The Australian Federation of Travel Agents:

Submission to the Senate Economic Committee on Working Holiday Visa Bill 2016

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AUSTRALIAN FEDERATION OF TRAVEL AGENTS

Contents

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About Australian travel agents and AFTA

Overview of the Australian Travel Sector

Australian travel agencies currently employ over 35,000 Australians nationally and contribute over $30 billion annually to the economy across more than 3,500 locations in Australia. Over the past five years the industry has seen significant change but has continued to grow at a rate between 2% and 3% annually.

The Australian travel sector contains businesses both large and small, ranging from ASX listed companies, including Corporate Travel Management (CTD), Flight Centre Travel Group Limited (FLT) and Helloworld (HLO), online only agents such as Expedia.com.au, to sole operators in small regional towns. Travel agencies are a major employer within the community in which they operate providing sought after professional advice to Australians travelling domestically and overseas both in the leisure and corporate travel sectors. In the 2014/2015 financial year, 83% of all international travel by Australians was purchased through a travel agent.

About AFTA

The Australian Federation of Travel Agents Ltd (AFTA) was founded in 1957 to:

- establish professional standards for travel agents;
- stimulate, encourage and promote travel;
- bring together those acting as intermediaries in the distribution of travel related services;
- build strong working relationships with suppliers and consumers of travel related services.

As the peak industry body in Australia, AFTA represents the majority of retail travel agents including all of the major travel agency groups. AFTA's membership accounts for approximately 80 percent of Australia's travel intermediaries representing more than 96 percent of travel intermediary turnover. AFTA also has a substantial base of associate members, representing non-intermediary sectors of the travel related services industry. Members are bound by AFTA's Code of Ethics and are accredited (where eligible) under the national industry scheme known as the AFTA Travel Accreditation Scheme (ATAS).

AFTA represents the interests of its members on many local and international associations and boards, including peak bodies of other national associations. AFTA also contributes significantly to the Australian domestic tourism industry by taking leadership on many challenges and engaging with like-minded industry representative bodies.

AFTA administers Australia's only accreditation scheme for travel agents known as ATAS. ATAS has been endorsed by all state and territory jurisdiction's consumer affairs and fair trading departments. This follows the deregulation of the eight separate legislative regimes, governing travel agents from state and territory jurisdiction.

ATAS accredited travel agents are committed to maintaining Australia's world class travel industry. In particular, ATAS accredited travel agents strongly believe in a thriving Australian tourism domestic industry, in which Australians also enjoy holidaying domestically.

Executive Summary

AFTA's position on the proposed Working Holiday Maker Reform package is that it is imperative that the reform measures do not include any changes the departure tax formally named the Passenger Movement Charge (PMC). Central to this position is understanding the rationale for proposing a lift in the PMC and examining other revenue options to ensure the Working Holiday Maker Reform package is revenue neutral without lifting the PMC. Therefore, this submission will focus on providing analysis on the importance of not lifting the PMC and request that the Senate *vote NO to the Passenger Movement Charge Amendment Bill 2016*.

AFTA has consistently advocated for the continued freezing of the PMC at the rate of $55 per person. It represents a significant fixed cost in a highly volatile market which affects demand for travel to and from Australia. At the current rate of $55 per passenger, the PMC is the already the second highest departure tax in the world after the UK Air Passenger Duty. Importantly, because the PMC does not vary with distance, the PMC is in fact higher than the UK Air Passenger Duty on short-haul sectors such as Trans-Tasman routes where it represents nearly 10% of an average return fare.[1]

This level of taxation has a detrimental impact on local travel agents who still provide travel planning and booking services to 83% of air and cruise departures by Australians. While the taxation rate of the PMC is proposed to increase by 9%, travel agent profitability continues at 3%[2] and airline profitability in Asia at 3.9% or $5.94 per passenger[3]. This proposed increase in the PMC, in extremely tight operating conditions acts to further erode any economic growth opportunities for Australian travel agents. If this proposed tax increase is supported by the Senate, modelling conducted by the International Air Transport Association (IATA) on a $60 PMC will directly remove $377.4 million from the Australian economy and result in 3,840 less jobs for Australians.

AFTA's submission details the following actions:

1. The Senate not support and VOTE NO on the *Passenger Movement Charge Amendment Bill 2016*.
2. Adopt recommendations as detailed in the Tourism and Transport Forum submission to this Committee which is based on professional modelling from KPMG and pass:
    - Income Tax Rates Amendment (Working Holiday Maker Reform) Reform Bill
    - Treasury Laws Amendment (Working Holiday Maker Reform) Bill 2016
    - Superannuation (Departing Australia Superannuation Payments Tax) Amendment Bill 2016

AFTA further seeks that:

1. All major parties agree to continue the freeze of the Passenger Movement Charge at its current level, which is expected to grow tax receipts to the Government by 5% a year, and;
2. The Government engage in meaningful consultation with the tourism industry regarding any future proposed changes to its tax imposts on the industry.

AFTA wishes to thank the Senate for allowing consultations on the Working Holiday Maker Reform Package and appreciates the invitation to present to the Committee on 26 October 2016.

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[1] IATA, The Economic Impact Of Increasing The Passenger Movement Charge In Australia October 2016
[2] AFTA, 2016 Member Survey and ASX listed Member Annual Reports of 2016
[3] IATA, Economic Performance Of The Airline Industry, Mid-year Report 2016

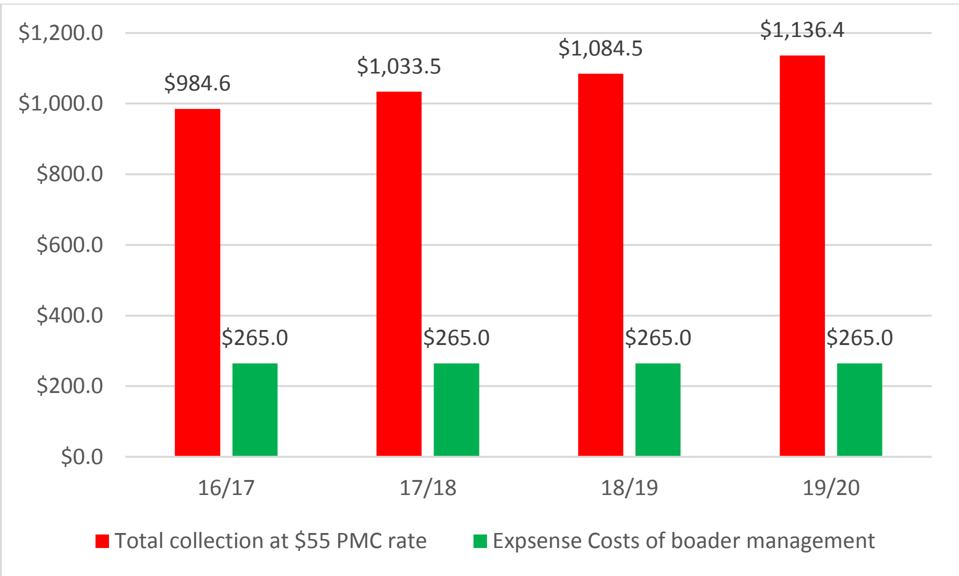
The Departure Tax – PMC

The PMC is viewed by the Commonwealth Treasury as a tourism / export tax with no impact on the Australian public or economy. Commonwealth Treasury has consistently sought to raise revenue without conducting and or releasing, the formal modelling of the impacts the PMC has on the overall economy, supplier or members of the distribution system. Excessive and unexpected increases has created an environment of uncertainty; and the Australian economy is set to lose $377.4 million and 3,840 unrealised jobs if this proposed increase is supported by the Senate[4].

The announcement of this increase by the Government has not followed any consultation nor has the modelling of the potential impacts been released. This is of great concern for the travel and tourism industry. It is for these reasons that AFTA and the broader travel and tourism industry believes that any increase in the PMC will only further soften demand for travel by placing additional pressures on an already fragile market.

In 1994 the PMC was established to recover the cost of customs, immigration and quarantine processing of inward and outward international travellers[5]. The expansion of the PMC to a general revenue (indirect) tax is now used to fund non tourism related industry support programs; and is a breach of Australia's obligations to the 1947 Chicago Convention, Article 15.[6] Government revenue from the PMC is reaching record highs, while government costs for passenger facilitation services has decreased in 2015/16 from $275.6 million to $264.1 million.[7]

In the era of smaller appropriations and costs for government to provide passenger facilitation, the Commonwealth Government forecasted in the 2016/2017 Budget to gain an additional $151 million, or 5% per annum, every year for the forward estimates from increased movements.



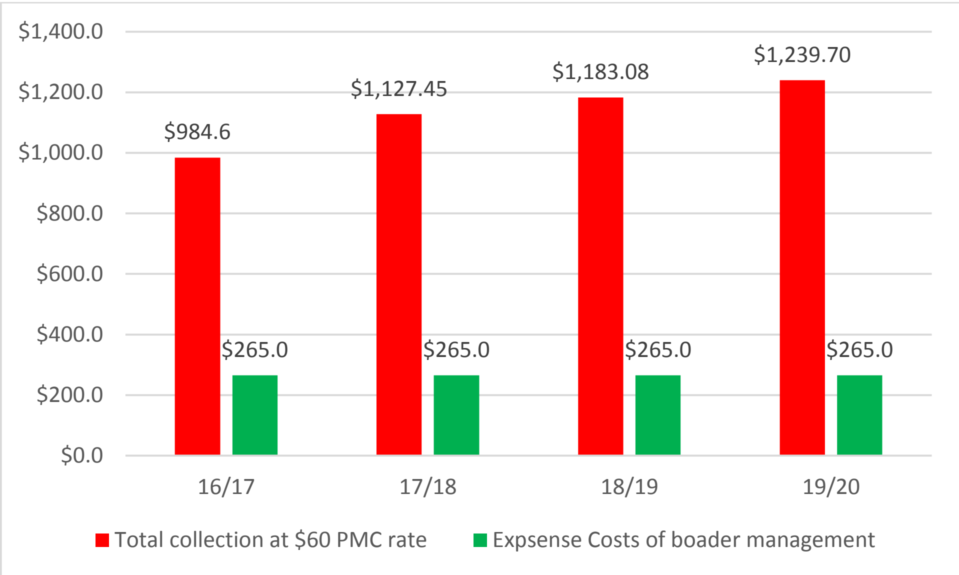
Graph 1 – PMC Government revenue collection from PMC for the forward estimates from economic growth at $55 per person. [8]

[4] IATA, The Economic Impact Of Increasing The Passenger Movement Charge In Australia October 2016
[5] Passenger Movement Charge Act (1995), Second Reading Speech by Hon Ralph Willis MP, Treasurer of Australia
[6] ICAO Articles http://www.icao.int/publications/Documents/7300_orig.pdf
[7] Department of 2015 – 2016 Annual Report Department of Immigration and Border Protection. Page 98
[8] Forward estimate figures were taken from the 2016 Budget Papers as provided by the Commonwealth Treasury during budget lock up.

A key assumption for this growth was the continued taxation rate which had bi-partisan support for a continued freeze, until the Working Holiday Maker package was announced by the Government. A key consideration is that the Working Holiday Maker package and particularly the increase in the PMC, demands that all travellers subsidise one particular tourism segment in Australia. It has been noted by several suppliers that pricing decisions are made in some instances, 12 months ahead of time.

Decisions to operate which aircraft or which cruise ship are modelled with price changes of $1. This demonstrates the need for longer term planning in regards to the PMC and the proposed 9% increase of the PMC which will negatively impact demand. Airlines and cruise companies are now reviewing current product offerings and new route deployments.

The Government appears to have factored a slowing of demand for travel with this proposed increase. The Government stated that lifting the PMC to $60 would raise an additional $260 million over the forward estimates[9]. AFTA has found that this increase indicates a slowing of movements because treasury estimates are $60 million lower than if the 9.09% increase is applied on the 2016 budget figures. As the Treasury modelling has not been released, AFTA is unable to establish how this variance has occurred. This does underpin AFTA's position that lifting the PMC does impact the demand for travel.



Graph 2 - PMC Government revenue collection from PMC for the forward estimates from economic growth at $60 per person

As noted, the PMC was originally intended to be a cost recovery mechanism for the facilitation of passengers. The announcement by the Treasurer stated that the industry was not paying its way and therefore 'not washing its face'.

Based on the information provided in the 2015 / 2016 Department of Immigration and Border Protection Annual Report, the total cost of providing this service decreased from $275 million to $265 million. From these figures alone, the travel and tourism industry is already providing a significant windfall of $719 million in 2016/17; and will increase to $974 million in 2019/20 for the Commonwealth Government.

[9] Treasurer Morrison media release http://sjm.ministers.treasury.gov.au/media-release/104-2016/

Figure 1: PMC contribution to general government revenue for 2016/2017

In 2017/18 the PMC at $55 per person, will collect $1.13 billion for the Commonwealth Government. When the total cost of the new automated departure gates and yearly staffing costs are included against the budget, the Government will over charge travellers by $610 million. At the $60 rate, the Government will over collect by $703 million. The PMC impacts an industry's ability to accommodate shocks because of the small margins on airfares and other travel products. Information collected from various ASX listed company's annual reports indicate that Australia's average international ticket price for 2015-16 was $1091, down from $1,100 in 2014-15.

The $55 PMC therefore represents 5% of the ticketed price and means that the tax charged by the Commonwealth is only 2% lower than what is paid to an Australian travel agent. The increase to $60 per person will see the Government's share of ticket price grow to 5.5%, while the distribution system and supplier share will decrease due to the softening economic conditions. This proposed increase in the PMC will result in Australian travel agencies' margins tightening and putting at risk, more than 35,000 Australians employed in regional and metropolitan Australia.

Figure 2 – The breakdown supplier share of an air ticket based on YE December 2015 average air ticket price for travellers visiting Australia.

Figure 2 details that in 2015/16 there was a reduction in the overall turnover for travel agents and airlines. As the Government's revenue is fixed, the Government's percentage share of every air ticket increased. Due to the small margins of the travel and tourism sector, the impact of the Government's proposed increase in the PMC will have an unnecessarily negative impact on the industry's margins. This is one of the reason why the International Civil Aviation Organisation (ICAO) made a distinction between a charge (levied to defray the costs of providing facilities and services for civil aviation) and a tax (levied to raise general government revenues that are applied for non-aviation purposes) for passenger facilitation. [10]

Australia confirmed to ICAO in 2009 that the PMC, by this definition, was a "non-hypothecated tax levied on international passengers departing from Australian airports," qualifying that it "contributes to recovering the costs of a range of aviation security initiatives". This was a watershed moment that forced the Australian Government to note that there was hypothecation, but was unable to account for the massive over collect. By this definition, the PMC is now a departure tax as it raises revenue for non-passenger facilitation services. Considering the PMC is the highest in the world for the majority of travellers to Australia, passengers have the right and expectation of continuous improvement. The Government's over collection is emphasised when percentage profitability is applied to an average price of an air ticket.

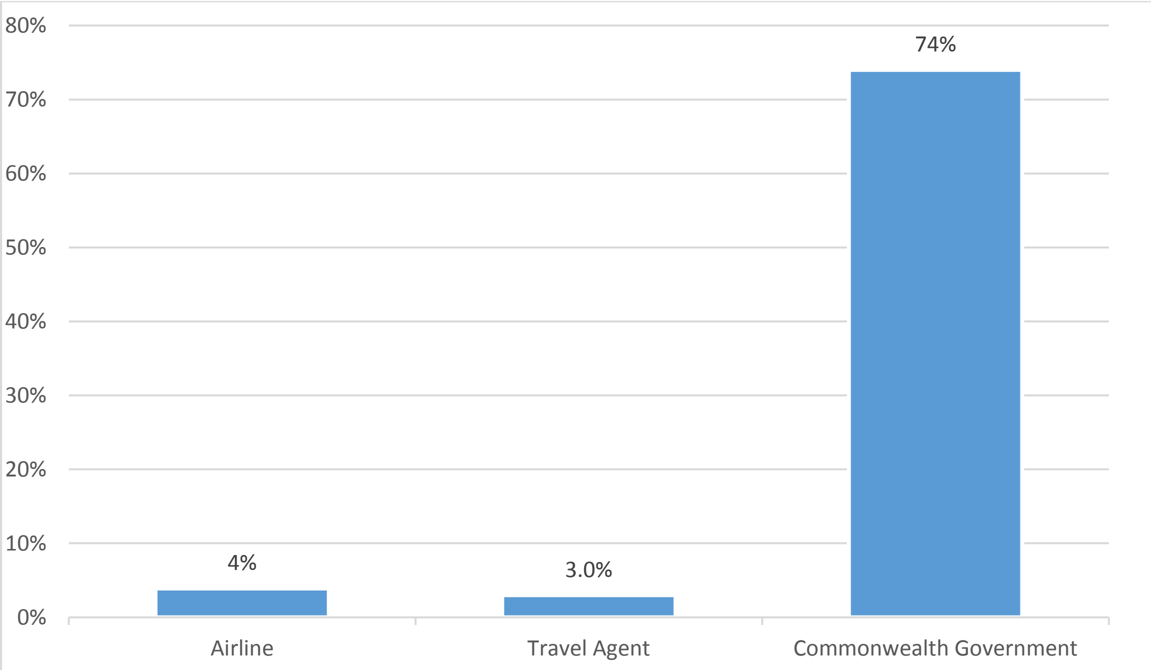


Figure 3 – 2015/16 Yield per air ticket as percentage for airlines, travel agents and the Australian Government

Figure 3 illustrates the margins as a percentage of its turnover for airlines, travel agents in the Asia Pacific and the Government's over collection on each ticket sold. IATA's 2015 State of Industry Report noted that profitability in the Asia Pacific on average for an airline is 3.9%. AFTA's member survey also identified a margin of 3% for travel agents. The Government's profit / over collection per air ticket sold is 75% per ticket, resulting in the Government having higher returns than suppliers.

Given this over collection, AFTA believes that the Government share should not increase to $60. This proposed increase will have the potential to adversely impact Australia's ability to meet the visitor spend targets, attract investment in the broader economy and fulfil Australia's soft power initiatives such as the new Colombo Plan through the Asia Pacific. The PMC is an indirect negative tax which does not support or encourage economic growth.

[10] International Civil Aviation Organization, Policies on Taxation in the Field of International Air Transport 200

Other elements of the Working Holiday Reform Package

In the 2015/16 Commonwealth Budget the Government announced a 32.5 per cent tax on working holiday makers (WHM), without consultation with affected parties, to raise an arbitrary budget contribution set at $220 million per annum. Industry noted that this followed decisions on the taxation status of WHMs by the Administrative Appeals Tribunal.[11]

This announcement caused a large number of negative responses by the tourism and agricultural industries and working holiday makers themselves. As a result the Government conceded to delay introduction of the 'backpacker tax' and to undertake a review to gain an understanding of the actual impact of the new tax. In this review AFTA supported the position of other industry associations including TTF to develop a solution that was revenue neutral funded from the same funding appropriation package. Following the announcement the industry requested KPMG to undertake independent modelling to demonstrate the short comings in the treasury estimates.

The initial analysis undertaken by KPMG indicates that the Government is adequately compensated within its proposed package **without resorting to increasing the PMC**. The following section outlines the analysis to date, based upon the limited information made available by Treasury.[12]

Extract from KPMG modelling which is included in the TTF submission to the Senate Committee:

KPMG's calculations show that there may be an inconsistency in Treasury modelling of the Original and Reformed WHM policy package. More importantly KPMG calculations are based on reverse engineering the implicit assumptions by the Treasury regarding the number of WHMs. The numbers of WHMs deduced in this way appear to be unreasonably small. As at 30 June 2016 there were 137,376 WHMs in Australia. The modelling is redone below using the following assumptions:

- average income of $13,000 per WHM (as per the Treasury estimate)
- 100,000 WHMs (27% reduction relative to the number as at 30 June 2016).

KPMG found that under these new assumptions the policy package without the increase in the PMC generates $864,500,000 in tax revenue over the period 2016/17 – 2019/20. This results in there being no need for an increase in the PMC. The sensitivity of this result can be tested by examining a more conservative assumption about the average income than assumed by Treasury.

AFTA therefore calls upon the Senate and the House Representatives to support and pass the following Bills:

- Income Tax Rates Amendment (Working Holiday Maker Reform) Reform Bill
- Treasury Laws Amendment (Working Holiday Maker Reform) Bill 2016
- Superannuation (Departing Australia Superannuation Payments Tax) Amendment Bill 2016

For further information on the industry position, AFTA refers committee members to the TTF submission.

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[11] Australian Parliament House of Representatives (2016), Income Tax Amendment (Working Holiday Maker Reform) Bill 2016: Explanatory Memorandum, p. 42

[12] Australian Parliament House of Representatives, op. cit. p. 58