.

11 Assumes that tourism GDP accounts for approximately half of tourism consumption expenditure.

SIGNIFICANT CHALLENGES AND OPPORTUNITIES LIE AHEAD

To arrest its decline, the tourism sector will need to address some major challenges and grasp key opportunities.

In the short-term the industry confronts the impacts of the global economic downturn.

Over the medium and longer-term, the profile of Australia’s tourism source markets is changing dramatically, along with the demographic profile of tourists. Non-leisure tourism is likely to rise in visitor numbers and value.

Climate change, and government and social responses to it, may have major and unpredictable impacts across the industry, which need to be factored into long-term planning arrangements.

But if Australia gets it right, the long-term prospects for tourism activity are strong.

TRA has developed a scenario model from 2007 to 2030 to provide insight into the broad demographic and sectoral market changes Australian tourism will confront, using as its starting point the December 2008 forecasts produced by the Tourism Forecasting Committee. Inbound analysis was restricted to the top ten markets plus India. The TRA scenario model suggests there could be 100 million annual visits,¹² increasing the annual value of tourism expenditure by 60 per cent to around \$140 billion (Figure 7).¹³

But to capture these opportunities the Australian tourism sector is going to have to achieve significant performance improvements.

The global downturn and the medium-term outlook

In the short-term the Australian tourism industry will be affected by the global economic crisis. While the industry has bounced back from external shocks before, the magnitude and speed of this downturn has been unprecedented. And it is not clear how long or severe the downturn will be.

As a discretionary expenditure item, tourism can certainly expect to be adversely impacted for as long as economies and income levels decline or remain depressed. United Nations World Tourism Organisation data shows a decline in international tourism growth in the second half of 2008 and indicates this trend will continue through 2009 and possibly into 2010.

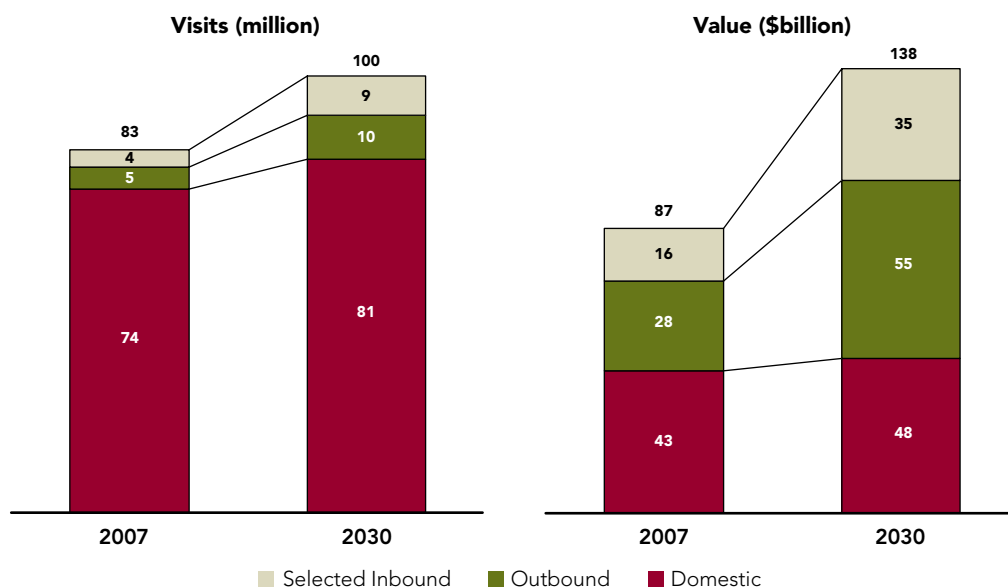
Even though the Australian dollar is down from its high of US\$0.97 in July 2008, the loss in wealth and consumer confidence in many of Australia’s main source inbound markets, and within our own domestic market, will have a significant and continuing adverse impact on tourism demand.

The December 2008 Tourism Forecasting Committee forecasts showed a decline of 4.1 per cent in inbound tourism over 2009 and there is a risk that conditions will continue to deteriorate. Inbound tourism is cautiously projected to return to positive growth from 2010.

12 Domestic, inbound and outbound.

13 The inbound component of this total only includes Australia’s top ten markets and India.

Figure 7: Projected tourism activity to 2030



Selected inbound: Top 10 markets plus India, representing about 70% of total inbound visits and value

Domestic: 0–14 years of age traveller cohort not included in scenario model

Source: TRA scenario model developed for the National Long-Term Tourism Strategy

Domestic tourism is forecast to remain flat with very slow growth forecast from 2010. And outbound travel is forecast to fall by 2.9 per cent to 5.6 million departures in 2009.

Changing source markets

Over the medium-term, big changes will occur in the composition of Australia’s major source markets. According to the TRA scenario model, by 2030 inbound growth in Australia is likely to be dominated by visitors from China and India – see **Figure 8**. China is already Australia’s third largest market after the United Kingdom and New Zealand, yet India does not currently rate in Australia’s top ten countries of origin.

This change in mix of visitors will certainly affect Australian tourism. For example, first time visitors from China tend not to visit regional areas. As these visitors increase as a proportion of our inbound market, on current trends it appears likely that dispersal rates to regional Australia will decline.

Demographic challenges

Demographic change will also have dramatic implications for the Australian tourism industry. The most significant development is that the tourists are getting older. In the domestic market, the TRA scenario predicts that growth will be driven by older Australians in the 60 year plus category. **Figure 9** shows that growth in domestic overnight visits and expenditure between 2007 and 2030 is likely to come almost exclusively from the 60 plus years age cohort.

A similar trend is going to affect our inbound markets. The Japanese market already has a very high proportion of 60 plus travellers. There will be sharp drops in the proportion of working age populations in both China and Germany starting from 2010.¹⁴ Of our key source markets, India is the only country that will have a growth in the proportion of the working age population out to 2030.

Domestically, the rise of flexible labour markets and two-income families has changed traditional Australian holiday habits. A stockpiling of leave has meant that working Australian families have foregone the annual holiday, and perhaps more ominously, a generation of children is growing up without the habit of a local annual break in their own country. Unless offerings are developed which specifically appeal to young Australians, domestic tourism is at risk over the long-term of losing out to other goods and services, including outbound tourism.

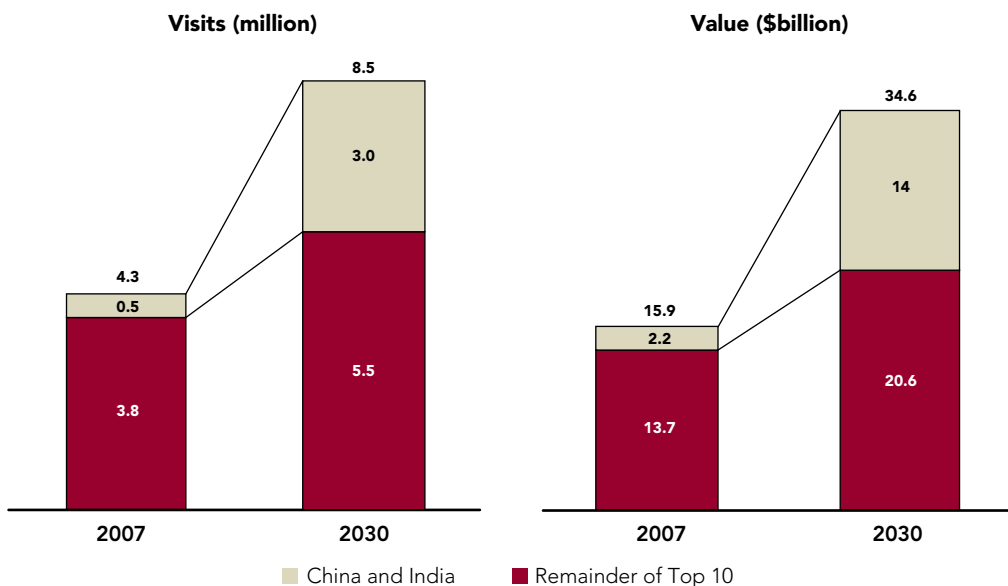
Demographic change will also affect the tourism workforce, particularly the SMEs that dominate the tourism industry. Unless we increase the working age population through migration or increased participation, fewer working age people relative to the total population implies a higher level of taxation on incomes and profits. This would affect not only the supply of labour but also the level of entrepreneurial activity and investment in tourism.

Growth in non-leisure tourism

Modern tourism is about more than leisure. Other main purposes include business, education, and employment. Leisure tourism today still accounts for a significant share of both arrivals and expenditure – see **Figure 10**.

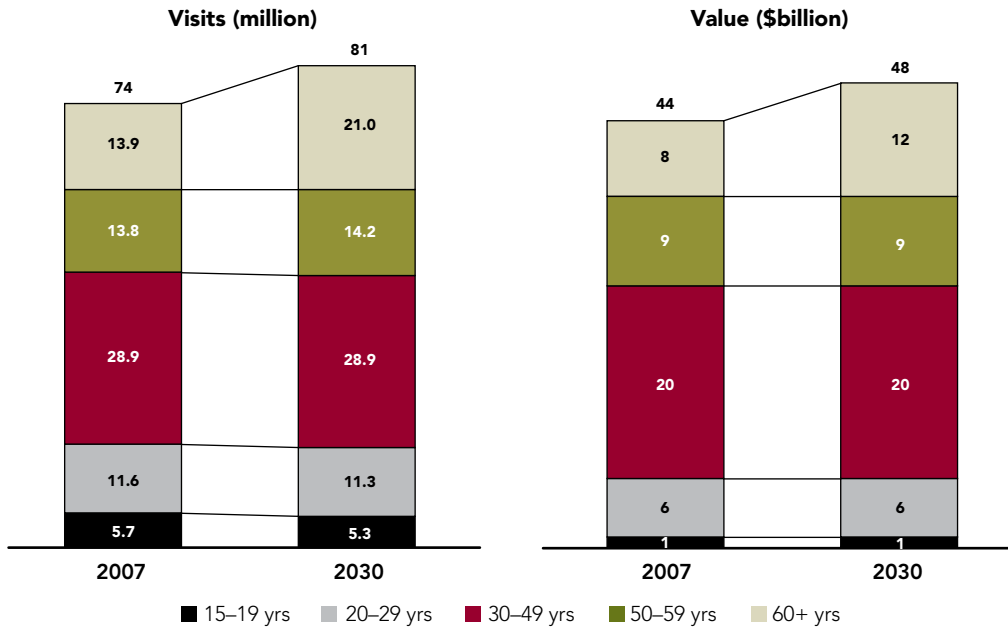
14 United Nations: *World Population Prospects, 2006 Revision*.

Figure 8: Emerging markets – China and India will drive inbound growth



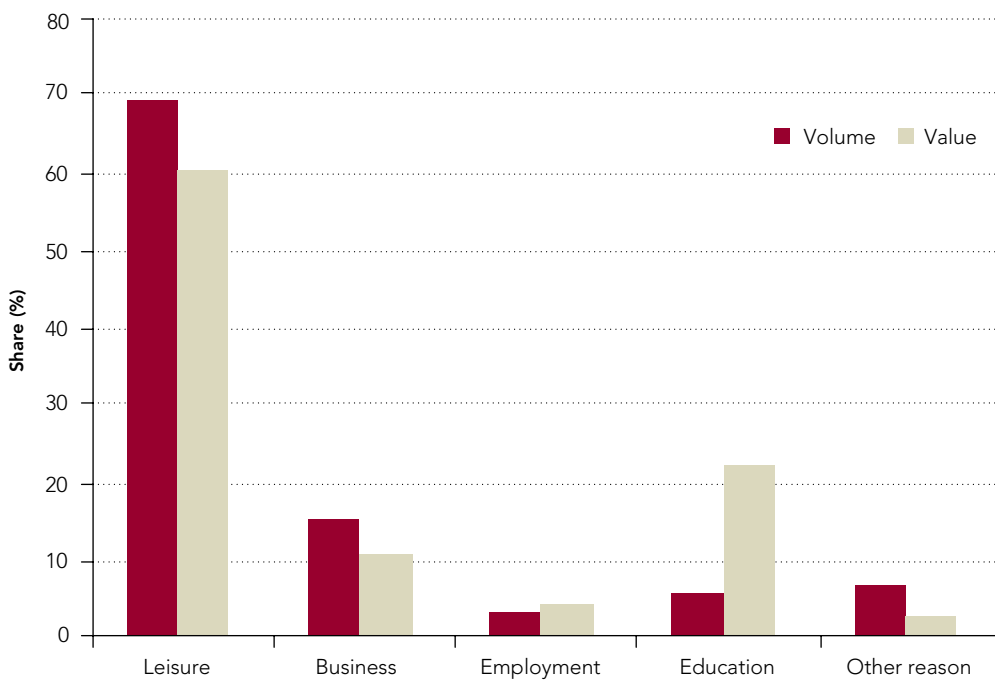
Remainder of Top 10: New Zealand, Japan, UK, US, Singapore, South Korea, Malaysia, Germany, Hong Kong
 Note: India is not currently included in Australia’s Top 10 countries of origin
 Source: TRA scenario model developed for the National Long-term Tourism Strategy

Figure 9: Domestic Tourism Activity and Expenditure to 2030



Note: Domestic: 0-14 years of age traveller cohort not included in scenario model
 Source: TRA scenario model developed for the National Long-Term Tourism Strategy

Figure 10: Arrivals and expenditure by main purpose of visit, 2008



Source: ABS Cat. No. 3401.0, Overseas Arrivals and Departures, Australia; and Tourism Research Australia, International Visitor Survey, December 2008
 Note: Value = Total Inbound Economic Value

However the importance of non-leisure tourism is increasing rapidly.

Since 2000, over 45 per cent of the growth in expenditure from all international visitors to Australia has been derived from international education visitors. Visiting friends and relatives provided the next highest contribution to expenditure growth over this period, contributing over 20 per cent – see **Figure 11**.

Under the TRA scenario model it is likely that non-leisure travel will grow faster than leisure travel out to 2030. It will be important for the tourism sector to factor the opportunities provided by business, education and employment tourism into its planning – see **Figure 12**.

Climate change

Climate change is going to have short, medium and long-term impacts on Australian tourism.

In the short and medium-term, climate change will create compliance costs associated with government policy reforms and the need to respond to changing consumer perceptions and purchasing behaviours. The impacts of these costs will also flow through in the form of financial risks with rising insurance premiums, changes to business financing and the need for business to incorporate these costs into their plans.

In the medium to long-term, climate change will impose costs due to tourism's dependence on key natural assets and the built environment. *The Intergovernmental Panel on Climate Change (IPCC), Fourth Assessment Synthesis Report* lists the direct physical impacts Australia will experience:

- "Significant loss of biodiversity is projected to occur by 2020 in some ecologically rich sites including the Great Barrier Reef and Queensland Wet Tropics;
- By 2030, water security problems are projected to intensify in southern and eastern Australia;
- By 2030, production from agriculture and forestry is projected to decline over much of southern and eastern Australia; and
- By 2050, ongoing coastal development and population growth in some areas of Australia are projected to exacerbate risks from sea level rise and increases in the severity and frequency of storms and coastal flooding."¹⁵

Failure to act on climate change will undermine the tourism industry's capacity to contribute to the economy over time.

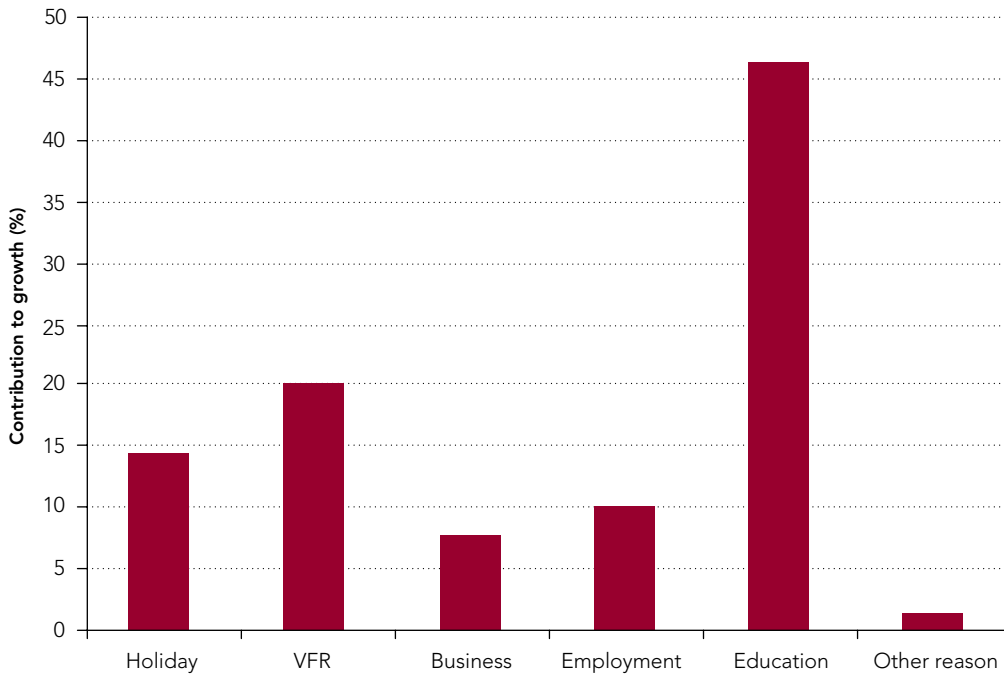
The potential impacts of climate change on Australia's natural attractions and tourism related infrastructure will need to be factored into tourism planning processes just as they are in broader development planning processes. This planning must be supported by analysis of the impacts of carbon prices and changing consumer demand patterns. For example, Australia is at risk of being seen as an environmentally unfriendly choice for international long-haul holiday makers due to the amount of fuel required to get here.

The Australian Government, in partnership with the Australian tourism industry and state and territory governments, developed the *Tourism and Climate Change: Framework for Action* (the Framework), endorsed by the Tourism Minister's Council. Initial implementation of the Framework has commenced and needs to progress.

An essential element of building the resilience and productive capacity of the tourism industry will be the provision of clear and consistent information to the industry by governments and peak industry bodies, as well as access to the Climate Change Action Fund. These steps could assist the industry to adapt to climate change impacts and prepare for a carbon constrained future.

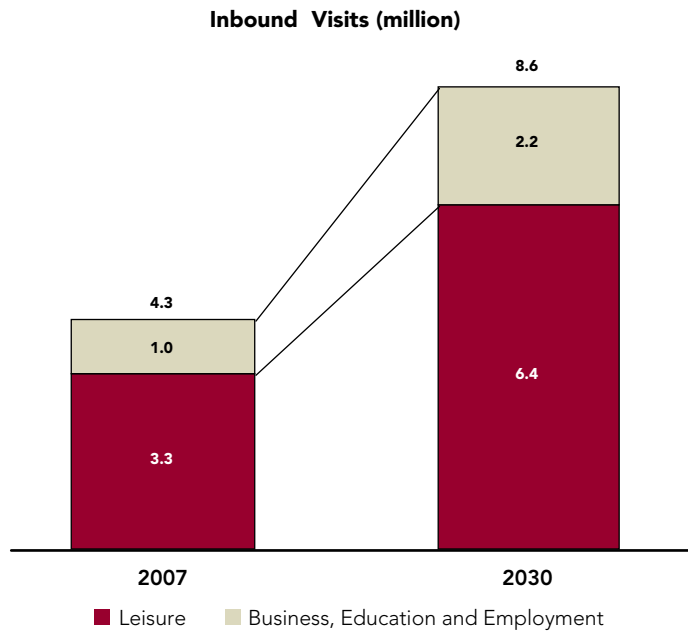
¹⁵ *Climate Change 2007: Synthesis Report; An Assessment of the Intergovernmental Panel on Climate Change*, December 2007, <http://www.ipcc.ch/ipccreports/ar4-syr.htm>.

Figure 11: Contribution to expenditure growth by purpose, 2000 to 2008



Source: Tourism Research Australia, International Visitor Survey, 2008

Figure 12: Projected arrivals by purpose



Selected Inbound: Top 10 markets plus India, representing about 70% of total inbound visits and value
 Source: TRA scenario model developed for the National Long-Term Tourism Strategy

DEVELOPING A NATIONAL STRATEGY

Strong industry perspective

In May 2008 the Minister for Tourism, the Hon Martin Ferguson AM MP, announced the development of the National Long-Term Tourism Strategy, focussed on the supply-side or productive capacity of the industry and directed at maximising the benefits of tourism to the Australian economy.

The supply-side focus of this Strategy aims to ensure that the Australian tourism industry can deliver an attractive and competitive tourism product, consistent with Australia's comparative advantages and with long-term trends in domestic and international demand, and complemented by appropriate advertising and marketing campaigns. The objective of the Strategy is to position Australia to be a premium tourist destination built upon our unique competitive advantages.

This is not to say that demand-side issues are not important and have not been considered. However, the conceptualisation of tourism as a demand-side industry has meant that government policy, and industry participation, have focussed primarily on demand-side considerations. To build the resilience and competitiveness the industry needs going forward, requires a focus on the supply-side to redress the imbalance.

The Minister appointed a Steering Committee, comprising senior business and civic leaders from within and outside the tourism industry, based on each individual's experience and expertise across a range of economic, industry and government posts, to provide input to the development of the Strategy.

From the outset, the Steering Committee decided that focusing on a small number of high level recommendations with a high potential return would produce better outcomes for the tourism industry than a myriad of small scale recommendations.

The ten recommendations set out in this report are aimed at building the tourism industry's productive capacity and productivity by developing the support infrastructure in terms of an effective statistical and research base, quality and accreditation standards, better connectivity and industry leadership to ensure it will be resilient and strongly positioned for long-term success.

The Steering Committee recognises that the final formulation of a Strategy is a matter for Government, and that it will necessarily undertake its own consultative processes to reach a whole-of-government approach to tourism. Within Government, the Department of Resources, Energy and Tourism has established an Inter-departmental Committee with all relevant agencies represented to build the whole-of-government approach.

Widespread consultation

The Steering Committee's work has been informed by extensive consultation with tourism industry stakeholders. Peak industry associations, state and territory tourism organisations and national tourism organisations have all had the opportunity to make submissions and to present their views to the Steering Committee. Consultations have extended to all areas of government that have a material interest in tourism policy, including central agencies.

While it would be impossible to consult the almost 600,000 small business tourism operators, the Chair and Steering Committee members have consulted with all states and territories and sought to consult as many tourism practitioners as possible to hear their experiences and gauge their perspectives on impediments and opportunities for their industry.

The Steering Committee's work has been conducted within the context of several concurrent policy review processes and the Steering Committee has represented the interests of the tourism industry through its input to these reviews, particularly the National Aviation Policy Statement, the National Infrastructure Audit and Priority List, the Taxation Review – Australia's Future Tax System, and The Mortimer Review of Export Policies and Programs.¹⁶

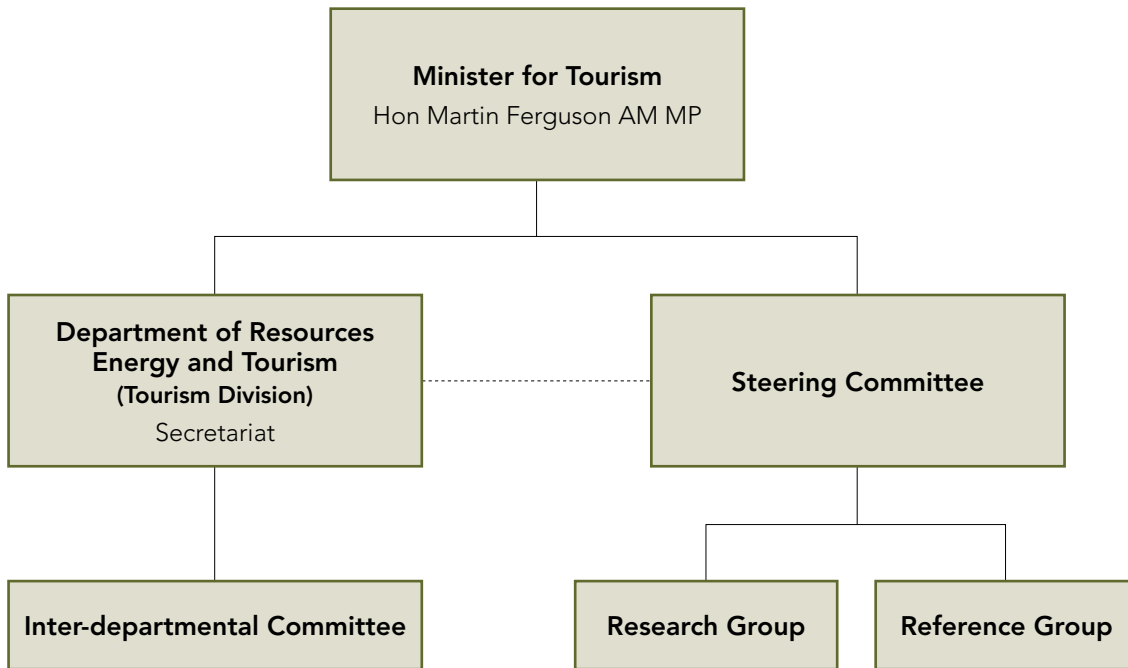
In the process of researching and identifying issues and formulating and testing potential responses, a Reference Group made up of tourism stakeholders was established. The Reference Group participated in two workshops, the outcomes of which also informed the work of the Steering Committee. **Figure 13** sets out the organisational relationships between the partners in the work of the Steering Committee.

To develop a detailed understanding of the modern tourism industry and build a strong evidence base for its recommendations, the Steering Committee has been assisted by a Research Group including TRA, all the key tourism research agencies, and private sector firms conducting tourism research. A consultant was also engaged to provide strategic support to the Steering Committee and facilitate the interactions between the partners in the process.

As the recommendations were being developed, a consultancy – independent of the Steering Committee – was commissioned to provide economic analysis in support of the report.

¹⁶ See Appendix 4.

Figure 13: Steering Committee Organisational Arrangements



SUPPLY-SIDE ISSUES MUST BE ADDRESSED

For many years Australian tourism's energies have been focussed on stimulating demand through advertising and marketing campaigns. These demand-side activities will remain important.

But to compete in a competitive and rapidly changing environment, Australian tourism must equally focus on its supply-side, and develop destinations that are attractive, intelligently priced, welcoming, easily accessible and well-supported by surrounding infrastructure.

This will only be achieved through product development and innovation based on sound research, through investment in quality tourism product, and via the development of supporting infrastructure including e-commerce, delivered by a motivated and efficient workforce with the right mix of skills.

Counteracting supply-side impediments

Through its extensive consultations, the Steering Committee identified a range of factors that are crucial to the tourism production process, but currently constraining the industry from meeting challenges and capturing opportunities. The Steering Committee identified 54 issues raised by Reference Group participants and previous reports on the tourism industry. Through workshops and further consultations, the Steering Committee refined this list to the seven core areas that would have the greatest and most sustained impact on the tourism industry. These are set out in the table below.

Infrastructure

The economic viability of Australian tourism depends on the quality and availability of its tourism infrastructure, from roads, airports and ports, to visitor centres, museums, parking, street lighting, hotels, guest houses and motels.

There is a consensus among tourism stakeholders that under-investment in tourism infrastructure is inhibiting the industry's performance and its growth prospects.

A STCRC report on state, territory, regional and local tourism strategies and plans noted that, while Australia has a well developed and diverse range of tourism infrastructure, there is a need to continue to increase, promote, attract and manage investment in tourism infrastructure in order to grow the industry.¹⁷ Areas identified for further development included mid-range accommodation, cruise line facilities, sporting infrastructure and wildlife interpretative centres.

Most international visitors arrive and depart by air. The passenger facilitation process can play a significant role in shaping a tourist's lasting impression of our country. Joint industry and government work to improve passenger facilitation, while preserving the integrity of Australia's quarantine and security regimes, must remain a priority. As the largest island country in the world, Australia will always need to protect its borders against external threats. But we need to be mindful of minimising inconvenience for tourists and offering a welcoming and efficient introduction to, and departure from, Australia. Developing strong linkages between our border protection and security agencies would ensure that the economic importance of the tourism industry is appreciated with respect to passenger facilitation arrangements.

While most of our international gateway airports appear to be keeping pace with air transport demand, Sydney faces capacity constraints with limited slots in peak times. Increased capacity will be required if forecast increases in passenger movements are to be met.

¹⁷ Char-lee McLennan and Lisa Ruhanen, *Analysis of State, Territory, Regional and Local Tourism Strategies and Plans*, Sustainable Tourism CRC, June 2008.

KEY SUPPLY-SIDE IMPEDIMENTS

Infrastructure	Tourism is not adequately considered in infrastructure planning.
Research and statistics	The existing information base is geared toward demand stimulation and promotion of tourism, and needs realigning with supply-side and industry development needs.
Labour and skills	There are imbalances between labour supply and demand and skills portfolios.
Digital technology, distribution and market access	The tourism sector appears slow to adopt online technologies and e-commerce as a means of conducting its business.
Regulations, planning and approval processes	These are often seen as too complex and lacking transparency, and are inconsistent in their application.
Investment	The private sector is ambivalent about investment due to incomplete information about tourism investment opportunities.
Leadership	Fragmented leadership is leading to missed opportunities for productivity improvements.

The Steering Committee recognises ease of access of tourists to Australia is a key supply-side issue. As a long haul destination for most inbound tourists Australia must enjoy aviation connections to all points of the globe if it is to maximise visitations. Unfortunately international aviation is an intensely protected marketplace with a decades old bilateral regulatory arrangement still largely in place. Moreover, a range of governments look to their resident international airlines as a source of national pride and influence. This regime results in protectionism and distortions in the market. The Steering Committee supports the Aviation Green Paper's recognition that tourism is a top priority in the development of international aviation policy and the continuation of aviation liberalisation. It is important that Australia's aviation policy settings continue to provide opportunities for aviation and tourism growth to Australia. Furthermore, the Steering Committee recognises the importance of Australian aviation carriers to Australia and the tourism industry.

Once they have arrived in Australia, many tourists depend on roads, trains and buses to get from airports to cities and on to regional destinations. Chronic under-investment has led to inadequate land transport infrastructure.

In Australia's regions, inadequacies have been identified in roads, lookouts and walkways, toilets, visitor information centres, signage (including a lack of foreign languages), disabled facilities, local airports, and conference and meeting facilities. Responsibility for the provision of much of this infrastructure rests with state, territory and local governments. Inadequate facilities lower the capacity of a region to service the tourism market effectively and lead to poorer economic outcomes for its people.¹⁸

In remote areas a lack of even basic infrastructure – power, sewerage, roads – makes tourism investment in these areas even more difficult, risky and unappealing.

Many managers of Australia's tourism infrastructure do not even recognise that they are part of the tourism industry. Examples of this lack of readiness to cater for tourists can be found in parts of the transport system, entertainment sector, cultural institutions, and even many businesses in tourist-frequented areas.

Many public property assets with significant tourism potential, such as national parks and heritage buildings, are administered purely for non-tourism purposes and are not released or made available to tourism operators. This leads to missed opportunities for the tourism industry and opportunity costs for the economy. It can also result in a degradation of these assets through lack of sufficient investment to properly maintain them. As Tourism Industry Council Tasmania points out: *Much of our current built heritage is slowly decaying because there are no financial incentives to own a heritage listed property and too many restrictions on adaptive reuse.*¹⁹

It is important that government planning better recognises and incorporates the needs of the tourism industry. Given its broad scope, a whole-of-government approach would enable tourism policy to be better integrated into the policy, planning and development processes across all levels of government.

Research and statistics

Research and statistics are essential underlying elements in evidence-based policy development and informed decision-making for both government and industry in areas such as investment, product development, and market development.

TRA is the principal research arm of Tourism Australia. TRA was incorporated into Tourism Australia as an initiative of the Tourism White Paper to bring "an enhanced capacity to meet the research needs of industry and government".²⁰ The TRA's focus on supporting tourism marketing and promotion was particularly valuable when the objective was to stimulate a return in demand following a series of shocks to the industry. Today however, there needs to be a far stronger emphasis on supply-side research, to build a vibrant and sustainable tourism industry.

Another important source of tourism research in Australia is the STCRC which is the largest dedicated tourism research organisation in the world. The STCRC was established under the Australian Government's Cooperative Research Centres (CRC) program in 1997. It collaborates with industry, Australian universities and public sector research agencies to undertake research into the strategic challenges facing Australian tourism, and develop intellectual property for delivering innovation to tourism stakeholders in industry and government. Many of the outcomes of STCRC research are developed into kits, tools and new products to help industry players become more productive and competitive.

In March 2009, the STCRC entered a bid for a third lifecycle of funding under the CRC Program. The Steering Committee considered that the STCRC rebid was consistent with the Government's objectives for the National Long-Term Tourism Strategy and fully supported the bid.

The rebid by the STCRC was not successful, and this outcome will leave a substantial gap in the tourism industry research capability. Funding for tourism research must be retained in some form.

The funding commitment sought by the STCRC was \$36 million over 5 years comprising \$25 million in Commonwealth funding and \$11 million cash and specified in-kind resources from funding partners. The Steering Committee considers this represents the bare minimum required for tourism research. To establish a vehicle to bring together all the necessary research inputs and personnel, and to carry out the research would require funding of around \$30 million per annum.

18 TTF Australia, Tourism Infrastructure Policy and Priorities, 2008.

19 Presentation to the NLTS Steering Committee, October 2008.

20 Australian Government. Department of Industry, Tourism and Resources. Tourism White Paper 2003, p.13.

The ABS is Australia's central statistical authority, responsible for providing statistical services to all Australian governments, and the community more generally. The ABS releases three tourism specific reports:

1. Australian Tourism Satellite Account: measures the direct economic contribution of tourism to the Australian economy;
2. Overseas Arrivals and Departures: measures the number and characteristics of Australian residents and overseas visitors arriving in, and departing from, Australia; and
3. Survey of Tourism Accommodation: measures activity in short-term commercial accommodation in Australia.

Given the ABS's extensive economic and demographic data collection, as well as its data consulting services, there is a wide range of information, including productivity, investment, profitability, labour, and household demographic and consumption data, that is underutilised by government, business, and the broader community. This data may be defined as tourism-related and could be used by industry stakeholders in policy, planning, and decision making.²¹

The TRA and other research agencies are not equipped to support a more intensive supply-side research focus. A capability is needed that supports tourism industry policy, tourism investment planning, and product development. Some market research companies undertake elements of this type of research. The small and medium enterprises that dominate the Australian tourism industry simply do not have the capability to harness this type of commercial research function.

Additional public sector resources will be required to establish this new research and analytical capability. Ideally, it would include Computable General Equilibrium (CGE) modelling capability, and it would provide ongoing (time series) research and survey findings relevant to tourism industry policy and product development into the future.

Labour and skills

Tourism is a major Australian employer, responsible for nearly half a million jobs, half of which are in regional and rural areas.²² Tourism employers include travel agencies, tour operators, hotels, restaurants, retail outlets, museums and cultural centres, taxi and coach businesses, airports and airlines, wineries and tourism marketing agencies.

To survive and succeed, the tourism industry needs an adequate supply of appropriate labour. It can only operate efficiently with a dual labour force: a pool of lower skill employees, both permanent and casual; and a pool of higher skilled, career-oriented employees.

All policy and industry consideration of tourism labour market issues must recognise the importance of this dual labour force.

Tourism is an important employer of lower skilled labour, and offers an alternative to a shrinking local manufacturing sector, and a downturn in the mining industry. It is a major employer of young, migrant and lower skilled people. More than 35 per cent of employees in the accommodation, cafes and restaurants, and retail trade sectors are aged 15 to 24. Tourism provides opportunities for people seeking casual or part-time working hours, seasonal employment or on-the-job training opportunities.

Tourism has demonstrated its resilience through previous shocks and downturns, and should be one of the first industries to recover from the current global downturn. As a seasonal and cyclical industry, it benefits from its flexible workforce and tolerates high employee turnover and an often transient employee population. Tourism's capacity to boost employment quickly in response to demand means it can underpin an accelerated economy-wide recovery.

Tourism equally requires a skilled and dedicated nucleus of professionals. But a perception that the tourism industry does not offer a long-term career path makes it harder for the sector to attract professional skilled workers. In fact, 40–60 per cent of those who complete tourism training courses stay for more than five years in the industry.²³ Tourism industry skills are readily transferable to other sectors, and also attractive in international markets. That tourism employees do tend to work across industries and internationally can bring benefits to Australia in terms of innovation, diversification and global experience.

The institutional arrangements to support the development of skills and training for the tourism sector largely exists through the higher and vocational education systems. However, it is necessary to ensure that these arrangements fully appreciate the needs of the tourism industry and allocate sufficient resources to support the industry development needs.

Until recently, the Australian economy was operating at close to full employment and the tourism sector, like many others, confronted labour shortages. While the economic downturn has alleviated the labour shortages in the short-term, the industry may still struggle to attract sufficient quality workers over the long-term. It will be important for industry leaders to continue to work with Services Skills Australia, other educational institutions, and tourism operators to create and demonstrate the long-term opportunities for tourism professionals.

It is also important to ensure that there is sufficient flexibility in Australia's migration programs and visa arrangements to enable the tourism industry to tap into the labour resources that it needs. Specialist skills will be required, and the industry will need access to low or unskilled foreign workers when labour demand is high.

²¹ The tourism industry is not officially classified as an industry in the traditional national accounting sense. Therefore, tourism-related industry data collected can include both tourism and non-tourism components. However, as indicators, tourism-related data sources can act as substitute data sources in the absence of tourism-specific data sources when used appropriately (as is the case with most data sources).

²² National Tourism Employment Atlas 08, Tourism Transport Forum supported by the Sustainable Tourism Cooperative Research Centre.

²³ Access Economics, *National Long-Term Tourism Strategy, Economic Modelling Consultancy*, 2009.

Many long-term temporary migrants are permitted to work in Australia. The contribution to the tourism industry, particularly in the hospitality and retail sectors can be significant. The current arrangements with respect to the working holiday maker visa allow the tourism industry, along with other industries, to access an expanded pool of labour. In addition, the immigration arrangements through the 457 visa allow the recruitment of specialist skills that are in scarce supply.

However, there is merit in also looking to recognise the needs of the tourism industry in programs such as the Pacific Seasonal Worker Scheme (PSWS). The PSWS was developed as an aid program to improve Australia's relations with its Pacific Island neighbours and to provide unskilled workers to overcome labour shortages in Australia, particularly in the horticulture sector. While the global economic downturn has impacted on labour demand in Australia, at the time that the PSWS was put in place the tourism industry also suffered from unskilled labour shortages. Recognising the needs of the tourism industry in programs such as the PSWS would assist in overcoming labour shortages.

Australia already has a significant potential pool of language skills given its immigration program. Language skills will continue to be important to ensure the industry is able to cater to international visitors from non-English speaking backgrounds. People with language skills need to be encouraged into the tourism labour force. Tour guides should be accredited and licensed to protect the integrity of the Australian tourism offering.

Digital technologies, distribution and market access

The Australian tourism industry urgently needs to become more digitally savvy. Consumers want accurate and timely information on tourism offerings and the capacity to buy instantly and with confidence.

The traditional distribution channels utilising travel agents and wholesalers will remain relevant and important for the foreseeable future, particularly in the international (inbound and outbound) sector and in emerging and niche markets.

A lack of information about Australian destinations and product offerings, combined with difficulties in purchasing those products online, are impediments to Australia's international competitiveness, especially for tourism offerings in regional and remote Australia. Australian domestic tourism faces increasing competition from relatively cheap, short-to-medium haul international destinations which are well established online, have visible customer or industry ratings systems, and are easy to compare and book.

Digital technologies are already playing an increasing role in Australian tourism. Online bookings have increased from 5 per cent in 2001 to almost 35 per cent in 2008 at an average annual growth rate of 34.6 per cent.

Figure 14 shows the percentage of bookings made online by international visitors to Australia and highlights the link between online visibility and online bookability.

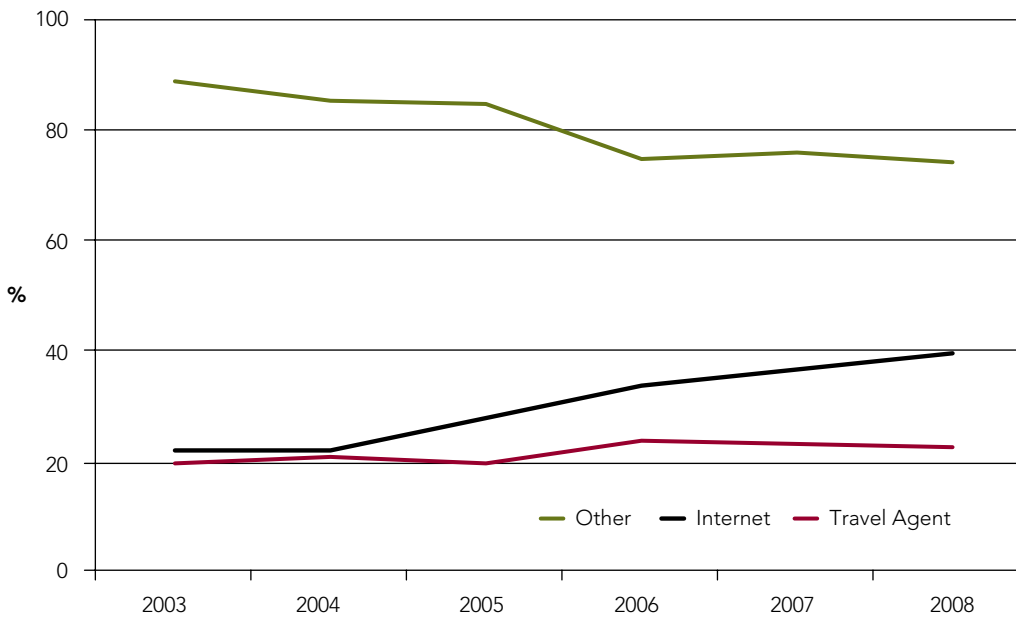
Figure 15 shows the sources used by international visitors to Australia to obtain information about their intended destination. It shows that the internet has increasingly been used as a source of information since 2003.

Australia's small to medium-sized tourism enterprises will need to be encouraged to make the transition to a digital world. It will be a cost-effective way for them to reach their Australian and global markets. The Government's decision to roll-out a national high-speed broadband network will be an important factor in making this transition possible. But SMEs may also need some assistance, particularly in the development of booking engines.

Figure 14: Percentage of bookings made online by international visitors to Australia



Source: TRA International Visitor Survey year ending Sep 2008 (unpublished data)

Figure 15: Sources of information used by international visitors to Australia prior to travel

Source: Tourism Research Australia

Two initiatives point the way forward. The ATDW was created in 2001 as a joint project of the State and Territory Tourism Organisations and *Tourism Australia*. ATDW acts as an industry 'internet utility'. It connects tourism operators, attractions and destinations with a large number of online travel and tourism distributors. The Tasmanian Government has worked with other industry players to take a lead role in encouraging industry to embrace this technology through its Tas e-Connect initiative. The Steering Committee commends these initiatives as models for the future of tourism online.

As Australia's tourism industry migrates to the online world, it will be important that customers can have confidence in the quality of the offerings they buy. Accreditation or ratings programs have been adopted across many industries to improve standards and disseminate industry best practice. In Australia's tourism industry there are around 21 generic or sectoral accreditation and ratings programs. While these programs have achieved some success, the fragmentation and lack of a national approach has diluted their ability to influence consumer purchasing decisions. And the disconnect between product offerings and marketing campaigns has inhibited the development of an integrated brand strategy for Australia.

Australia is lagging behind other countries, notably New Zealand and Hong Kong in our immediate region, in the development of a national quality system for tourism. Developing such a system for Australian tourism must be a key component of Australia's tourism Strategy. The Australian Government made a pre-election commitment to establish a national accreditation system for operators that encompasses quality and value-for-money and reinforces the need to eliminate rogue tourism operators. The Steering Committee strongly endorses that approach.

Regulations, planning and approval processes

Australia must provide a depth of quality tourism product to compete effectively. The widespread view of the industry is there is a severe gap in our offering particularly in top end accommodation in regional locations. Unfortunately Australia's complex array of planning and regulatory requirements across states and territories deliver a serious disincentive to prospective tourism investors. Tourism investors require prime sites attractive to the customer base. Yet applications to develop these locations often bring into play such complex planning and regulatory requirements that prospective investors are driven from the market.

Project developers and investors must comply with laws and regulations in order to take a tourism development from concept to completion. Legislative requirements applying to tourism development vary from jurisdiction to jurisdiction and can involve all three tiers of government. They can cover environmental, planning, infrastructure, foreign investment, local development and Indigenous issues.

Multiple and often overlapping planning and approval requirements and a lack of certainty in some planning environments such as built heritage, environment and Indigenous land-use can cause delays that negatively affect return on investment. This is an issue of international competitiveness for Australia in a global environment where investment dollars are becoming scarce. Such time lags are not encountered in many of our competing tourism destinations, particularly in Asia and the Middle East.

The Australian Government provides a Major Project Facilitation (MPF) function within the Department of Transport, Infrastructure, Regional Development and Local Government. The MPF function covers all industry

CASE STUDY:

Digital Technologies: *How the Australian tourism industry can better harness existing digital technologies: Australian Tourism Data Warehouse, Tourism Exchange Australia (TXA) and Tas e-Connect*

The Australian Tourism Data Warehouse (ATDW) was created in 2001 as a joint initiative of the State and Territory Tourism Organisations and Tourism Australia. ATDW acts as an industry 'internet utility', connecting tourism operators, attractions and destinations with a large number of online travel and tourism distributors. As of early 2009, ATDW had over 26,000 information listings representing over 15,000 products being distributed by about 150 online distributors. Utilising the ATDW technology, these products are directly searchable via Google, significantly increasing their accessibility and visibility to consumers around the world. Currently, around 30 per cent of Australia's tourism product is represented online, meaning there is significant scope to take further advantage of this resource.

In 2007, ATDW formed an alliance with V3 Leisure to create an open online booking platform called *Tourism Exchange Australia (TXA)*. TXA enables tourism operators to provide online booking facilities to accompany their ATDW listings without being locked into a particular booking engine or distributor.

The Tasmanian Government has worked with other industry players to take a lead role in encouraging industry to embrace this technology through the *Tas e-Connect* initiative. *Tas e-Connect* uses the ATDW and TXA technology to allow tourism operators to provide booking and payment capabilities in real time to consumers around the world. This allows consumers to check prices and availability of tourism product in Tasmania and book and pay online.

Approximately 600 industry representatives attended training sessions to learn how to make most effective use of the *Tas e-Connect* technology and anecdotal evidence suggests operators are pleased with the increased demand resulting from the move into digital distribution.

Getting involved in the *Tas e-Connect* program carries no direct charge to tourism operators. There are, however, costs involved for a tourism operator to become bookable online through their own website and through an online commercial distributor. When a consumer makes a booking via the open booking exchange, payment to the tourism operator is immediate and all inventory in connected systems is updated automatically.

In one example, a lodge in Devonport, Tasmania, reported a rise in occupancy rates from 45 per cent to 90 per cent after starting to distribute their product online.

In January 2009, Tourism Western Australia announced its intention to utilise the ATDW and TXA technology to incorporate booking facilities onto the *westernaustralia.com* website.

Applying the existing technology and exploiting the resource provided by ATDW and TXA on a national scale would help make Australian tourism product more accessible to both international and domestic consumers.

sectors including the main sectors that make up the tourism industry such as accommodation, resorts, hotels and attractions, etc. However, there is no specific body that provides a 'one-stop-shop' facilitation for tourism projects, many of which are smaller in size than those that would be successful in obtaining coverage of the MPF function.

The Australian Government is in the process of completing a review of the Environmental Protection and Biodiversity Conservation (EPBC) Act (1999) that is in place to protect areas of national, natural and heritage significance. The review is considering a range of issues relevant to tourism stakeholders. It is examining management arrangements for world and national heritage sites and Commonwealth national parks. This has significance for the tourism industry as it relates to management of some of Australia's most iconic tourism attractions. There have recently been several high profile instances where overlapping Australian, state and territory environmental assessment and approval requirements have delayed or deferred investment in new tourism product.

The outcomes of the review of the EPBC Act may also have implications for investment in tourism operations and infrastructure associated with access to protected areas for tourists and tourism operators.

An issue of concern to many tourism businesses is the complexity of the tax system. Complexity adds to the compliance and administrative costs imposed on businesses and makes it harder for smaller operators, especially, to comply with tax regulations. Tourism is also a significant employer of low skilled labour, and is impacted by the interactions between the welfare and taxation systems and resultant incentive structures to participate in the workforce.

Tax issues that industry have consistently been raising in recent years and which are also discussed in some of the submissions to the Henry tax review include:

- tax depreciation schedules currently discourage faster replacement of some tourism related assets e.g. hotel furniture and fittings, and aircraft;

- the lack of transparency with regard to the nature and basis of the Passenger Movement Charge (PMC); and
- the inequitable tax treatment of tourism in relation to other sectors, e.g. land tax exemptions are available to primary producers but not to tourism operators.

The Council of Australian Governments (COAG) is the overarching body tasked with reform of Australian, state and territory government regulation. It is already looking at the reform of development approvals processes as part of its reform agenda. If model regulation in one state could be adopted by all states and territories, this would vastly reduce the regulatory burden on tourism developers.

The development issues are not confined to legal and regulatory challenges. The industry needs to work harder to build community support for tourism. The tourism industry in Australia has enhanced national prosperity and built a more cosmopolitan and vibrant society. But this process has not been without flashpoints of friction, usually where tourism development is seen as detracting from community cohesion or risks damaging the natural environment. It will be important for the tourism industry to be responsive to specific community concerns and more confident and active in promoting the widespread benefits that tourism can bring.

Investment

Greater investment in the tourism industry will be essential to build productive capacity and drive long-term profitability, innovation and growth in the sector.

Overall total investment in the tourism industry, as measured in terms of private sector gross capital formation, has grown strongly over recent years – see **Figure 16**. Despite this growth, concerns have been raised by the industry that investment levels are sub-par and that there may be emerging problems of inadequate supply of accommodation for visitors.

A drop in foreign investment in tourism is of particular concern. The Foreign Investment Review Board in its 2008 Annual Report noted a surge of 82 per cent in the value of offshore investment applications to the Board in 2005–06. While foreign investment in mining rose by 64 per cent and manufacturing increased nearly five-fold, there was a 46 per cent decline in the number of tourism investment approvals.

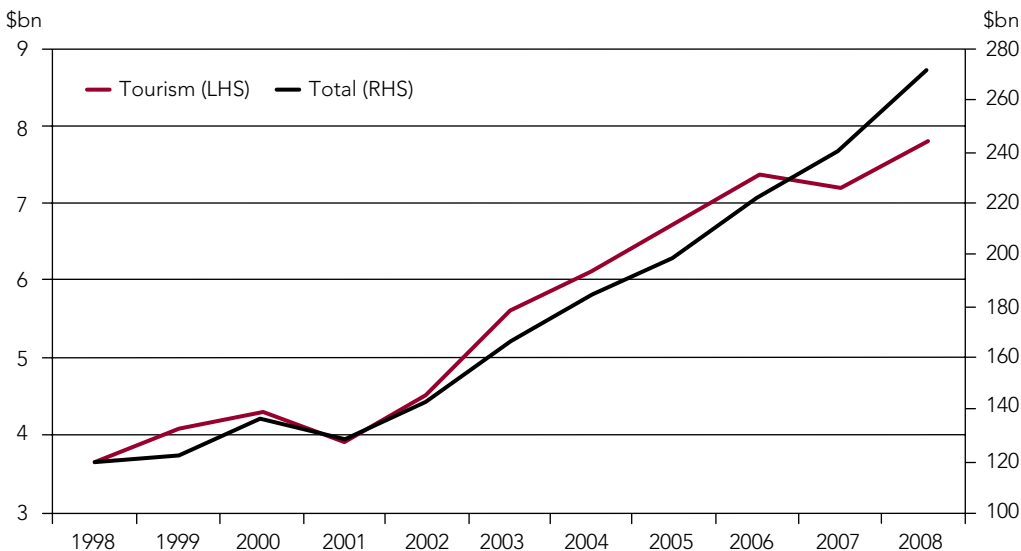
Tourism as an industry is characterised by relatively low profitability and this has undoubtedly affected investment levels in the sector. Between 1998–99 and 2003–04 the return on investment in the tourism industry averaged 11.8 per cent compared with an all industry average over the same period of 14.9 per cent.²⁴ This is also reflected in the relatively low profit margins in *Accommodation and Food Service*. According to an Australian Bureau of Statistics survey,²⁵ the profit margin in *Accommodation and food services* in 2006–07 was 9.5 per cent or the third lowest in Australia.

Between 2001 and 2007 the supply of available hotel, motel and serviced apartment rooms in Australia increased from 196,991 to 216,733,²⁶ representing an annual average rate of growth of 1.6 per cent. Over the same period, room occupancy rates rose from around 57 per cent to 66 per cent and although room rates are increasing, some operators report that these have not kept pace with the increases in occupancy and therefore have not supported further investment in new accommodation stock.

Tourism has seasonal demand cycles and is subject to external factors outside the control of the industry. Financial institutions may be unwilling to invest in tourism because it is perceived to be a high risk venture with inadequate returns. This problem seems to be more pronounced in regional and remote areas.

24 AEC Group Limited, National Tourism Investment Strategy 2006.
 25 Australian Bureau of Statistics, Australian Industry, 2006–07, Cat No. 8155.0.
 26 Australian Bureau of Statistics, *Tourist Accommodation, Australia*, 2006–07, Cat. No. 8635.0.

Figure 16: Private Capital Formation – Tourism and Total Industry 1998–2008



Source: ABS and Access Economics

Tourism businesses depend on surrounding public and private infrastructure and amenities to provide a quality tourism experience to visitors. This need for supporting infrastructure, which is outside the scope or control of tourism operators, often adds an extra complication and increases the uncertainty associated with tourism investment proposals.

Limited investor awareness about investment opportunities, the absence of tourism specific performance benchmarks and poor understanding of the tourism sector and its needs in government planning processes, are all impediments to tourism investment.

Complex and lengthy approvals processes add to costs and increase the uncertainty associated with a tourism project. It is often difficult to predict the length of time it will take to have a proposal accepted or rejected. This is a particular issue for developments that seek to utilise our unique natural and cultural assets, which often have a high tourism value. A range of factors contribute to this including a lack of understanding at a regional level of the positive economic benefits that tourism development can bring compared with other investment such as residential housing, and also concerns by local residents of potential reductions in environmental amenity.

State and local statutory zoning practices which restrict land use to residential or agricultural purpose can also hinder tourism development. Government incentives, in the form of land tax exemptions, for primary production and owner occupier residential accommodation also disadvantage tourism in competition for land use.

Leadership

The National Tourism Alliance (NTA) and the Tourism and Transport Forum (TTF) Australia have identified leadership as critical for the tourism industry.

"... The process has been as important as the document itself as it demonstrates the leadership of the industry in taking ownership of the future of tourism."²⁷

"Of all the challenges facing the Australian tourism industry, leadership is the biggest – for without strong leadership, none of the other challenges will be addressed in a comprehensive manner. Leadership is required at all levels of the industry, but it needs to start at the top."²⁸

Tourism is a diverse sector dominated by small enterprises, which do not have the resources to develop and articulate a common vision for the sector. But there are shared interests and interdependence as all tourists deal with many industry providers during their stay.

The fragmented nature of tourism has not only resulted in a lack of recognition of its economic significance but also contributed to a lack of consideration of the needs of tourism in government policy, planning and development processes.

Industry leadership is currently spread over numerous government and industry representative bodies. At a national level, tourism is represented by the NTA. Other national peak bodies include the TTF and the Australian Tourism Export Council (ATEC). Many industry associations represent tourism-related sectors, including restaurant and catering, hotels, events and conventions, training and skills, the aviation industry, and travel agents, to name a few. At the state and territory level there are individual government tourism organisations, tourism industry councils, and numerous regional tourism bodies.

This fragmentation presents a challenge for the industry to work strategically within the private sector and with all spheres of government to deliver outcomes of broad benefit for tourism.

The industry has suffered a high turnover of people, particularly within key management, professional and leadership positions. This has occurred in industry and government and has weakened the tourism industry's capacity to participate in and influence key decision making processes.

The industry requires leadership and champions to advocate the industry's importance and its case for better inclusion in national planning. It is up to tourism industry leaders and government representatives to find ways to work together to ensure that tourism is united in working for mutual benefit.

Enhancing productive capacity and productivity

Productivity and profitability in tourism have traditionally been below the all industry average, making it harder for tourism businesses to compete for people and capital.

Tourism is relatively labour intensive. The economic modelling that has been provided to support the development of the Strategy has identified productivity improvement, and particularly labour productivity improvement, as the most efficient means of maximising the net economic benefit of tourism to the Australian economy.

A drive towards greater productivity will drive down unit costs, giving businesses the flexibility to adjust prices according to market conditions.

At the business level, productivity gains can be delivered by entrepreneurship and a culture of innovation that drives improved business practices. Product offerings must be refreshed to anticipate changing consumer needs and purchasing behaviours, particularly in our key markets. To do this, tourism operators and potential developers will need high quality intelligence. The information base that has been developed over the past ten years to support tourism has been focussed on demand, visitor numbers, and supporting marketing activity. The Steering Committee's recommendations regarding the collection, analysis and dissemination of information will contribute to an increased industry capacity to innovate in line with customer demand.

²⁷ National Tourism Alliance – *Tourism In Australia Future Directions 2009–14*.

²⁸ TTF Australia – *Project X*.

AUSTRALIA CAN CAPITALISE ON ITS COMPETITIVE ADVANTAGES

The persistent strength of the Australian brand confirms that Australia can capitalise on a wealth of assets that differentiate us from other destinations around the world.

The Australian tourism industry will need to meet the needs of diverse travellers over the next twenty years. It is neither necessary nor desirable to be prescriptive about the types of tourism offerings that individual operators or investors might wish to provide. But as the Steering Committee conducted its discussions and deliberations around Australia, four broad 'themes' were almost universally raised.

They are:

- Indigenous culture;
- Landscapes;
- Sophisticated cities and regions; and
- Our people.

Australia has become complacent about its attractiveness to tourists. While each of the four competitive advantages listed above represent the essence of Australia and a destination, they are all in some respects contestable. Competition for the tourism dollar has intensified rapidly. Australia must either work harder to present these key competitive advantages to the market, or it must look to other sources of competitive advantage.

Australia's Indigenous culture

Indigenous culture is a key point of differentiation for Australia in a highly competitive international tourism market. International visitors who participated in at least one Indigenous tourism activity during their trip accounted for around 16 per cent of all international visitors to Australia during 2007. At least one Indigenous experience was had by 677,000 domestic overnight visitors.

Indigenous tourism provides opportunities for Indigenous people to improve the economic and social welfare of individuals and communities. It can provide a platform for cultural preservation and the facilitation of cross-cultural understanding, as well as contributing economically to the tourism industry and to the overall economy.

The role that Indigenous Australians and culture can play in Australian tourism extends beyond simple economic return.

The Steering Committee sees a number of areas where opportunities exist for greater levels of Indigenous participation in the tourism industry. Many of these will require resources to continue existing initiatives or to launch new initiatives. They include:

- Increasing the engagement of Indigenous people in the tourism industry and labour force, particularly through industry partnerships;

- Increasing the quality and variety of Indigenous experiences and services available to the domestic and international tourism markets and effectively linking product with promotional campaigns and distribution channels;
- Improving access to credible tourism accreditation programs for Indigenous tourism operators;
- Integrating Indigenous tourism product into the tourism master planning processes for National Landscapes through educating Indigenous people and communities interested in exploring tourism development opportunities;
- Encouraging leadership in Indigenous tourism by building a base for a national body; and
- Establishing new qualitative and quantitative research into the demand for Indigenous tourism and the economic impacts of increased participation.

Australia's landscapes

Nature-based tourism is at the heart of Australia's tourism offering. Australia as a destination is well known for "fabulous beaches", "unique wildlife and habitats" and providing "an experience of a lifetime".²⁹ Nature-based tourism is important for the dispersal of visitors outside our major cities, offering socio-economic opportunities for regional Australia, including Indigenous communities. It is also valuable from a conservation perspective; cultivating, promoting and demonstrating our relationships with the environment, our heritage, and living cultures.

Two thirds or 3.43 million international visitors to Australia in the year ended September 2008,³⁰ participated in one or more nature-based activities. In all markets, visits to national or state parks was a preferred activity, while the domestic market also favoured bushwalking and rainforest walks. In the same period, there were 12.88 million domestic overnight and 12.51 million domestic day nature-based visitors. Domestic nature visitors spend more per person than the average for domestic visitors.

The Steering Committee believes that an assessment of the latent tourism potential in many of our natural assets, National Parks, and Cultural and World Heritage areas will identify an untapped tourism potential.

The Australian Government's National Landscapes program provides a good example of how natural assets can be protected and also harnessed for tourism. The program aims to encourage visits to our natural environments. It has generated significant stakeholder support, both in-cash and in-kind, and has provided a valuable strategic direction for our regional areas.

²⁹ David Donnelly, Instinct and Reason Consultants, "Propensity for UK and German Travellers to Adapt Travel Intentions Due To Rising Awareness of Climate Change Issues", May 2008.

³⁰ Tourism Research Australia, *International Visitor Survey*, 2008.

National Landscapes provides a working model to protect our landscapes and cut through the jurisdictional and regulatory impediments that sometimes hold up responsible development.

The Australian Government is supporting the development of a Tourism Master Plan Template which will provide the foundation for long-term development and delivery of quality natural and cultural tourism experiences.

Sophisticated cities and regions

As Australia looks to the long-term future of tourism, it is going to be vital to continue to invest in our sophisticated cities and regions. The rising significance of business, education, and employment tourism points to the importance of having vibrant and appealing cities in which to live, work, study and experience Australia. The expected increase in visitors from India and China is also significant, because on current trends these visitors tend not to disperse to regional areas. Australia's regions will need to develop appealing events and attractions to tempt these new markets.

Australia already has many examples of successful arts and food and wine festivals; a strong record in conferences and business events; and a leading capacity to host major sporting and cultural events. But international competition is increasing and Australia will need to be focussed and energetic if it wants to host high quality events that attract domestic and international visitors.

Our people

A great asset for Australian tourism continues to be our friendly, tolerant, and culturally diverse society. The Country Brand Index rates Australia highly in relation to our welcoming nature to tourists. The Australian character and way of life are instrumental in how we are perceived internationally. It offers a distinct point of difference.

APPENDICES

Appendix 1 – Steering Committee Terms of Reference

BACKGROUND

The Australian Government has announced the development of a National Long-Term Tourism Strategy (the Strategy). The Strategy will provide a long-term vision for the tourism industry and establish the strategic rationale for consistent long-term policy engagement with the tourism industry by successive governments. The Strategy will look to set the strategic direction of the tourism industry to 2020 and beyond with the key policy objective being maximising the net economic benefits of tourism to the Australian economy.

The primary focus of the Strategy will be on the supply-side of the tourism industry. This reflects that many of the challenges facing the industry are about ensuring that it has the productive capacity to meet the future demands of tourism consumers. This will cover not only the supply of tourism product to the market, but the essential inputs to the tourism industry that it needs to remain competitive both within the context of international and domestic tourism, and also against other competitors for consumers' discretionary expenditure. This means greater attention must be paid to supply-side issues such as investment, labour and skills, climate change, and infrastructure. It also reflects that much of the policy framework for the demand-side of the industry is well established. However, consideration of the demand-side and how it will inform future industry development will also be needed.

MANAGEMENT AND MEMBERSHIP

The Strategy will be developed in close cooperation with the tourism industry, and across all levels of government. This reflects the fact that the Strategy will contain actions and activities that encompass all elements of the industry. A Steering Committee will be established to develop and bring forward ideas for consideration by the Australian Government. The Steering Committee will be small but broadly based. Steering Committee members are expected to bring a broad business and tourism perspective to the development of the Strategy within the Australian economy.

The membership will include one representative from the Australian Standing Committee on Tourism (ASCOT). This member will disseminate information to, and collate feedback from, ASCOT members on the development of the Strategy. All other members will be expected to consult broadly both within and outside of their own memberships.

PROCESS

The Steering Committee will be responsible for considering how the tourism industry can position itself to maximise its contribution to net economic growth. This will include an examination of tourism industry performance and consideration of the potential for growth in the industry.

The Steering Committee will identify and explore ideas on areas where there is scope for an improvement in the performance of the tourism industry and discuss how these issues might be addressed, whether through policy intervention by Government or by the tourism industry acting on its own behalf or jointly with Government.

Consideration of Government policy intervention will need to be assessed against an appropriate economic framework where the rationale for policy intervention is demonstrated in response to market failure and on the basis of an examination of the net benefit of the intervention.

Steering Committee members are expected to play an active role in developing and bringing forward ideas.

SCOPE

A Discussion Paper has been prepared by the Department of Resources, Energy and Tourism to assist the Steering Committee discussions.

TIMING

It is anticipated that the Steering Committee may meet four times in 2008/early 2009 and deliver a draft report to the Australian Government by March 2009. This report will be used to guide the Australian Government in consideration of this matter.

SUPPORT

The Department of Resources Energy and Tourism will provide secretariat support for the Steering Committee.

The Government will establish an Inter-departmental Committee to coordinate the Whole-of-Government policy development for the Strategy.

Appendix 2 – National Long-Term Tourism Strategy Steering Committee

No	Name	Position	Organisation
1	Margaret Jackson AC (Chair)	Chairman Chairman Former Chairman Director	FlexiGroup Asia Pacific Coalition on HIV/Aids Qantas Billabong
2	Saul Eslake	Chief Economist	Australia and New Zealand Banking Group Ltd.
3	Jeff Kennett AC	Chairman Member Director	'beyondblue' & the Enterprize Ship Trust. The Singapore Tourism Board's 'International Advisory Council for Tourism' Jumbuck Entertainment Ltd, Q Limited and Australian Seniors Finance.
4	Gregory Hywood	Chief Executive	Tourism Victoria
5	Jenny Lambert	CEO	National Tourism Alliance (NTA)
6	Matthew Hingerty	Managing Director	Australian Tourism Export Council (ATEC)
7	Christopher Brown	Managing Director	Tourism and Transport Forum (TTF) Australia
8	Karen Jacobs	Owner	Kwillana Dreaming
9	Kayleen Collins	Former Executive General Manager	Cairns International Airport

Appendix 3 – Reference Group Membership

Organisation
AAA Tourism
Accor – Asia Pacific
Association of Australian Convention Bureaux
Australian Casino Association
ACT Tourism Industry Council
Australian Capital Tourism
Australian Chamber of Commerce and Industry
Australian Federation of Travel Agents
Australian Hotels Association
Australian Industry Group
Australian Regional Tourism Research Centre
Australian Services Roundtable
Australian Tourism Data Warehouse
Board of Airline Representatives of Australia
Business Events Council of Australia
Caravan, RV and Accommodation Industry of Australia
Cruise Down Under
Ecotourism Australia
Hotel, Motel and Accommodation Association of Australia
Indigenous Tourism Australia
NSW Tourism Industry Council
Qantas
Queensland Department of Tourism, Regional Development and Industry
Restaurant and Catering Australia
Service Skills Australia
South Australian Tourism Commission
Sustainable Tourism Co-operative Research Centre
Sydney Airport Corporation Limited
Tiger Airways
Tourism and Transport Forum Australia
Tourism Australia
Tourism Council Western Australia
Tourism Industry Council Tasmania
Tourism NSW
Tourism Northern Territory
Tourism Queensland
Tourism Research Australia
Tourism Tasmania
Tourism Training Australia
Tourism Victoria
Tourism Western Australia
VAustralia
Victorian Employers' Chamber of Commerce and Industry
Winemakers' Federation of Australia

Appendix 4 – Concurrent Government Policy Development Processes

The Steering Committee has recognised the importance of ensuring that the Strategy is considered in the context of other policy development processes being undertaken by Government. These processes need to be cognisant not only of the direction of the Strategy but also of the economic, social and environmental importance of the industry. As mentioned above, the Steering Committee has expended considerable effort ensuring that the interests of tourism are considered in the development of policy in areas that will impact on the tourism industry into the future.

Aviation Review – National Aviation Policy Statement

On 2 December 2008, the Government released the Aviation Green Paper which describes the initiatives and policy settings the Government is proposing to enable a vibrant and prosperous aviation industry; one that delivers the highest standards of safety and security, competitive aviation markets and services, investment in infrastructure, and environmental responsibility.

The Green Paper provides explicit recognition of the tourism industry's importance to the sustainability of Australia's aviation industry. It notes that the Aviation White Paper will complement the National Long-Term Tourism Strategy, helping ensure continued growth in one of Australia's most important industries.

The Green Paper also recognises that tourism is a priority in the consideration of air services policy development. The Green Paper indicates that the Government is committed to continuing growth in Australia's international air services, providing additional opportunities for trade and tourism, while maintaining a strong aviation sector. In addition, the Government proposes to continue the liberalisation of international aviation towards 'open skies' agreements, and that it will use international trade forums to pursue a multilateral approach to liberalisation.

The Green Paper proposes the removal of restrictions on foreign ownership under the Qantas Sale Act, this will bring Qantas into line with foreign ownership restrictions applying to other Australian designated airlines, and better position it to attract investors from around the world.

The process of developing a comprehensive aviation policy will be finalised in the latter half of 2009 with the release of an Aviation White Paper.

National Infrastructure Audit and Priority List

Infrastructure Australia has been created to develop a strategic approach to Australia's future infrastructure needs and, in partnership with the states, territories, local government and the private sector, facilitate its implementation. In the 2008-09 Budget, the Government announced the establishment of a Building Australia Fund. Allocations from the Fund will be guided by Infrastructure Australia's national audit and infrastructure priority list which was published in *A Report to the Council of Australian Governments* in December 2008.

Approximately 600 project submissions were received, with 94 proposals short-listed for further consideration.

The report focuses on industrial related infrastructure issues, with emphasis on the movement of goods, employing surface and maritime modes of transport. The report addresses relatively immediate measures to boost exports of Australian raw materials in one particular sector, rather than addressing the broader and long-term challenges facing the Australian economy as a whole.

Of the ten categories which list the individual initiatives short-listed for further analysis,³¹ eight categories are related to freight or urban transport developments. There is limited mention of transport infrastructure initiatives which would benefit tourism and those which would consequently improve the dispersal of tourism to regional areas. There are seven tourism related transport initiatives which would directly or indirectly support the regional dispersal of tourism:

- the Very Fast Train (Vic, ACT and NSW);
- Bruce Highway Upgrade (Brisbane to Cairns);
- Pacific Highway Upgrades (NSW North Coast);
- Princes Highway Upgrades (NSW South Coast);
- Northern Territory Development Roads;
- Darwin Port; and
- Darwin Airport – terminal and apron expansion.

The projects that were short-listed in the Report are being considered for possible funding. Infrastructure Australia will be publishing more detailed project guidelines and providing greater guidance on what evidence is required in the funding application to improve the quality of future lists of projects.

Taxation Review – Australia's Future Tax System

On 13 May 2008 the Australian Government announced the review of Australia's tax system. The review will look at the current tax system and make recommendations to position Australia to deal with the demographic, social, economic and environmental challenges of the 21st century.

The review will encompass Australian Government and state government taxes, except the GST, and interactions with the transfer system. As part of the review, the Australian Government also announced an investigation into measures to strengthen the financial security of seniors, carers and people with disability.

The review panel released its consultation paper on 10 December 2008, providing the basis for further community input into 2009. The release of the paper follows the recent public submission process where a wide range of ideas, views and issues were received from people and organisations across the entire community. Supplementary submissions to the review were accepted up until 1 May 2009. A tax policy conference is scheduled to be held in June 2009, and the Review Panel is to deliver its final report to the Treasurer in December 2009.

³¹ Table 5 of *A Report to the Council of Australian Governments – December 2008*, p. 68.

Review of Export Policies and Programs (The Mortimer Report)³²

On 22 September 2008, the Minister for Trade, the Hon Simon Crean MP, released the *Review of Export Policies and Programs* report undertaken by Mr David Mortimer AO and Dr John Edwards. The report provides a comprehensive review of Australia's approach to trade and international investment and recommends the adoption of a four pillar, integrated export and investment strategy, consisting of:

1. International competitiveness – expanding Australia's productive potential and diminishing the impediments to export capacity.

The Review found that it is important to accord a high priority to export and investment performance and capacity in the domestic microeconomic reform agenda to lift Australia's international competitiveness.

2. Market access – opening up export and investment opportunities by removing impediments and distortions imposed in other markets.

The Review found it is important to maintain focus on a multilateral trade negotiation system, but to also accord a high priority to bilateral and regional efforts and to opening services and investment markets.

3. Market development – supporting the internationalised business sector through export and investment facilitation programs that reflect contemporary needs, including targeted market development strategies.

The Review supports the role of the Department of Foreign Affairs and Trade and Austrade in promoting trade and investment and supports the continuation of export facilitation programs with adequate core funding.

4. Coherence and coordination – integrating policies and programs at all levels of government to promote efficient and effective deployment of national trade resources.

The Review called for greater coordination with the states and territories in priority setting and the planning and delivery of trade and investment services.

The Review covered the tourism industry's export performance in recent years, and considered some of the factors that have impacted on its performance. The main influences included: exchange rate influences, labour and skills shortages, Australia's competitiveness as a long-haul destination alongside the emergence of low-cost carriers servicing cheaper short-haul Asian destinations, and high fuel prices.

To improve market access for the tourism industry, the Review urged the Government to "use the opportunity of the Government's forthcoming aviation policy framework to map out a pathway for freer trade in aviation transport, with the aim of increasing passenger flights into Australia and promoting greater competition for the benefit of both passengers and air freight issues".

³² *Winning In World Markets – Meeting the Competitive Challenge of the New Global Economy*.

