The case for increased Tourism Australia funding

September 2024

Australian Tourism Industry Council (ATIC)

Executive Summary

This report provides justification for urgent additional funding of $30 m per annum for Tourism Australia to increase awareness of Australia as a holiday destination and provide marketing support for selective inbound airline routes that promise a large net benefit to the Australian economy

In the COVID period, the importance of inbound tourism was reinforced to economic policymakers. There is an immediate and significant ongoing risk of long-term loss of inbound tourism export revenue, associated taxation receipts, and jobs. To mitigate the economic damage, urgent action is required to increase marketing funding for Tourism Australia.

In 2023/24, inbound visitor spending in Australia after inflation was still 15% below its level in 2018/2019 – a direct loss of $5.2 billion in annual visitor spending. This is even without considering the pre-COVID strong trend growth of inbound visitor spending that was expected to continue over the last five years in the absence of COVID. There are three reasons this loss of inbound visitor spending is set to continue in 2024/25-2027/28.

1. Most significantly, Australia has lost awareness as a destination among potential holiday visitors and tourism sellers due to the closure of its international borders for far longer than key competitor countries. Through Government regulations over the COVID period, Australia significantly undermined the value of our longstanding investment in marketing Australia as a destination.

2. Proposals to reduce international student numbers, working holidaymaker visas, and increased visa costs will slow inbound visitation recovery. In parallel, Australians are now rapidly re-embracing outbound tourism, squeezing domestic tourism, which supports around 600,000 jobs, particularly in regional areas.

3. In addition, China, our major inbound tourism market pre-COVID, is well short of recovery (44% fewer arrivals). Also, Chinese authorities have regularly resorted to constraining outbound tourism to destinations that have earned Beijing's ire. As an economic security measure, it is now urgent for Australia significantly increase investment in tourism marketing in other markets to make us less reliant on Chinese visitation.

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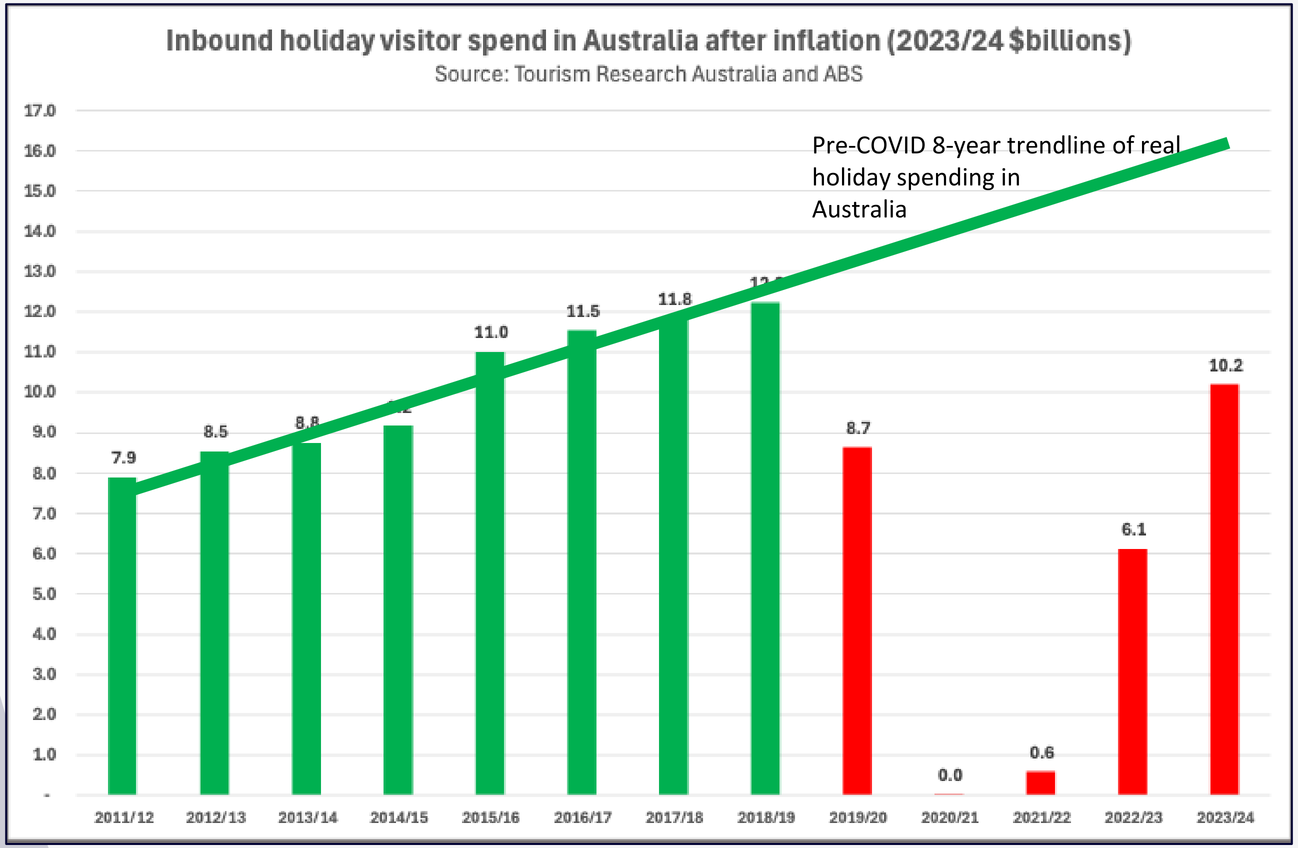
2023/24 annual inbound holiday visitor spend is $6 billion short of recovered from COVID impacts

The real value of inbound tourism spending in Australia in the year ended June 2024, is 14% lower than six years previous in the pre-COVID year ended June 2019. This fall in real inbound tourism spending is concentrated in holiday visitors, where Tourism Australia's influence is greatest in bringing visitors to Australia

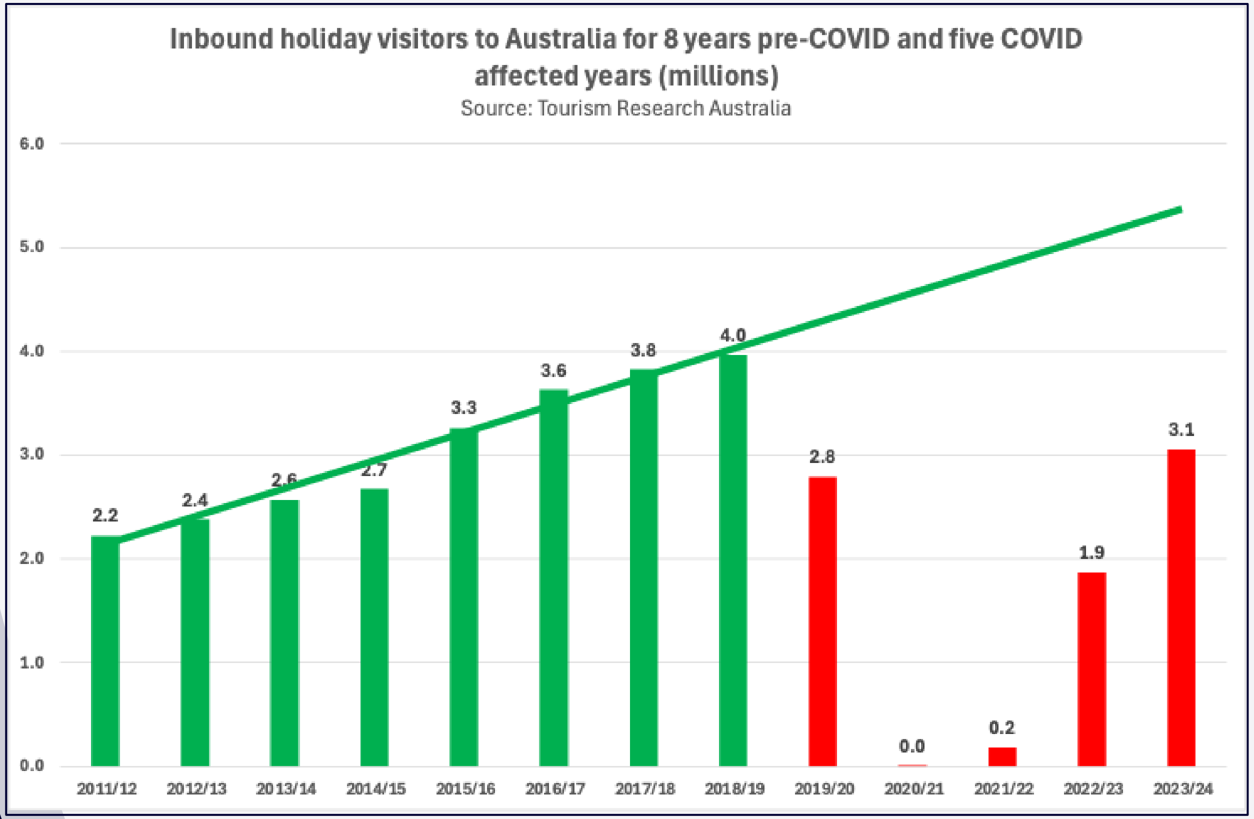
a. There were 1.2 million fewer total inbound tourists than six years previous
b. There were 900,000 fewer inbound holiday visitors or 23% fewer than six years previous
c. Spending in Australia by holiday visitors was down by $2.0 billion or 17% in real terms compared to six years ago. The chart shows real spending in Australia by holiday visitors for the last 13 years.
d. If the trend of real holiday inbound visitor spending in Australia in the eight years pre-COVID had continued, inbound holiday visitor spending would have been around $6 billion more in the year ended June 2024. Compared to the pre-COVID trend over the five COVID affected years to 2023/24, the loss of real inbound holiday visitor spending was around $48 billion



Lost annual inbound holiday spend due to COVID impacts substantially reduced tax revenues in 2023/2024 by around $690 million

A. Reduced inbound adult holiday visitors had a major impact on passenger movement charge (PMC) revenues
   a. 900,000 fewer adult inbound holiday visitors in 2023/24 reduced PMC revenues by $54 million
   b. If instead pre-COVID trends over 8 years in holiday arrivals had continued, with holiday inbound arrivals reaching around 5.4 million by 2023/24, PMC revenues would have been higher in 2023/24 by around $140 million

B. Reduced inbound holiday spend in Australia (see previous chart) has a direct impact on GST revenues that go to State Governments
   a. $2.0 billion less real inbound holiday spending in Australia in 2023/2024 than in 2018/19 reduced GST revenues by $180 million
   b. If instead of COVID impacts, pre-COVID trends in holiday inbound visitor spend in Australia had continued, holiday spend in Australia would have been around $6bn higher in 2023/24 and GST revenues higher by around $550 million



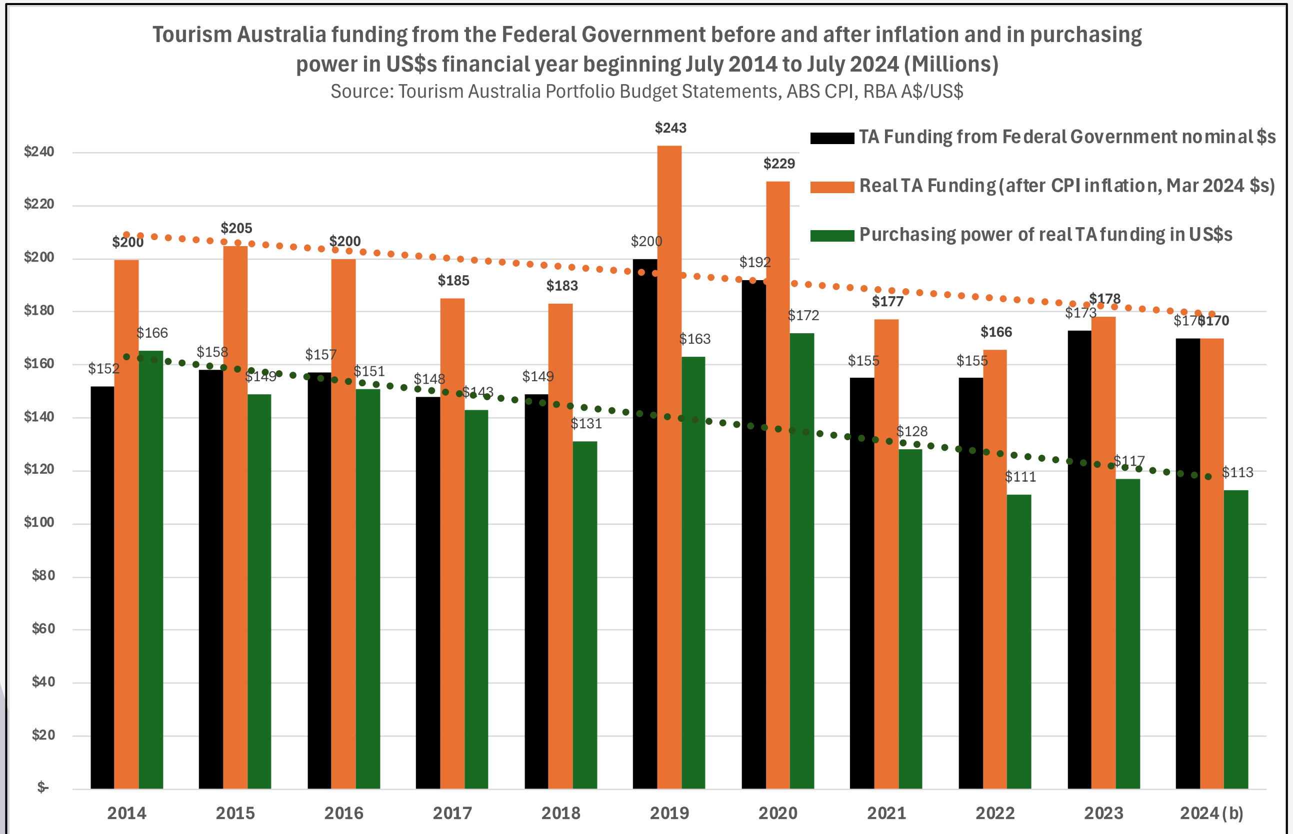
The declining real funding for Tourism Australia and its declining overseas marketing purchasing power over the last decade

In the last decade the real value after inflation of the budget allocation for Tourism Australia has fallen significantly (see orange dotted line in chart below).

This has become a major problem in 2024, owing to the pressing need to regain attention to visiting Australia for a holiday after our long closedown.

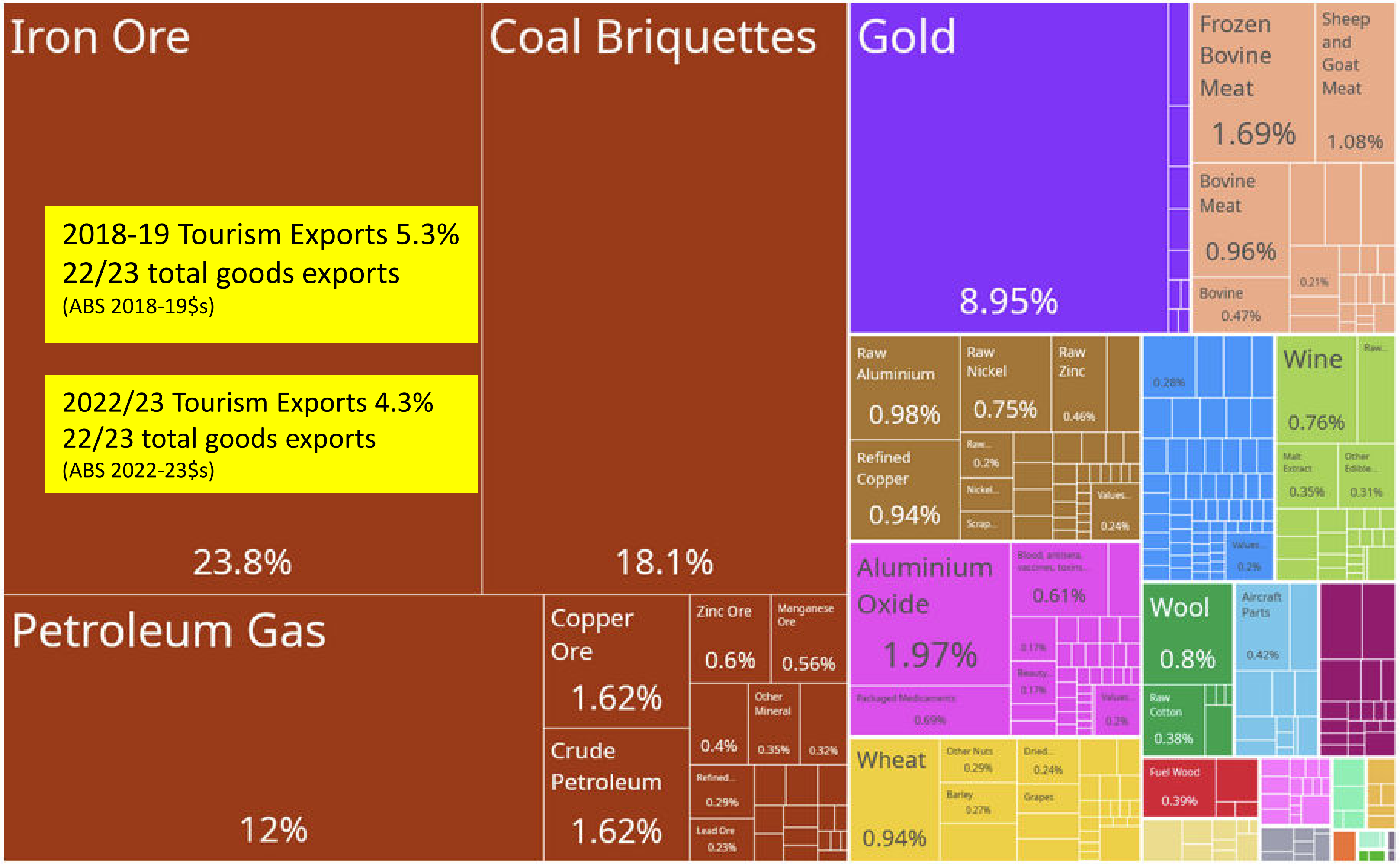
The chart shows the value of Tourism Australia funding after inflation (CPI) and the purchasing power overseas of this budget valued in US dollars.

Compounding a declining TA real budget available to encourage inbound holiday visitors has been Tourism Australia's increased responsibilities over the last decade in seeking business events as well as holiday inbound visitors, encouraging domestic tourism, and seeking to attract international airline services.



Tourism exports Vs goods export sectors

Australia exports



Tourism exports in 2018-19 were similar in value to 2022/23 goods exports of:

- Metal ores (not gold) plus oil; or
- Meat products; or
- Grains + wool + cotton

Tourism exports are far more heavily taxed and labour-intensive than our goods exports

The economic security case for increased Tourism Australia funding to diversify sources of inbound visitors

There is an urgent need to invest in growing inbound tourism from a more diverse range of inbound source markets to reduce economic risks to Australia.

As Ross Gittins noted in the SMH/Age in late June: “When you see the Secretary to the Treasury giving a speech on security, that’s when you know the world has changed radically.” Gittins concluded this was a sign of how much the distinction between economic issues and defence and foreign affairs has blurred as rivalry between the United States and China has grown.

China has an extended history of restricting outbound tourism flows to discipline countries it is displeased with. The Economist magazine on 23 February 2019 included an article: “China’s high-spending tourists bring political clout, Countries at odds with China find holidaymakers from there stop coming”. The Economist noted that “China even uses the term “tourism diplomacy”. The Communist Party’s mouthpiece, the People’s Daily, says this has become an “important and indispensable” tool of China’s foreign policy.” (Source:https://www.economist.com/china/2019/02/23/chinas-high-spending-tourists-bring-political-clout).

Japan in 2012, Taiwan in 2016, South Korea in 2017 and Turkey and Canada in 2019 all suffered reduced outbound tourism from China as led by Chinese Government decisions. Australia, but for COVID, would likely have felt severe cuts in outbound Chinese visitors when some of our other exports to China were curtailed by Chinese Government decisions.

Pre-COVID (2018/2019), China was responsible for 32% of inbound tourist spending in Australia, with the next highest source country of the USA providing less than one-fifth of this spending at 6%. For holiday inbound tourist spending the Chinese share was 19% ahead of the next highest source of the USA share at 9%.

Australian Government leadership through increased Tourism Australia funding will be necessary to diversify inbound tourism source markets to reduce risks facing the economy from reliance on the Chinese market.

The case for increased support to attract selected international airline services through Tourism Australia funding

In the last decade, reflecting in part greater COVID period challenges, Australian airlines have been slow to invest in additional aircraft, while other international carriers have often grown seat capacity far more aggressively. This has and will force seat capacity growth to Australia to come predominantly from offshore carriers.

International airlines conservatively manage their fleet acquisitions and route development planning, commonly taking several years to confirm a decision to increase seat capacity for routes to Australia. The major uncertainty surrounding a new route to Australia for an offshore carrier is mainly in the start-up year when awareness of the route needs to be built with potential consumers. Offering marketing assistance from Tourism Australia in this start-up year, reduces risks for offshore airlines and increases the prospect of new seat capacity being offered.

Ratio of inbound to outbound visitors by market

	2019	2023
Taiwan	437%	213%
South Korea	414%	279%
China	247%	186%
Hong Kong	144%	142%
Malaysia	142%	76%
Singapore	112%	110%
UK	112%	103%
India	111%	99%
NZ	100%	98%
Japan	100%	61%
USA	81%	103%
Other Europe	80%	65%
Vietnam	25%	N/A
Thailand	20%	20%
Indonesia	16%	15%
Total	**87%**	**76%**

Source: TRA IVS & NVS

The table provides one indicator of the relative Australian economic advantage from seat capacity expansions from international airlines by market. The most valuable seat capacity additions for our economy are those with the highest ratio of inbound visitors to outbound travellers. Supporting, for example, a new service from Bali/Indonesia, would reduce Australian tourism's economic contribution by reducing domestic tourism more than increasing inbound tourism.

Tourism Australia's marketing support for increased international airline services should be highly targeted to particular markets, with those shaded in green being obvious first candidates. It would also be sensible to avoid funding international airline route development on routes with a strong Australian airline presence, such as in the UK and NZ routes.

The fall in the total ratio of inbound to outbound visitors from 2019 (87%) to 2023 (76%) is a further indicator of the need for increased marketing funding for Tourism Australia.

Concluding Comments

The impact of the COVID period on holiday inbound tourism spending in Australia continues today.

Australia has lost awareness in overseas source markets due to our longer closure over the COVID period with associated large losses of inbound tourism export revenue, associated taxation receipts, and jobs.

Inbound tourism spending is now around $6 billion less annually than would have been expected without the COVID period, resulting in estimated associated tax revenue losses from PMC and GST of around $690 million in 2023/24. While GST revenue flows to the State Governments, decreased GST revenue increases pressure on the Federal Government to provide supplementary funding for State Governments.

To mitigate the continuing economic damage, urgent action is required to increase marketing funding for Tourism Australia.

Tourism Australia urgently needs supplementary funding to:

1. Boost marketing presence in key inbound holiday markets
2. Diversify inbound holiday markets to have less reliance on Chinese arrivals
3. Provide selective support for new international air seat capacity on overseas carriers from markets with a heavy bias to inbound over outbound tourism and which are not major routes for Australian carriers

A funding boost of $30 million annually is sought for these purposes over the next four years. Reflecting that inbound tourism is a comparatively highly taxed export industry, increased Government support for marketing promises a significant tax return.

The Productivity Commission in 2015 noted Tourism Australia estimates across a range of studies of a 15:1 increase in visitor spending for increased spending on tourism promotion. Applying this estimate, suggests a $120 million increased investment by the Government would increase tourism spending in Australia by $1.8 billion and boost combined PMC and GST revenues by around $200 million over the next four years.