The Parliament of the Commonwealth of Australia

UNDERSOLD OVERSEAS?

TOURISM AND THE EXPORT MARKET DEVELOPMENT GRANTS SCHEME

Report by the House of Representatives Standing Committee on Industry, Science and Technology

June 1993

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PREFACE

The House of Representatives Standing Committee on Industry, Science and Technology is one of eight general purpose committees established pursuant to Standing Order 28B of the House of Representatives. Each of the general purpose standing committees corresponds in its areas of interest with a Federal Government department or group of departments. In the case of the Industry, Science and Technology Committee those departments are: Industry, Technology and Regional Development; Primary Industries and Energy; and Industrial Relations.

The resolution of appointment of the Committee empowers it to inquire into and report on any matters referred to it by either the House or a Minister, including any pre-legislation proposal, bill, motion, petition, vote or expenditure, other financial matter, report or paper. Annual reports of government departments and statutory authorities stand referred automatically to the relevant Committee for any inquiry the Committee wishes to make.

On 8 September 1992, the Minister for Tourism wrote to the then Committee proposing terms of reference for an inquiry into the application of the Export Market Development Grants Scheme to the tourism industry. The terms of reference are set out immediately following the *Table of Contents*.

The Committee received 42 submissions (not counting supplementary submissions) and 25 exhibits in the course of the inquiry. An additional 246 pages of evidence resulted from public hearings in Canberra and Sydney.

The Committee went out of existence on the dissolution of the 36th Parliament on 8 February 1993. The membership of the new Industry, Science and Technology Committee for the 37th Parliament was announced on 12 May 1993 and, on 13 May, the Minister for Tourism wrote to the Committee requesting it to continue the inquiry.

The Commonwealth Department of Tourism greatly assisted in the course of the inquiry by agreeing to the secondment of one of their officers, Mr Mark Durrant, on a part-time basis for the duration of the inquiry. The co-operation of the Department is greatly appreciated. Mr Durrant's assistance to the Committee was of considerable value.

The central question in the inquiry was whether those sectors of the tourism industry, which are presently excluded from eligibility under the EMDG Scheme, are in some way fundamentally different from the part of the industry which is eligible, or from other foreign exchange earning industries which are eligible under the Scheme. The argument that the sectors which have been excluded are merely competing for a 'captive' market by their overseas promotional expenditure, rather than helping to expand the market, did not convince the Committee. Simple equity requires that part

of the industry should not be discriminated against in terms of its access to a Government grant scheme.

On behalf of the Committee I wish to thank all those who gave their time and effort to contribute to the inquiry.

Arch Bevis
Committee Chair
June 1993

TABLE OF CONTENTS

CHAPTER FOUR - PARTIAL INCLUSION OF TOURISM IN THE EXPORT MARKETING DEVELOPMENT GRANTS SCHEME

CHAPTER FIVE - APPLICATION OF THE EXPORT MARKET DEVELOPMENT GRANTS SCHEME TO THE TOURISM INDUSTRY

APPENDICES

TERMS OF REFERENCE

On 8 September 1992 the Minister for Tourism asked the then Committee to inquire into the application of the Export Market Development Grants Scheme to the tourism industry. On 13 May 1993 the inquiry was referred by the new Minister for Tourism to the recreated Industry, Science and Technology Committee for completion.

The terms of reference are set out below.

Without limiting the scope of this reference, the inquiry shall have regard to:

- *the success or otherwise to date of the partial inclusion of tourism (inbound tour operators) in the scheme from 1 July 1990;*
- *the benefits to the tourism industry and the economy generally of extension of the scheme to the whole tourism industry, with particular respect to job creation and potential export earnings;*
- *the program and administrative costs of extending the scheme to all of the tourism industry;*
- *legislative or regulatory requirements of any extension.*

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ACRONYMS/ABBREVIATIONS

ABS	Australian Bureau of Statistics
ATC	Australian Tourist Commission
ATIA	Australian Tourism Industry Association
AUSTRADE	Australian Trade Commission
BIE	Bureau of Industry Economics
BTR	Bureau of Tourism Research
EMDGS	Export Market Development Grants Scheme
FIT	Fully independent traveller
ITOA	Inbound Tourism Organisation of Australia
MIMA	Motor Inn and Motel Association of Australia
TOPS	Tourism Overseas Promotion Scheme
TTF	Tourism Task Force
WTO	World Tourism Organisation

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

A. SUMMARY

A.1 The Tourism Industry

1. Tourism is one of Australia's fastest growing industries. Few other industries can match tourism's contribution to gross domestic product, foreign exchange earnings or employment.

2. Tourism's large positive contribution to the economy and its potential for improving Australia's balance of payments position is highlighted by the Industries Assistance Commission's estimate that a 20 per cent increase in the number of foreign tourists arriving in Australia, which was experienced in 1987/88, would have resulted in a net benefit to Australia's balance of payments of around $235 million (1987/88 prices). Inbound tourism diversifies Australia's export base which reduces the impact on our terms of trade of the volatility of commodity exports.

3. Australia has experienced unprecedented growth in international visitor arrivals over the past decade and up to 6.8 million international tourists per year are forecast to visit Australia by the year 2000. Considering the spare capacity that currently exists in the economy, growth in international tourism has the potential to significantly improve Australia's balance of payments position and create substantial employment opportunities.

4. The international promotion and marketing of the Australian tourism industry will be influential in realising the potential of international tourism to Australia.

A.2 The Export Market Development Grants Scheme (EMDGS)

5. The EMDGS encourages Australian exporters to develop overseas markets by providing grants for expenditure on a range of overseas marketing activities which promote export sales.

6. The tourism industry was eligible for assistance through the EMDGS from 1978 to 1985. A parallel scheme, specifically for the tourism industry, operated between 1985 and 1987.

7. Tourism was readmitted to the EMDGS, albeit in a limited way, in July 1990. Eligibility was confined to tourism operators who supply at least three of the following amenities:

- transport of passengers by land;
- transport of passengers by water;
- transport of passengers by air;

- accommodation;
- tour escort (other than driver);
- admission to a tourist attraction.

8. In effect, the eligibility criteria restrict the application of the Scheme to one sector of the tourism industry - that being, those who offer package tours for an all inclusive price to international tourists (inbound tour operators). Operators of hotels, attractions and hire car companies who offer a single specific product are not eligible for marketing assistance under the EMDGS.

9. The EMDG Act provides for grants to be paid to approved joint ventures and consortia. However, the categories of expenditure by joint ventures and consortia, set out in Section 11ZC of the Act, do not include expenditure to promote tourism services.

A.3 Tourism Marketing

10. The Australian Tourist Commission (ATC) markets 'Australia' generically. This generic promotion is aimed at stimulating a desire to visit Australia. The ATC does not promote individual products, nor does it sell travel. The conversion of this desire into actual travel is the responsibility of the industry.

11. The promotion of tourism products and services plays a vital role in the decision to travel to a particular destination. The international tourist requires extensive information about the attractions, products and services available in the destination under consideration. Should this information not be available or difficult to obtain, then the chances are another destination will be chosen.

12. Generic promotion, undertaken by the ATC, which raises the awareness of Australia's tourism attributes, requires specific product marketing by tourism operators to convert awareness and intention into actual travel.

A.4 Partial Inclusion of Tourism in the EMDGS

13. Due to the short time frame since the partial inclusion of tourism services in the EMDGS and the incompleteness of studies into the impact of the EMDGS on export sales in general, and specifically on international tourism, the Committee is unable to make a definitive judgement on the success or otherwise of the partial inclusion of tourism in the EMDGS since 1 July 1990. However, the ability of the EMDGS to help overcome the high risk and costs associated with developing new export markets was cited in many submissions received by the Committee.

A.5 Application of the EMDGS to the Tourism Industry

14. All submissions received and evidence offered at public hearings detailed supportive arguments for the extension of the EMDGS to the sectors of the tourism industry currently not eligible - the exception being the submission from the Department of Finance.

15. The inclusion of the rest of the tourism industry in the EMDG Scheme would require a change to the definition in the Regulations and a minor amendment to the EMDGS Act concerning the provisions governing approved joint ventures and consortia (Section 11ZC).

B. CONCLUSIONS

16. The Committee concludes that:

(i) due to the short time frame since the partial inclusion of tourism services in the EMDGS and the incompleteness of studies into the impact of the EMDGS on export sales in general, and specifically on international tourism, the Committee is unable to make a definitive judgement on the success or otherwise of the partial inclusion of tourism in the EMDGS since 1 July 1990. However, the ability of the EMDGS to help overcome the high risk and costs associated with developing new export markets was cited in many submissions received by the Committee;

(ii) not only is it inequitable to have one sector of the tourism industry eligible for assistance through the EMDGS and other sectors not, but it is also inequitable that exporters of manufactured goods and other service exporters are eligible for assistance while certain tourism exporters are not. No other export industry under the EMDGS is subject to eligibility criteria which restricts assistance to sectors of its industry;

(iii) the exclusion of part of the tourism industry from the EMDGS will tend to encourage distortions in the allocation of investment resources. Resources may be directed towards industries which qualify for EMDGS assistance at the expense of tourism, leading to inefficiencies and to investments that are based on factors other than the merits and prospects of particular industries. A re-direction of resources may also result within the tourism industry because some parts of the industry have access to the EMDG Scheme while others do not. Such distortions are unlikely to be in the long term interest of the industry as investment decisions in relation to marketing may be skewed as a result of the discriminatory application of the EMDGS;

(iv) there is no fundamental difference in the nature of the tourism industry as an export earner to that of any other industry which receives benefits from the Scheme;

(v) while to some extent, marketing overseas by single tourism service providers may involve competition for market share, it cannot be assumed that it has little or no effect on the decision by tourists to visit Australia. Indeed, the evidence is that the choice of tourist destination is influenced by the promotion of a wide range of single services and attractions;

(vi) it has seen no evidence to support the view that there would be an increase in the risk of claimants taking unwarranted advantage of the Scheme if it were to be extended to the whole industry;

(vii) clearly both generic style advertising, of the kind conducted by the ATC, and specific product advertising by the industry is required to attract international tourists. The difficulties in obtaining conclusive evidence of a causal link between the availability of government assistance for overseas market development and increased export revenues is something which must be dealt with when the EMDGS is next reviewed. Since it is not a difficulty which applies exclusively to the tourism industry, the Committee considers that, until the review of the effectiveness of the EMDGS, due sometime before 1995, is conducted, there is sufficient evidence for assistance to the tourism industry under the EMDGS to continue;

(viii) an extension of the EMDGS to the whole of the tourism industry would *not create any insuperable administrative problems;*

(ix) and that the previous claim history should not be applied when considering the eight year grant rule;

(x) single service tourism providers should be included in the Scheme from 1 July 1993;

(xi) the Government assisted generic marketing, undertaken by the ATC, and an extension of the assistance for product specific marketing available through the EMDGS would be complementary programs. Measures should also be taken to encourage approved joint ventures and consortia applicants; and

(xii) the growth in employment in Australia attributable to international tourism (from 56,300 jobs in 1981/82 to 143,900 in 1991/92) indicates there is scope for substantial employment benefits, if the extension of the Scheme leads to further expansion in tourism.

C. RECOMMENDATIONS

Recommendation 1

17. The Committee recommends that the application of the Export Market Development Grants Scheme be extended to include all of the tourism industry. (para 5.60)

Recommendation 2

18. The committee recommends that the part of the Act which describes joint ventures and consortia be amended to include tourism services. (para 5.61)

Recommendation 3

19. The extension of the Scheme should take effect in relation to expenditure after 1 July 1993. Any previous claim history should not be applied when considering the eight year grant rule. (para 5.62)

Recommendation 4

20. The Committee recommends that the funding of the application of the Export Market Development Grants Scheme to the whole of the tourism industry should not be contingent upon any corresponding decrease in the allocation of funds to the Australian Tourist Commission or to other parts of the tourism portfolio. (para 5.63)

CHAPTER ONE

THE TOURISM INDUSTRY

A. THE TOURISM INDUSTRY

1.1 Tourism is essentially a service industry. The industry is the collection of firms and organisations which perform activities directly or indirectly aimed at satisfying the particular needs of travellers.[1] It is characterised by a predominance of small businesses which provide a wide variety of products and services. It has a 24-hour-a-day, seven-day-a-week operational nature, is labour intensive and offers employment opportunities at all skill levels.

1.2 The tourism industry is broken into a number of sectors[2]:

Accommodation: Accommodation with or without food and beverages, eg hotels, motels, guest houses and resorts.

Attractions and Infrastructure: Attractions and travel related infrastructure in destinations and along travel routes, eg airport terminals, ski facilities, theme parks and museums.

Carriers: Transport to and from and within destinations, eg airlines, bus and coach operations and hire cars.

Tour Operators and Wholesalers: Organise and/or conduct tours which combine or package components supplied by other sectors, eg inbound tour operators, local tour operators and tour guides.

Promotions and Distributions: Specific marketing and selling functions undertaken on behalf of other sectors of the industry, eg travel agents.

Retail Services: Food, refreshments and personal services provided directly to the individual visitor, eg restaurants, duty free shops and service stations.

Industry Services: Services to the industry, eg building and construction, engineering, marketing and research consultants, developers and financiers.

Co-ordination: Co-ordination of activities and operations of one or more of the sectors, eg industry/sector associations and Government tourist authorities.

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1 Australian Tourism Industry Association: *Australian Tourism Industry Association's Strategy for the 1990s*, 1990, p 1.

2 ibid., p 2.

1.3 The industry is private sector driven; however, governments play an important role in providing much of the infrastructure and services used, such as airports, management of national parks and tourism promotion.

1.4 In world terms, the travel and tourism industry is estimated to contribute between 7 and 11% to world consumer spending; between 4 and 7% to world employment; and between 3 and 6% to world gross output, value added and wages.[3]

1.5 In 1991/92, total tourism expenditure in Australia, from both international and domestic tourists was $26.2 billion dollars.[4] Of this, $18.4 billion or about 69% was from domestic tourism. However, international tourism to Australia is the fastest growing sector. While growth in domestic tourism has been in the order of 2-3% per annum in recent years, growth in inbound arrivals averaged 13% per annum between 1985 and 1991. Expenditure by international tourists is forecast to grow to 42% of total tourism expenditure in Australia by the year 2000.[5]

1.6 International visitor arrivals to Australia have increased from 900,000 in 1980 to 2.4 million in 1991.[6] However, Australia's share of world tourist arrivals is still relatively small (0.5%) which underlies the prospect for future growth in inbound tourism.

B. Tourism and the Australian Economy

1.7 It is estimated that tourism contributed 5.6% to Gross Domestic Product in 1991/92. Employment due to tourism expenditure has increased from 337,000 (5.2% of the workforce) in 1981/82 to an estimated 465,500 (6.1% of the workforce) in 1991/92. Employment due to international tourism has grown from 56,300 in 1981/82 to 143,900 in 1991/92.[7]

1.8 Tourism has overtaken traditional export earners such as wool and coal and is now Australia's largest foreign exchange earner with sales of $7.8 billion in 1991/92. The value of exports of coal in 1991/92, by comparison, was $6.8 billion and the value of wool exports, both greasy and other, was $3.5 billion.[8] Tourism's share of

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3 Centre for International Economics: *The International Importance of Travel and Tourism* Report prepared for the Department of Arts, Sport,the Environment, Tourism and Territories, p 17.

4 Department of Tourism: *Impact* May 1993.

5 Department of Tourism: Submission 29 p 2.

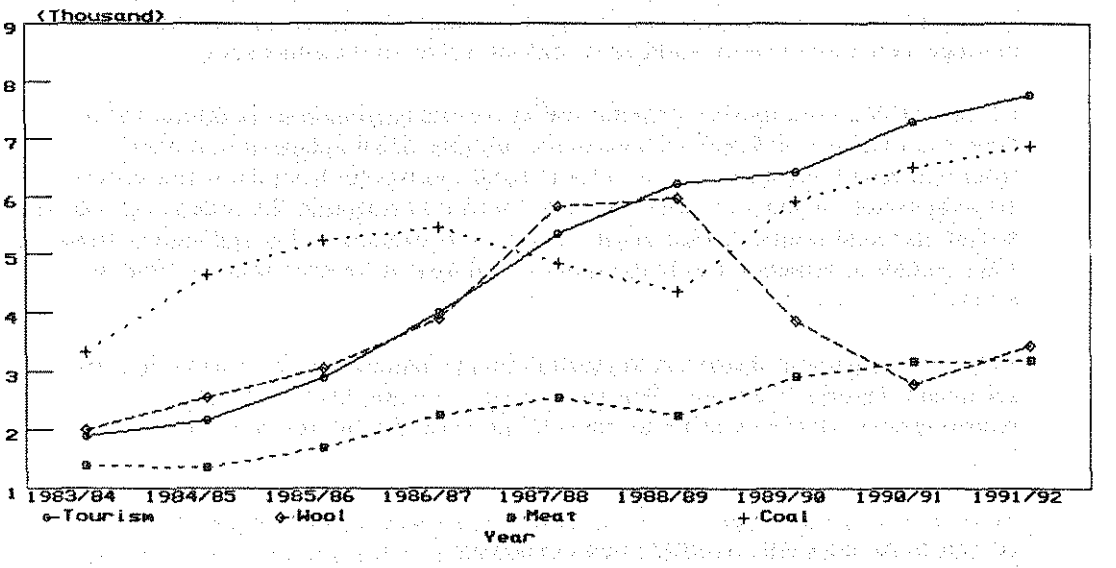
6 Bureau of Tourism Research: *Australian Tourism Trends 1991* Goanna Print Pty Ltd, Canberra, 1991, p 64.

7 Bureau of Industry Economics: *Tourist Expenditure in Australia* Research Report 16, AGPS, Canberra, 1984 - Updated by the Bureau of Tourism Research.

8 Australian Bureau of Statistics: *Foreign Trade, Australia, Merchandise Exports and Imports 1991-92* Cat No 5410.0 Canberra 1993 p 17.

Australia's total export earnings has increased from 7% in 1981/82 to 10% in 1991/92.[9]

FOREIGN EXCHANGE EARNINGS ($'million)



Sources: The above graph has been generated from BTR and ABS data for 1983/84 to 1990/91 - as quoted in submission 25 (Inbound Tourism Organisation of Australia Ltd). The figures for 1991/92 were obtained from ABS: *Foreign Trade, Australia, Merchandise Exports and Imports 1991-92* Cat No 5410.0 Canberra 1993 p 17 and from BIE: *Tourist Expenditure in Australia* Research Report 16 - updated by the BTR.

1.9 The impact of tourism is appropriately measured not in terms of gross spending, but in terms of net benefits generated.

1.10 The ability of inbound tourism to generate balance of payments improvements depends critically on any resultant impact on demand for imports. If increased inbound tourism expenditure is allowed to add to net additional demand for imports, then increased tourism may not be reflected in an improvement in the balance of payments.[10]

1.11 As the tourism industry grows it will affect growth in other areas of the economy by increasing competition for inputs used in production. In the longer term, if the economy is running close to full capacity, increased inbound tourism may have little benefit for the balance of payments if it draws resources from other export industries. Growth in international tourism will tend to push up the value of the Australian

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9 Bureau of Tourism Research: *Tourism and the Economy* March 1992 p 44.

10 ibid., p 47.

dollar. This influence on the exchange rate will adversely affect the ability of other exporters, such as the agriculture and mining industries, to compete in the international markets. However, considering the spare capacity that presently exists in the Australian economy, especially in the labour market, and the current size of the balance of payments deficit there is considerable scope for a net increase in output as a result of inbound tourism growth[11] before serious concern would develop about a shortage of resources or an increase in the value of the Australian dollar.

1.12 Tourism's large positive contribution to the economy and its potential for improving Australia's balance of payments position was highlighted in a 1989 Industries Assistance Commission study. The Commission's estimate was that a 20% increase in the number of foreign tourists arriving in Australia, which was experienced in 1987/88, with an increase in tourist spending of $900 million would have resulted in a net benefit to Australia's balance of payments of around $235 million (1987/88 prices).[12]

1.13 Inbound tourism diversifies Australia's export base which reduces the impact on our terms of trade of the volatility of commodity exports. Our traditional commodity exports, in any case, have suffered from a long-term downwards trend in world prices.

1.14 There is a common misapprehension that many of the economic benefits of international tourism might be lost to Australia because of the impact of foreign investment in the tourism industry. The example commonly referred to is that of Japanese tourists coming to Australia on package tours, staying in hotels owned by Japanese interests and shopping in Japanese-owned shops so that most of the financial benefit is lost to Australia. The Australian Tourism Industry Association commissioned a study which contradicts this conclusion. The study found that "more than 60% of what the average Japanese tourist spend on their package and shopping in Australia goes to Australian business interests".[13] This was confirmed by a study carried out for the Department of the Arts, Sport, the Environment, Tourism and Territories and the Queensland Treasury, which found:

> "Regardless of ownership, the bulk of expenses incurred by tourist operations accrue as revenue to local suppliers of goods and services. On conservative assumptions, additional outflows from a representative Japanese package tour comprises around 25 per cent of total expenditure on the package."[14]

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11 ibid.

12 Industries Assistance Commission: *Some Economic Implications of Tourism Expansion* Discussion paper no 2, March 1989, pp 26 - 28.

13 ATIA Special Report: *Japanese vertical integration ... a myth!* Exhibit 25.

14 Forsyth, P & Dwyer, L :*Impacts of foreign investment in Australian tourism* Occasional paper no 10 Report Published by the Bureau of Tourism Research on behalf of the Department of the Arts, Sport, the Environment, Tourism and Territories and Queensland Treasury 1991 p 1.

1.15 The Committee received evidence from the Department of Tourism that:

> "the main benefits which flowed to the economy from the tourism activity were generated from the inputs to the industry of labour, materials, purchase of foodstuffs and so on, and that the after-tax profit earnings which might be repatriated to the owner, whether the owner be in Australia or outside of the country, were a relatively very small proportion of the total benefit."[15]

C. Tourism's growth prospects

1.16 The World Tourism Organisation (WTO) forecast that world-wide international tourist arrivals will increase at an average annual rate of 4.2% during the 1990s to reach 637 million per year by the year 2000, making tourism the world's largest export industry.[16]

1.17 The WTO estimates that tourist arrivals to the Asia/Oceania region will increase at twice the rate of arrivals world wide. Australia is well placed to capture a significant share of this market.

1.18 Australia's natural attractions, diverse product range and reputation as a relatively safe destination, free of pollution and congestion, reinforce the tourism industry's growth prospects.

1.19 In the year 2000 between 4.7 million and 6.8 million international tourists are expected to visit Australia (compared with 2.4 million in 1991). Total tourist expenditure (domestic and inbound) is forecast to be between $34 billion and $43 billion (1990/91 prices) (compared with $26.2 billion in 1991/92). Between 600,000 and 700,000 people will be employed in the industry and export earnings are expected to be between $14 billion and $18 billion (compared with $7.8 billion in 1991/92).[17]

1.20 It is forecast that of all new jobs created in the Australian economy during the 1990s, up to 16% will be in the tourism industry. Tourism is expected to create 200,000 additional jobs directly and 70,000 indirectly[18] during the nineties and 72% of the new tourism jobs will be due to international tourism.[19] These projections are dependant on the achievement of the Australian Tourist Commission's target for visitor arrivals to the year 2000 of 6.8 million.

1.21 The market mix is expected to be influenced by the economic growth in Asian countries such as Japan, South Korea, Taiwan and Indonesia. The rise in living

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15 Spurr, R, Department of Tourism: Transcript, p 213.

16 Department of Tourism *Tourism: Australia's Passport to Growth, A National Tourism Strategy*, 1992, p 9.

17 ibid., p 15.

18 Department of Tourism: *Impact* May 1993.

19 Department of Tourism: *Tourism Workforce 2000* 1992.

standards in these countries is associated with an increased propensity to travel. Japan and other Asia countries are forecast to account for over half of Australia's international visitor arrivals by the end of the decade.

1.22 The realisation of the Australian tourism industry's potential is dependant on the ability of the government and the private sector to identify and support the needs of the industry so that the supply of tourism facilities and services matches emerging demand patterns.

1.23 If inbound growth targets are to reached, there will need to be favourable circumstances prevailing in relation to determinants of tourism growth to Australia. Strong economic growth in Australia's major source markets will be conducive for international travel. A favourable exchange rate is required to keep the Australian tourism product internationally competitive, in addition to competitive air services and the absence of infrastructure constraints. The international promotion and marketing of the Australian tourism industry will also be influential in achieving the growth targets.[20]

1.24 Australia's control over these determinates varies. Marketing is a critical component of the tourism equation. Of the major factors which influence tourism growth, Australia has the greatest control over the impact of its marketing. Without knowledge in potential source markets of the attractions Australia has to offer, there is little likelihood of significant levels of sustained growth in visitor numbers.[21]

D. GOVERNMENT ROLE

1.25 The Government's National Tourism Strategy identifies four strategic goals aimed at developing a competitive and sustainable tourism industry:[22]

- Economic: "to optimise the tourism industry's contribution to national income, employment growth and the balance of payments by creating a favourable economic environment for industry development";

- Environmental: "to provide for sustainable tourism development by encouraging responsible planning and management practices consistent with the conservation of our natural and cultural heritage";

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20 Department of Tourism: Submission 29 p 3.

21 ibid., p 4.

22 Department of Tourism *Tourism: Australia's Passport to Growth* A National Tourism Strategy, 1992, p 3.

- Social: "to enhance access to quality tourism experiences[23] and ensure favourable social outcomes of tourism by diversifying the product base, raising industry standards and protecting the public interest"; and

- Support: "to provide the necessary promotional, planning, coordination, research and statistical support to assist the industry's development".

1.26 Direct Commonwealth financial support for the tourism industry is primarily through assistance for international marketing. The Australian Tourist Commission (ATC), a statutory authority established to market Australia overseas as an international tourist destination, received $76.1 million in 1992/93. Also, the tourism industry will receive grants totalling $10-15 million under the Export Market Development Grants Scheme (EMDGS).

23 This is assumed to mean not just the tourist destination but the whole experience for the tourist, which includes all elements of his/her trip.

CHAPTER TWO

THE EXPORT MARKET DEVELOPMENT GRANTS SCHEME

> "As an ex-Treasury officer I often puzzle about why we have an EMDG scheme at all. I guess I can defend an EMDG scheme on the following grounds. It is for marketing expenditures that would not otherwise be undertaken to the extent required to produce the optimum result for the Australian economy. In other words, the EMDG scheme is designed to prevent market failure when it comes to marketing Australian exports."[24]

A. THE EXPORT MARKET DEVELOPMENT GRANTS SCHEME

2.1 The Export Market Development Grants Scheme (EMDGS) was set up in 1974 to encourage Australian exporters to seek out and develop overseas markets for goods, specified services, industrial property rights and know-how which are substantially of Australian origin. It operates under independent federal legislation and is administered by Austrade.

2.2 The Scheme is an 'open access' one with the eligibility of expenditure and recipients specified by legislation. This contrasts with discretionary schemes which are subject to funding ceilings and which require Austrade to exercise its discretion in determining which applicants best meet the criteria.

2.3 Apart from requiring first time applicants to have an export plan, the financial viability of a business is not a qualifying criteria. The Scheme leaves it to the exporters to determine which markets and which products should be targeted.

2.4 Grant payments totalling $127 million were made in the financial year 1991/92. Grant recipients generated $2.67 billion in export earnings and employed 390,000 workers.[25]

B. HOW THE SCHEME WORKS

2.5 The EMDGS provides financial incentives in the form of taxable cash grants based on eligible expenditure on a range of overseas marketing activities promoting export sales. Eligible promotional expenditure includes "market research and

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24 Carmody, G, Consultant to ATIA: Transcript p 173.

25 Austrade: Submission 28 p 27.

development, marketing costs such as travel expenses, promotional literature and overseas representation."[26]

2.6 To receive a grant, exporters must spend at least $30,000 on eligible marketing activities. The grant equates to 50% of expenditure in excess of $15,000 subject to a maximum of $250,000 in any one grant year. To provide maximum assistance to small and medium sized businesses, operators with export earnings of more than $25 million are excluded from the scheme.[27]

2.7 Grants under the Scheme have been available for a maximum of eight years. However, in December 1992 the Export Market Development Grants Amendment Act received royal assent. The Act provides 'new market' EMDGS access beyond eight grant years for exporters who have not in the past three years achieved export earnings in a particular market of greater than $300,000.

2.8 After two grant years a performance test regulates the value of grants in the subsequent six years by linking them to export earnings. The value of grants is determined by the lesser of $250,000 and the applicable percentage of export earnings according to a sliding scale of 40% of export earnings in the third year, 20% in year four, 10% in year five, 7.5% in year six and 5% in the seventh and eighth years.[28] Export earnings in relation to the provision of tourism services refers to "the consideration actually received in the grant year by the claimant for the supply of such services."[29]

2.9 Eligible expenditure does not include that associated with marketing in New Zealand or South Africa, most capital expenditure and entertainment expenses, Government taxes or 35% of first class airfares.

2.10 Grant years run from 1 July to 30 June and claims must be lodged in the period 1 July to 30 November immediately following the preceding grant year.

2.11 Administration costs associated with the Scheme currently represent 1.4% of grant expenditure.[30]

2.12 The EMDG Act provides for 'approved bodies', which are not themselves the principals in export transactions but which promote the exports of particular industries, to be eligible to receive grants. There is also provision for 'approved trading houses' and 'approved joint ventures and consortia' to be eligible for grants. Approved trading houses do not qualify for grants for the promotion of exports of services; and the categories of expenditure by approved joint ventures and consortia,

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26 ibid.
27 Austrade: *Export Market Development Grants: A Guide to Benefits*, April 1991, p 1.
28 ibid., p 4.
29 ibid. p 29.
30 Austrade: Submission 28 p 30.

set out in Section 11ZC of the Act do not include expenditure to promote tourism services.

C. THE EFFECTIVENESS OF THE EMDGS

2.13 Government assistance for export market development is based on the premise that, in the absence of Government involvement, there is a shortfall between the amount of export market development undertaken by private companies and the socially desirable amount of development.[31] However, the greater the benefit to the individual exporter, rather than the community as a whole, the stronger the case for reduced government assistance or for the government to charge for services rendered.[32]

2.14 Export enhancement measures are provided by governments in recognition of the high risks and costs which firms would otherwise have to bear, particularly in the early stages of exporting.

2.15 Governments of Australia's major trading partners and competitor economies employ a variety of measures to enhance exports, ranging from direct subsidies to indirect measures such as assistance for research and development. The Industry Commission's review of overseas export enhancement measures found that export marketing assistance is generally available in all of Australia's 13 major competitor nations.[33] Such assistance, of course, may not be identical in form to the EMDGS.

2.16 The EMDGS has been instrumental in encouraging firms to commence exporting and enabling established firms to enter into difficult markets. The reputation and information these firms have obtained have been of benefit to other Australian firms wishing to enter these markets.[34]

2.17 The cost effectiveness of assistance to exporters under the EMDGS has been the subject of a number of reviews, Industries Assistance Commission (1978 and 1982)[35], the Ferris Committee (1985)[36], Price Waterhouse (1988)[37] and the Bureau of

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31 Bureau of Industry Economics: *Review of the Export Market Development Grants Scheme*, Program Evaluation Report 5, AGPS, Canberra, 1988, p 25.

32 Industry Commission: *Review of Overseas Export Enhancement Measures, Volume 1: Report*, Report No 22, AGPS, Canberra, 1992, p 111.

33 ibid., p xiii-xv.

34 Bureau of Industry Economics: *Review of the Export Market Development Grants Scheme* Program Evaluation Report 5, AGPS, Canberra, 1988, p 43.

35 Industries Assistance Commission: *Export Incentives*, Report No. 156, AGPS, Canberra, 1978; Industries Assistance Commission: *Export Incentives*, Report No. 300, AGPS, Canberra, 1982.

36 Ferris Committee Report: *Lifting Australia's Performance as an Exporter of Manufactures and Services*, AGPS, Canberra, 1985.

37 Price Waterhouse Government Liaison Services: *Review of the EMDGS: Final Report*, 1988.

Industry Economics (1988).[38] These reviews did not identify a rigorous causal impact of EMDGS payments on export growth.

2.18 In its 1985 review of the EMDGS, the Ferris Committee concluded that various aspects of the scheme were badly designed and it was not performance orientated.[39] The Committee observed that organisations were abusing the Scheme as 50% of claimants dropped out after three grant years having generated little or no export sales.

2.19 As a consequence of the Ferris Committee review, major changes were made to the EMDGS. Companies with export earnings in excess of $20 million became ineligible, a performance test based on export earnings was applied after two grant years and eligible expenditure in excess of $5,000 had to be incurred in a grant year before a grant would be paid. Where first class travel was undertaken, reimbursement was restricted to 65% of that fare.

2.20 A Committee of Review (the Hughes Committee) was set up in December 1988 to examine Commonwealth Government measures which provided financial support for exporters. The Committee reviewed the EMDGS, which was scheduled to terminate on 30 June 1990, but was unable to quantify the level of additional exports attributable to the EMDGS.

2.21 The Hughes Committee considered that the EMDGS should be retained as it appeared to help create an export culture where none existed before but recommended the Scheme should be more closely focused on small and medium sized exporters.[40]

2.22 In 1990, in light of the Hughes Committee's recommendation and the Bureau of Industry Economics evaluation of the EMDGS,[41] the Government extended the Scheme until 1994/95, reduced the grant rate from 70% to 50%, restricted access to the Scheme to eight grant years and increased the threshold level of eligible expenditure to $30,000 where the first $15,000 does not count for a grant.

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38 Bureau of Industry Economics: *Review of Export Market Development Grants Scheme*, Program Evaluation Report 5, AGPS, Canberra, 1988.

39 Ferris Committee Report: *Lifting Australia's Performance as an Exporter of Manufactures and Services*, AGPS, Canberra, 1985.

40 *Australian Exports, Performance, Obstacles and Issues of Assistance*, Report of the Committee for Review of Export Market Development Assistance, AGPS, Canberra, 1989, p 71

41 Bureau of Industry Economics: *Review of Export Market Development Grants Scheme*, Program Evaluation Report 5, AGPS, Canberra, 1988.

D. Tourism and the EMDGS

2.23 The inclusion of the tourism industry in the Scheme has had a chequered history. The EMDGS was first extended to the tourism industry in July 1978 in recognition of the industry's potential as an earner of foreign exchange and generator of employment opportunities.

2.24 Pre 1985, tourism provisions under the EMDGS covered the supply of certain services to overseas tourists visiting Australia. These included:

- accommodation;
- passenger transport;
- vehicle rental;
- tourist attractions;
- interpreter services;
- convention centres;
- tour guides/escort services;
- package tour operators; and
- inbound tour operators.[42]

2.25 In recognition of the structure of the industry, and to encourage more effective promotional activities, accommodation referral chains, convention bureaus, tourist industry associations and regional tourist associations, which did not actually own the services they were selling, were accorded Approved Tourism Body Status and were made eligible for grants under strict guidelines.[43]

2.26 After the 1985 Ferris Committee review the tourism industry raised concerns about its ability to quantify gains from export marketing under the proposed performance test. It argued that it was not possible to measure the aggregate gain to the economy of export marketing of the tourism industry as the return is not limited to the purchase price of a ticket or package from the original promoter. Additional foreign exchange is generated by the tourist through expenditure on goods and services while in Australia. Since it is not possible to calculate a consolidated gain from tourism marketing, applicants from the tourism industry would be at a disadvantage when competing for grants under the scheme with industries whose export sales were more quantifiable. A compounding problem is the long lead time between the successful promotion and the actual travel date, which could be in the order of eighteen months.

2.27 The ATIA submission argued that the rules under which the EMDG Scheme operated before 1985 were more applicable to manufacturing than to the services sector.[44] When introducing legislation to amend the Scheme in 1985 and to exclude tourism from its coverage, the Minister for Trade stated that "because of its unique

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42 Austrade: Submission 28 p 8.

43 ibid., p 9.

44 ATIA: Submission 27 p 11.

nature, tourism did not sit easily with some aspects of the EMDG scheme. Obviously there were difficulties in applying an export performance test to the tourism industry."[45]

2.28 The Committee was unable to determine precisely what those difficulties may have been. One witness from the industry, Mr Loughnan of the Inbound Tourism Organisation of Australia, argued that the real reason may have been a desire to *transfer the cost of assistance out of the trade portfolio to the tourism portfolio.*[46] The body charged with administering the Scheme, Austrade, also stated that whatever the difficulties may have been in 1985 they do not exist with the Scheme in its present form.[47]

2.29 In May 1985 tourism was excluded from the EMDGS owing to the difficulties in applying the export performance test to individual tourism industry claimants.

2.30 As a result, a parallel scheme to EMDGS, specifically for the tourism industry, the Tourism Overseas Promotion Scheme (TOPS), was created in October 1985.

2.31 TOPS provided taxable grants to a maximum of $200,000 annually for overseas promotion by individual firms, allowing them to recoup up to 70 cents in the dollar of eligible expenditure. The first $5,000 of eligible expenditure was excluded in the calculation of the grants.[48] TOPS required a validity test to be applied to claims to ensure the promotional effort was consistent with Government objectives and policy. TOPS was administered by the Department of Sport, Recreation and Tourism.

2.32 The scheme was open ended in the sense that there were no restrictions on the number of eligible claims processed. This led to a significant shortfall between the value of eligible claims and the funds allocated to the scheme. Owing to a lack of funding and inadequate administrative resources, TOPS ceased operation in 1987.

2.33 Tourism was readmitted to the EMDGS, albeit in a limited way, in July 1990 after representations from the tourism industry. Eligibility was confined to tourism operators who supply at least three of the following amenities:

- transport of passengers by land;
- transport of passengers by water;
- transport of passengers by air;
- accommodation;
- tour escort (other than driver);
- admission to a tourist attraction.

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45 Hansard, House of Representatives, 21 August 1985, p 147.

46 Mr Loughnan, Transcript p 212.

47 Mr Meney, Transcript p 212.

48 Industries Assistance Commission: *Travel and Tourism*, Report No. 423, AGPS, Canberra, 1989, p 194.

2.34 In effect, the eligibility criteria restrict the application of the Scheme to one sector of the tourism industry - that being, those who offer package tours for an all inclusive price to international tourists (inbound tour operators). Operators of hotels, attractions and hire car companies who offer a single specific product are not eligible for marketing assistance under the EMDGS.

2.35 Tourism organisations, such as regional tourist associations, who do not own the products they promote, can currently apply for Approved Body status as long as their members provide three or more of the eligible amenities under the Scheme. The Australian Association of Convention Bureaux was granted Approved Body status in August 1991.

2.36 The tourism industry has been actively lobbing for an extension of the EMDGS to all tourism operators. The Government's National Tourism Strategy recommends consideration of the eligibility of single service tourism operators, in addition to inbound tour operators, for export assistance.[49]

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49 Department of Tourism: *Tourism: Australia's Passport to Growth*, A National Tourism Strategy, 1992, p 20.

CHAPTER THREE

TOURISM MARKETING

A. THE DECISION MAKING PROCESS

3.1 The general sales-buying process involves the consumer moving towards purchase via the path of Awareness - Interest - Desire - Action. Potential purchasers must first be aware of the existence of the product and brand so that when a product is considered the brand is remembered. A positive image of a product is required to create interest in the product. From awareness and positive interest a desire or motivation to buy is required which results in the action of finally purchasing the product.[50] Marketing can be influential in creating a positive image and can convert desire into actual purchase.

3.2 The consumer also considers numerous other factors during the sales-buying process such as affordability, alternative products, loyalty to brands, peer group considerations and recommendations. Before actual purchase can take place the consumer must have the ability to pay and the product must be available.[51]

B. THE PURCHASE OF INTERNATIONAL TRAVEL

3.3 The decision to travel, where to go and for how long, is dependant on a range of variables. It may be due to the wish to see friends and relatives, the availability of discount airfares, the amount of holiday leave available, the relative exchange rates, the appeal of the destination, the attractions available, the distance required to travel, the influence of advertising or simply the weather. In most cases, the decision making process is influenced by the interaction of these variables.

3.4 The purchase of international travel follows the general sales-buying process. That is:[52]

The consumer must be aware of the product

- awareness of a country's tourist potential may be derived from education, film, books or news coverage. It may be specifically communicated through advertising and promotion.

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50 Australian Tourist Commission: *Evaluation of the Australian Tourist Commission's Marketing Impact*, 1991, p 21.

51 ibid., p 22.

52 ibid., p 23-24.

The consumer must have a desire to visit

- awareness alone will not lead to travel. In the eyes of the consumer the destination must conjure a perception of attractiveness. This attractiveness may be influenced by the recommendations of other people, favourable economic conditions, the attraction of special events taking place in the destination country and the availability and quality of tour packages, products and services in the destination country. These influences can be used to create a positive image about a destination through consumer advertising, promotion and direct marketing.

The product must be accessible

- the travel decision is influenced by accessibility and safety factors such as flight availability, the time taken to reach the destination, the number of lay-overs and visa restrictions.

Information must be available and booking capability must exist

- the international tourist requires extensive information about the attractions, products and services available in the destination under consideration. Should this information not be available or difficult to obtain, then the chances are another destination will be chosen. The physical ability to book must also exist to prevent a break in the sales process.

The consumer must have the ability to pay

- economic factors that influence the travel decision include disposable income, cost of living in the destination country, cost of tourism products and services such as accommodation, transport and entrance fees, cost of airfares to the destination country and relative exchange rates.

3.5 *The international travel decision making process is a combination of cost and non-cost factors, some of which the potential tourist becomes aware of from exposure to normal day to day events, and some of which need to be specifically communicated.*[53]

53 ibid., p 22.

C. Generic marketing

3.6 When marketing a tourist destination, the first step of the sales process is to create an awareness of the destination. Once the tourist is aware of the destination it can then be considered as an alternative. Positive images are required to lead the potential consumer to develop a desire to travel to the destination and spur them into the action of information seeking, booking and travelling.[54]

C.1 The Australian Tourist Commission

3.7 The Australian Tourist Commission (ATC) is the Federal Government's tourism marketing agency. The principle objectives of the Commission are to increase the number of visitors to Australia from overseas; maximise the benefits to Australia from overseas visitors and ensure Australia is protected from adverse environmental and social impacts of international tourism.[55]

3.8 The ATC's prime function is to promote and enhance the awareness of Australia as an international tourist destination. It does this through consumer marketing such as direct advertising in the mass media and brochure and guide-book production. The ATC also undertakes trade marketing through the attendance and co-ordination of an Australian presence at international trade events, workshops and seminars for travel agents. Trade marketing attempts to ensure that demand generated by consumer advertising is not lost due to a break down in the sales process.[56]

3.9 The ATC markets 'Australia' generically. It does not promote individual products, nor does it sell travel. The ATC stimulates, through its advertising, a desire to visit Australia. The conversion of this desire into actual travel is the responsibility of the industry.

3.10 Over the last decade the ATC has received a sevenfold increase in its budget allocation which in 1992/93 stands at $76 million. During this time Australia has experienced exceptional tourism growth. In an effort to sustain this rapid growth the ATC has invested heavily in enhancing its marketing data base and strategic market research to ensure the effectiveness of its destination marketing.[57]

3.11 The effectiveness of Australia's international tourism marketing was investigated in a joint Department of Finance and Department of the Arts, Sport, the Environment, Tourism and Territories evaluation of the ATC's marketing impact. The report was presented in March 1991. The evaluation claimed "that the ATC's

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54 ibid.

55 Australian Tourist Commission: Submission 24 p 1.

56 Australian Tourist Commission: *Evaluation of the Australian Tourist Commission's Marketing Impact*, 1991, p 14.

57 The Economist Intelligence Unit: *The Financing and Organisation of National Tourist Offices*, Travel and Tourism Analyst No 4, 1992, p 101.

activities were a positive influence in increasing tourist travel to Australia and acted in a catalytic fashion with other key variables in the decision making process".[58] That is, when weighing up the factors that influence the decision to travel, such as relative prices, exchange rates and appeal of attractions, the tourist is positively influenced by ATC marketing.

3.12 The ATC, in its submission to the inquiry, reported that the evaluation of its marketing impact demonstrated the positive relationship that exists between marketing Australia and an increase in arrivals to Australia. The ATC suggests that a broadening of the eligibility categories in the EMDGS is very likely to encourage the level of promotion of Australia in the international market place.[59]

C.2 Co-operative Marketing

3.13 The ATC offers the industry the ability to link generic promotion and product advertising through a range of co-operative marketing activities. Through co-operative marketing tourism operators can utilise the ATC's extensive market research to direct their consumer advertising at specific targets and high yielding consumers.[60]

3.14 In 1990, the Government provided the ATC with $4 million to set up the Co-operative Marketing Scheme as a result of the difficulties imposed on the industry by the airline pilots' dispute. The Scheme provided a 50% subsidy, up to a maximum of $100,000, to eligible participants in ATC endorsed promotional activities. Recipients of payments were precluded from 'double dipping' under the EMDG Scheme. Four hundred and two companies received payments totalling $3.5 million for activities such as participating in trade shows and advertising in ATC publications. The ATC pointed out in their submission that the number of advertisers and the number of pages of advertising did increase during the 1990 calendar year, which they attributed to the incentive offered by the Scheme.[61]

3.15 Although the Co-operative Marketing Scheme has concluded, the ATC still offers a range of avenues for co-operative marketing for members of the industry. These include participation in trade shows and the opportunity to advertise in a number of ATC publications.[62] In 1992, a program of Joint Marketing Agreements was introduced. These agreements have been established with key industry operators in Europe and New Zealand. Under the agreements, the industry matches funding by the ATC for product development and tactical marketing programs.[63]

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58 Australian Tourist Commission: *Evaluation of the Australian Tourist Commission's Marketing Impact*, 1991, p 67.

59 Australian Tourist Commission: Submission 24 p 7.

60 Australian Tourist Commission: *1992-1993 Co-operative Marketing Guide* Exhibit 16 p 2.

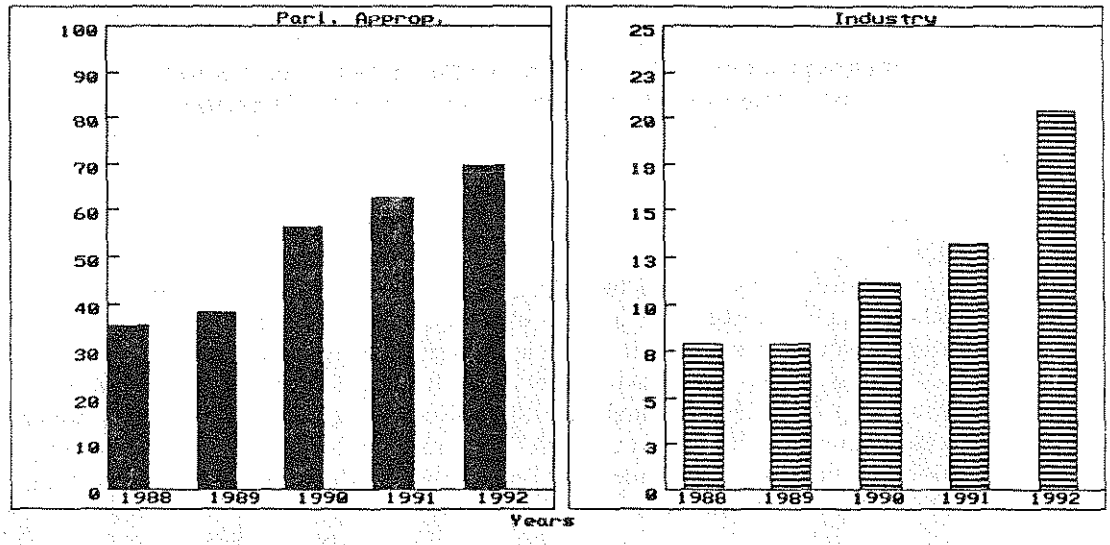
61 Australian Tourist Commission: Submission 24 pp 7 & 8.

62 Australian Tourist Commission: Exhibit 16.

63 Australian Tourist Commission: Annual Report 1992 p 80.

3.16 The graph below this paragraph indicates the growth in industry contributions to the total ATC budget between 1988 and 1992. The contribution of industry to ATC activities is quite substantial. For example, over 40% of the $5 million the ATC spent on worldwide publicity activities in 1990 reportedly was contributed by the industry.[64] In the 1992/93 financial year, the ATC expects to receive contributions from the industry totalling $30 million which equates to 28% of its budget. The ATC claims that the industry's contribution to their international marketing effort represents a 25% increase on the previous financial year and illustrates the industry's commitment to marketing and promoting the Australian tourism product.[65]

AUSTRALIAN INDUSTRY CONTRIBUTIONS TO ATC ACTIVITIES
($ MILLION)



Sources: These graphs have been compiled from data in the profit and loss statements in the annual reports of the Australian Tourist Commission for the years from 1988 to 1992. The industry contribution figures do not include the funds provided under the Joint Marketing Agreements.

D. PRODUCT MARKETING

3.17 It is at the information seeking stage of the travel decision making process that the promotion of tourism products and services plays a vital role in the decision to travel to a particular destination.

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64 The Economist Intelligence Unit: Travel and Tourism Analyst No 4 1992 p 100.

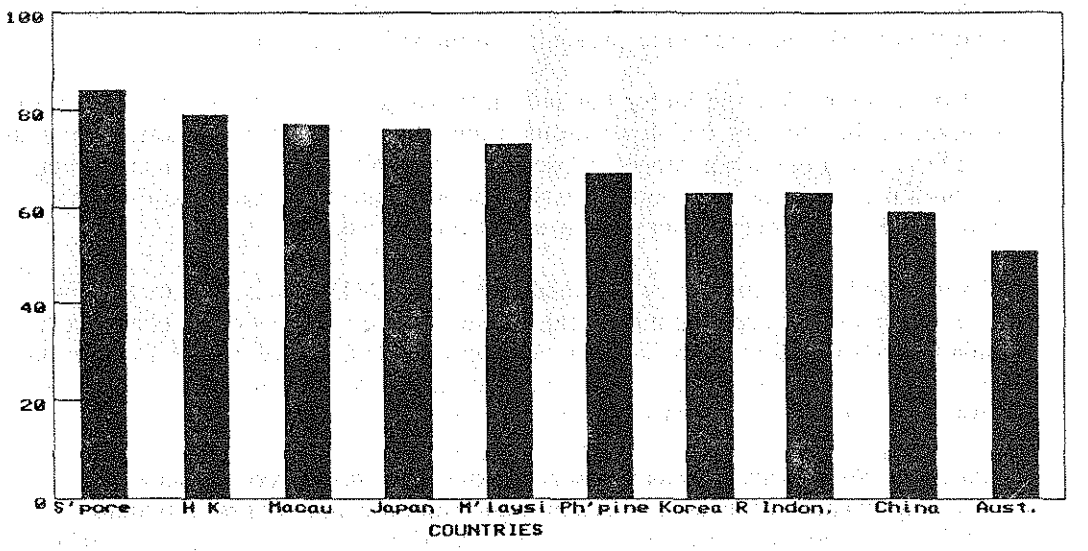
65 Australian Tourist Commission: Submission 24 p 10.

3.18 The Committee received a number of submissions from tourism operators and associations who undertake international product marketing. These can be classified into four broad product groups.

D.1 Accommodation

3.19 Approximately 97,000 people are employed in the accommodation sector in Australia.[66] There are currently 4,900 hotels, motels and guest houses (with facilities) providing 160,000 guest rooms. These establishments had a room occupancy rate of 48.5% for the June 1992 quarter.[67] The graph below (using 1990 figures) illustrates that the room occupancy rate in Australia was quite low by comparison with the rates in a range of other countries in East Asia and the Pacific. The highest rate shown was 84% in Singapore, while Australia was at the bottom of the scale at 51%.

ROOM OCCUPANCY RATES IN SELECTED EAST ASIAN AND PACIFIC COUNTRIES - 1990 (PERCENTAGES)



Source: World Tourism Organisation: *Tourism Trends Worldwide and in East Asia and the Pacific 1950 - 1991* p 51

66 Australian Bureau of Statistics: *Hotels and Motels with Facilities: Employment Details*, June Quarter, 1992.

67 Australian Bureau of Statistics: *Tourist Accommodation - Australia*, June Quarter, 1992, Cat No. 8635.0.

3.20 The Bureau of Tourism Research estimates that between 190,000 and 250,000 hotel and motel rooms will be required by the year 2000.[68] The demand for these rooms is expected to be generated primarily by international visitors.[69]

3.21 The markets which are of greatest commercial benefit to the accommodation sector are not the same as those which provide the greatest number of visitors to Australia. This is owing to the differences in the average length of stay of visitors from different regions, and in the type of accommodation they prefer. For example, the greater average length of stay of the UK, Asian (other than Japan) and European visitors make them more significant markets in terms of 'bednights' than the Japanese, who stay for relatively short periods, or the New Zealanders who tend to stay in non-commercial accommodation.

3.22 The difference in market priorities is significant as the marketing undertaken by the ATC and the airlines, which is aimed at increasing visitor numbers, is not necessarily directed at the markets which are most profitable to the accommodation sector.

3.23 Marketing undertaken by the accommodation sector which increases the number of visitors to Australia who stay in commercial accommodation will return a higher yield than marketing directed at purely increasing visitor numbers.

3.24 In its submission, the Motor Inn and Motel Association of Australia reported on a survey of the accommodation sector and claimed that expenditure by establishments on international marketing ranged between $70,000 and $400,000. Major marketing activities reported were co-operative marketing with the ATC, trade missions and trade shows, sales trips overseas and overseas office costs.[70]

3.25 Respondents to the survey indicated that if the EMDGS was extended to the accommodation sector the grants would be used to open up new markets and extra initiatives in existing markets. The priority markets identified were Asia, Europe and North America. Smaller organisations indicated they would be able to take greater advantage of co-operative marketing with the ATC.[71]

3.26 In 1989/90 the accommodation sector spent $19.7 million on international marketing.[72] The accommodation sector argues that it cannot afford to undertake additional promotion without assistance because of low returns and problems with

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68 Department of Tourism: *Tourism: Australia's Passport to Growth, A National Tourism Strategy*, 1992, p 73.

69 Motor Inns and Motels Association: Submission 26 p 5.

70 ibid.,p 12.

71 ibid., p 14.

72 National Centre for Studies in Travel and Tourism: *Survey of Industry Funding of International Tourism Marketing* James Cook University of Queensland, 1991.

cash flow caused by low occupancy and yield.[73] The accommodation sector believes that access to the EMDGS will enable it to target high yielding international markets.

3.27 The diversity of the accommodation product makes it difficult to provide any set formula for a relationship between marketing expenditure, revenue, occupancy and employment, but substantial improvements in revenue and occupancy will lead to increases in employment.[74]

D.2 Car Rental Sector

3.28 The car rental industry in Australia is dominated by three major companies, Hertz, Avis and Thrifty. The industry directly employs approximately 2,000 staff.

3.29 Revenue from car rental is anticipated to total around $227 million in 1992, of which, approximately 25% will be derived from rentals to international tourists.[75] International tourists on average spend approximately $57 per visit on self drive cars or vans. Car rental is the third largest item of average expenditure by international tourists but is significantly smaller then amounts spent on accommodation ($678) and shopping ($553).[76]

3.30 Based on industry estimates, total expenditure by international tourists using rental vehicles over an average period of six days is in the order of $285 million. Of this amount, $57.5 million is spent on actual vehicle rental while other expenditure includes fuel, meals, accommodation and admissions.[77]

3.31 Rental cars provide the international tourist with the ability to visit regional centres not usually on the organised tour itinerary. This flexibility means that the additional trip expenditure associated with car rental has the potential to be spread throughout regional centres which would not otherwise benefit from international tourism expenditure.

3.32 The percentage of total inbound tourists renting vehicles in 1991 was about 15%, which is around the levels achieved in the early eighties and lower than that achieved in the mid eighties. The car rental industry claims that the overall decline in sales from more than $300 million in 1987/88 to just over $220 million in 1991, and the reduced portion of overseas tourists using rental vehicles is, in part, linked to sustained pressure on overseas marketing budgets due to declining company revenues over the past five years in the Australian car rental industry.[78]

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73 Motor Inns and Motels Association: Submission 26 p 18.

74 ibid., p 20.

75 Operators in the Australian Car Rental Industry: Submission 20 p 12.

76 Bureau of Tourism Research: *International Visitor Survey 1991* Goanna Print Pty, Canberra, 1992, p 102.

77 Operators in the Australian Car Rental Industry: Submission 20 p 15.

78 ibid., p 12.

3.33 North America has traditionally been a major source of rental business. The car rental sector has identified Asia, in particular Japan, as the most likely area for new business and claims to be actively promoting car rental to the Japanese in conjunction with the Australian Tourist Commission and Japanese based tourism organisations.

3.34 Australian car rental companies participate in a range of inbound tourism promotional activities varying from media advertising and public relations to attendance and participation in major international trade fairs.[79]

3.35 The car rental operators estimate that total expenditure allocated to the development of inbound tourism is in the order of $1 million per annum. This expenditure is in addition to advertising expenditure through involvement in wholesaler holiday programs.[80]

3.36 Currently, there is a national pool of 25,000 vehicles, of which the majority are Australian manufactured and/or assembled. The car industry estimates that if it achieved a 10% increase in the use of rental cars by international tourists then it would increase its national fleet by 2.5%. This would mean increasing the national fleet by 625 vehicles. Given that a vehicle has a fleet life of 10 months any increase in fleet size would have significant flow-on benefits to car manufactures, assemblers and suppliers of components.[81]

D.3 Bus and Coach Sector

3.37 Tour coach services are a growing area of interest to international tourists. It is estimated that 28% of international tourists use coaches for tours and 18% use coaches to travel between cities. In addition 51% of international tourists use local public transport of which 45% is provided by buses and coaches.[82]

3.38 The large bus and coach companies, such as Australian Pacific Tours, have been active in the international tourism market over the last ten years. In 1980 Australian Pacific Tours generated 5% of its revenue from international tourism. Currently, 30% of the company's business is due to international tourism. Australian Pacific Tours has an extensive international marketing network with offices in Los Angeles, Toronto, London, Frankfurt, Auckland, and Singapore.[83]

3.39 Bus and coach companies have identified a trend for international tourists to put together their own itineraries and are orientating their marketing at the flexibility available through bus and coach travel. The smaller companies who offer local tours

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79 ibid., p 13.
80 ibid., p 18.
81 ibid., p 17.
82 Australian Bus and Coach Association: Submission 38 p 4.
83 Australian Pacific Tours Pty Ltd: Submission 18 p 1.

are now promoting their products to capitalise on the growing independent travel market.

D.4 Attractions Sector

3.40 Tourist attractions include natural attractions, historical and cultural attractions and man made attractions. Operators of attractions argue that the promotion of unique and distinct Australian attractions and products is fundamental to the decision to visit Australia. This decision is unlikely to be based on the influence of one particular attraction but on the amount and variety of product that is available.

3.41 Many smaller operators of attractions co-operatively promote their products. The Melbourne Attractions Group, for example, features 23 attractions which cross promote each other's products.[84] Sovereign Hill in Ballarat is a large operation which has progressively increased its international visitor attendance over the last three years by participating in overseas trade events and co-operative marketing with the ATC.[85]

E. CENTRAL RESERVATION SYSTEMS AND THE FULLY INDEPENDENT TRAVELLER

3.42 Advances in information technology have revolutionised the ability to book tourism itineraries. It is now possible for retail travel consultants to taylor overseas travel to meet consumer needs by bringing together a variety of airfares, accommodation, transport, attractions and other travel modules and instantly book the combination that best fits the consumer's desires, time constraints and budget. The flexibility offered through central reservation systems promotes independent travel by broadening the options available to the tourist and the simplicity of booking arrangements.

3.43 Roughly 70% of the total number of tourists travelling to Australia are independent travellers. Only 13% of Japanese tourists coming to Australia fall into this category, but the proportions from other major markets are much higher - for example, 79% of tourists from the USA and 92% from the UK. While the total proportion of independent travellers has declined since 1986, the actual number has increased.[86] This has occurred even though the partial inclusion of the EMDG Scheme favours inbound tour operators.

3.44 The dominance of independent travellers, in terms of numbers, and the range of tourism products available through central reservation systems have ramifications for tourism product marketing. Tourism product marketing will be increasingly influential on choice of tourist destination. The increase in the choice of travel options and the

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84 Koala Golf Pty Ltd: Submission 8, p 3.

85 Sovereign Hill Ballarat: Submission 23, p 2.

86 Correspondence from K Maxted, Department of Tourism, 9 June 1993.

ability to have ready access to tourist information will intensify the need for product promotion.

3.45 The Australian Tourist Commission referred to changes in the structures of overseas markets and the important role of the independent traveller.[87] The present restriction on access to the EMDG Scheme to inbound tour operators does not take account of the predominance of independent travel in the total tourism market and the need for more individual product promotion. This adds weight to the argument in favour of extending the Scheme to the whole industry.

> "This is where we believe that in the whole marketing mix you need to have balance because if you have 70 per cent of the market in the United States being independent and 80 per cent in Europe, you have to offer a flexible range of packages or individual products to appeal to that kind of traveller."[88]

F. THE LINK BETWEEN GENERIC AND PRODUCT MARKETING

3.46 Generic promotion, undertaken by the ATC, which raises the awareness of Australia's tourism attributes, requires specific product marketing by tourism operators to convert awareness and intention into actual travel.

3.47 The interest in travelling to Australia is frequently not effectively converted into actual travel. For example, studies undertaken by the ATC in each of the years 1988-90 in the USA reveal that only 8% of inquiries actually lead to travel to Australia. There could be a number of reasons for this. Australia is only one of many travel options for most visitors and given our geographical isolation the cost of visiting Australia is relatively high. Another possibility is that there are insufficient Australian travel products 'on the shelf' when the motivated consumer is considering options. Because of this lack of choice, another, better represented, destination may be chosen, even if it was not the original preference.[89]

3.48 It is suggested that with a greater effort on the part of the industry this conversion rate could be significantly increased and an expansion of the EMDGS to all sectors of the tourism industry would provide the incentive to operators of hotels, attraction and hire car companies to increase their promotion overseas.

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87 Santer G: Transcript p 194.

88 ibid. pp 190, 191.

89 Department of Tourism: Submission 29, p 5.

CHAPTER FOUR

PARTIAL INCLUSION OF TOURISM IN THE EXPORT MARKETING DEVELOPMENT GRANTS SCHEME

A. INBOUND TOUR OPERATORS

4.1 The inclusion of tourism services in the EMDGS in July 1990 basically restricted eligibility to inbound tour operators (see Chapter Two, Section D). Inbound tour operators arrange all inclusive tour packages for international tourists.

4.2 Inbound tour operators perform a vital role in the development of inbound tourism to Australia and account for approximately 18% of Australia's foreign exchange earnings from tourism.[90]

B. THE SUCCESS OF THE INCLUSION OF INBOUND TOUR OPERATORS IN THE EMDGS

4.3 The inclusion of a limited part of the tourism industry in the EMDGS resulted in approximately 100 claims for grants in 1990/91. The value of these grants was about $10 million, with an average assessed claim of around $100,000.[91]

4.4 Successive reviews of EMDGS have not been able to quantify the export impact of the EMDGS, let alone benefits from the inclusion of tourism in the Scheme. The tourism grant claimants have not yet reached their third year in the Scheme and so have not been subject to the performance test concerning export revenues earned. Austrade is currently undertaking a study which attempts to evaluate the impact of the EMDGS on export sales.

4.5 As part of its submission, Austrade undertook a comparative analysis of tourism claimants against other claimants. The comparison indicated:

(i) a higher level of knowledge of what is eligible expenditure among the tourism industry claimants than among the providers of other services or manufactured products and a greater preparedness to ensure that claims are lodged accurately. This was indicated by a lower 'slippage' rate for tourism (eg. 3.47% in 1990/91) compared to the rates for those other groups (16.32% and 12.61% respectively)[92];

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90 Inbound Tourism Organisation of Australia: Submission 25, p 2.

91 Department of Tourism: Submission 29, p 5.

92 Slippage rate is the percentage difference between the claimed grant and the grant assessed by Austrade following investigation of the claims.

(ii) a greater export orientation (percentage of turnover geared to exports) than either manufactured products or other eligible services (in 1990/91, tourism - 11.52%, manufacturers - 8.99%, other service providers - 7.32%); and

(iii) a lower ratio of grant expenditures to export earnings among tourism claimants than for manufacturers or other service providers (in 1990/91, 4.19% for tourism compared to 5.8% in the other groups).[93]

4.6 The greater claimed effectiveness of the grants scheme in the tourism industry, in terms of returns of export earnings, may, of course, reflect the exclusion of a part of the tourism industry which might not produce such a high return.

4.7 The Department of Tourism is not yet able to provide quantitative evidence concerning increases in overseas promotion expenditure as a result of grants paid to tourism operators in 1990/91 and 1991/92, and concerning the effect this has had on export income. Most recipients of grants, however, have been able to cite marketing initiatives, such as the ability to attend major trade shows, the appointment of sales agents overseas and the production of promotional material, which would not have taken place were it not for the EMDGS assistance.[94]

4.8 Anecdotal evidence received by the committee through submissions from inbound tour operators suggests that claimants have increased their expenditure on overseas promotion, entered into co-operative marketing with the ATC, opened overseas offices and entered new markets that would not have otherwise been possible in the same time frame.

4.9 The Chief Executive of the Australian Tourism Industry Association, Mr Peter O'Clery, provided examples of initiatives that resulted from the availability of grants under the EMDG Scheme to the firm, Australian Pacific Tours. These were: the holding of an international conference in Melbourne attended by 20,000 people; the establishment of offices by the firm throughout Asia; a considerable expansion of coach tours to Australia; and a considerable growth rate in business achieved in Germany.[95]

4.10 The great bulk of submissions claimed that similar outcomes would flow from the extension of the Scheme to the rest of the tourism industry.

4.11 The ability of the EMDGS to help overcome the "cost threshold" of entering a new market was cited in many submissions received by the Committee from inbound tour operators. The Australian Tourism Industry Association (ATIA) stated in evidence to the Committee:

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93 Austrade: Submission 28, p 15.

94 Department of Tourism: Submission 29, p 6.

95 O'Clery, P, Chief Executive, Australian Tourism Industry Association: Transcript pp 172, 173.

> "...that it (EMDGS) formed a catalyst for them (operators). It was something that helped them focus on the international market. And while they may not have necessarily got all that much back at that stage, they were at least building up their markets and their opportunities."[96]

4.12 Due to the short time frame since the partial inclusion of tourism services in the EMDGS and the incompleteness of studies into the impact of the EMDGS on export sales in general, and specifically on international tourism, the Committee is unable to make a definitive judgement on the success or otherwise of the partial inclusion of tourism in the EMDGS since 1 July 1990. However, the ability of the EMDGS to help overcome the high risk and costs associated with developing new export markets was cited in many submissions received by the Committee.

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96 ibid., p 28.

CHAPTER FIVE

APPLICATION OF THE EXPORT MARKET DEVELOPMENT GRANTS SCHEME TO THE TOURISM INDUSTRY

5.1 All submissions received and evidence offered at public hearings detailed supportive arguments for the extension of the EMDGS to the sectors of the tourism industry currently not eligible - the exception being the submission from the Department of Finance.

A. EQUITY

5.2 It was argued by the industry and Federal and State/Territory government departments that the current situation, where some elements of the tourism industry who promote overseas receive assistance through the EMDGS while other elements undertaking essentially the same promotional activity do not, is discriminatory.

5.3 The Industry Commission, in its report on international trade services, commented:

> "The EMDGS is an example of an intervention measure which is not neutral in its availability to or its effect on industries. Some industries are advantaged by it at the expense of others".[97]

5.4 The Inbound Tourism Organisation of Australia (ITOA) and Austrade suggested that the decision to readmit tourism to the EMDGS in 1990, but to restrict eligibility to inbound tour operators, was taken to reduce the cost of tourism under the scheme - not because of concern about the eligibility of marketing expenditure by individual tourism operators.

5.5 In 1990/91, tourism claims on the EMDGS amounted to 9% of total grants paid, in contrast to 40% for manufacturing[98]; yet, in 1991/92, tourism generated 11% of Australia's export earnings while manufactured exports generated 16.8% of export earnings.

5.6 The Committee concludes that not only is it inequitable to have one sector of the tourism industry eligible for assistance through the EMDGS and other sectors not, but it is also inequitable that exporters of manufactured goods and other service exporters are eligible for assistance while certain tourism exporters are not. No other export

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97 Industries Assistance Commission: *International Traded Services*, Report No 418, AGPS, 1989, p 72.

98 Austrade: Submission 28, p 18.

industry under the EMDGS is subject to eligibility criteria which restricts assistance to sectors of its industry.

B. Resource distortions

5.7 Budgetary assistance to the services industries, of which tourism is the largest component, was less than half that to manufacturing and around two thirds of that to agriculture in 1990/91.[99]

5.8 Under the EMDGS, manufacturing and agriculture have more favoured treatment in terms of eligibility criteria and consequently receive disproportionately greater benefits. Austrade argued that as a result of the current lack of neutrality within the Scheme the tourism industry suffers from resource distortions.[100]

5.9 It was suggested by ITOA and the Department of Tourism that, as a consequence of the requirement to meet the tourism services eligibility criteria under the Scheme, some tourism organisations have restructured their operations so as to ensure eligibility.[101]

5.10 In evidence to the Committee the Motor Inns and Motels Association (MIMA) gave an example of the promotion of a hotel product called the "freedom pass":

> "It is a successful product, but the whole essence of it is to keep it simple and to say there is a base price—in this case it is $60 per person per night in a shared room—and that is a very easy message to communicate. To make that qualify (for the EMDGS), we would have to say that you are going to buy 10 nights therefore you need 10 coupons, and to qualify under the scheme we have now got to say that in one of those places you are going to have a tour and in another place you are going to have an element of transport. It could be done, but it would distort the whole image of a simple product and we just prefer not to do that, not to take away that simplicity."[102]

> "... it could be potentially damaging for the Australian tourism industry as well because the overseas person, corporation, FIT traveller does not expect that from an hotel. It would be against world standards, against world operating procedures. It would confuse the marketplace for Australia."[103]

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99 Industry Commission Annual Report, 1990/91.

100 Austrade: Submission 28, p 29.

101 Inbound Tourism Organisation of Australia: Submission 25, p 8.

102 Ray J, Group Director, Marketing, Southern Pacific Hotel Corporation, Motor Inns and Motels Association: Transcript p 164.

103 Crelin R, Executive Assistant, Corporate Services, Australian Hotels Association (New South Wales), Motor Inns and Motels Association: Transcript p 165.

5.11 In addition, the export earnings of inbound tour operators may be affected by marketing undertaken by non-beneficiaries. For example, advertising undertaken by Qantas or a major hotel may influence the decision to travel. A tourist may request the inbound tour operator to book on Qantas and arrange accommodation at a particular hotel. Such export earnings accrue to the inbound operator, inflating the value of export earnings on which the performance test of the EMDGS is based.

5.12 **The Committee concludes that the exclusion of part of the tourism industry from the EMDGS will tend to encourage distortions in the allocation of investment resources. Resources may be directed towards industries which qualify for EMDGS assistance at the expense of tourism, leading to inefficiencies and to investments that are based on factors other than the merits and prospects of particular industries.[104] A re-direction of resources may also result within the tourism industry because some parts of the industry have access to the EMDG Scheme while others do not. Such distortions are unlikely to be in the long term interest of the industry as investment decisions in relation to marketing may be skewed as a result of the discriminatory application of the EMDGS.**

C. Consistency with the objectives of the EMDGS

5.13 The tourism industry is characterised by relatively small operators who sell an internationally competitive product in highly competitive markets. **The Committee concludes that there is no fundamental difference in the nature of the tourism industry as an export earner to that of any other industry which receives benefits from the Scheme.**

5.14 Expenditure on overseas marketing for education courses is eligible under the EMDGS. Such marketing is similar to tourism marketing in that, it is aimed at encouraging overseas visitors to buy and consume a particular product, ie education, in Australia.

5.15 The Department of Finance doubts whether the extension of the EMDGS to cover all tourism operators would be consistent with the Scheme's objectives as a single service tourism operator would primarily use the EMDGS to increase its share of the inbound tourists demand for the service. Finance argues that the result would be a shuffling of the pack at the taxpayers' expense with little or no effect on the size of the market.[105] This theory has been called the 'captive market' argument.

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104 Department of Tourism: Submission 29, p 6.
105 Department of Finance: Submission 36, p 4.

D. THE CAPTIVE MARKET ARGUMENT

5.16 In 1989 the Committee for Review of Export Market Development Assistance recommended a number of changes to the EMDGS including an expansion of the definition of eligible services to cover a wider range of service industries. The Committee suggested the services to be included should not have a largely captive overseas market with little scope for rapid expansion. Captive markets were described as those where the clients were virtually obliged to use an Australian organisation. The tourism industry was used as an example of a captive market.[106]

5.17 The argument proposes that product promotion, such as that undertaken by hotels and attractions, is directed at a market that has already decided to holiday in Australia. Therefore, such promotion is directed at capturing a percentage of an existing market, not at additional export sales.

5.18 While generic promotion by the ATC creates international awareness of Australia as a tourist destination, it is the responsibility of the tourist industry to convert this awareness into sales. Through specific product promotion the industry provides essential information to consumers to help them in their decision making.

5.19 MIMA stated in evidence to the Committee:

> "There are very few organisations in Australia which have the funds to talk directly to the consumer. The all important player in that jigsaw is the retail travel agent. You can have a wonderful awareness of Australia overseas, and a wonderful job done by the Australian Tourist Commission. However, if a potential traveller walks into an agent and says, `I am thinking about going to Australia', and that agent is not equipped to confirm that as a good idea and to then convert that into a sale—by saying, `This is how much it costs to get there and these are the sorts of hotels that you might stay in'—then the whole issue is lost. I think we perform a very important role in providing that sort of information at the retail travel agent level, so that the interest that has been created by the advertising campaigns of the ATC is not lost."[107]

5.20 International tourists have numerous choices about where to travel and what type of holiday they wish to undertake. Before they make a decision, they consider the attributes of competing destinations in terms of variables such as price and the types of products available. The choice of country and type of holiday is made in the home country not when the tourist is captive in the final destination.

5.21 Tourism cannot be classed as an industry with little scope for rapid expansion. Foreign exchange earnings from tourism have increased from $2.8 billion in 1985/86 to

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106 *Australian Exports, Performance, Obstacles and Issues of Assistance*, Report of the Committee for Review of Export Market Development Assistance, AGPS, Canberra, 1989, p 73.

107 Ray J, *Group Director, Marketing, Southern Pacific Hotel Corporation, Motor Inns and Motels Association*: Transcript p 151.

$8.2 billion in 1991/92. By the year 2000, up to $18 billion in foreign exchange could be generated by international tourism.

5.22 The Committee concludes that, while to some extent marketing overseas by single tourism service providers may involve competition for market share, it cannot be assumed that it has little or no effect on the decision by tourists to visit Australia. Indeed, the evidence is that the choice of tourist destination is influenced by the promotion of a wide range of single services and attractions.

E. Abuses of the Scheme

5.23 The Ferris Committee did not specifically identify tourism as being one of the industries abusing the EMDGS in its 1985 review. However, there is a perception that there were problems associated with tourism's involvement in the Scheme and with TOPS. The low threshold level of eligible marketing expenditure may have allowed bogus claims, especially relating to overseas travel by tourism operators, to be processed. Audits of TOPS did not detect any evidence of abuses.

5.24 ITOA stated in evidence to the Committee:

> "People were always willing to say that there was some sort of evidence of somebody coming through the Los Angeles area and visiting a couple of people and giving a couple of brochures out and then going off to ski in Aspen. But I have never known of anybody being prosecuted for having rorted the system."[108]

5.25 ITOA, in their submission, submitted advice from a private sector expert on the EMDGS to clarify the allegations.[109] The advice suggests that allegations of abuses are a legacy of days before significant amendments were made to the Scheme which removed the scope for cheating, especially the limitations on first class travel as an eligible item, the inability to claim the fares of persons such as spouses and the inability to claim the costs associated with a consultant travelling overseas.

5.26 Also, the reduction of the grant rate to 50% and the requirement for a minimum expenditure level of $30,000 together with the non-qualifying threshold of $15,000 means that insincere claims are no longer likely to be made.

5.27 The application of the performance test means that companies cannot continue to access the Scheme without true export performance and the tight administrative controls in the present EMDGS significantly diminish the likelihood of abuse of the Scheme.

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108 Taylor L, Managing Director, Inbound Tourism Organisation of Australia: Transcript p 127.
109 Inbound Tourism Organisation of Australia: Submission 25, Letter from: Exportise Pty Ltd.

5.28 The EMDGS is backed by legislation and action can be taken against fraud. Penalties for fraud of up to $50,000 and imprisonment for 5 years is a strong deterrent. Last year the level of fraud under the EMDGS was minimal, only 0.0002%.[110]

5.29 The Committee has seen no evidence to support the view that there would be an increase in the risk of claimants taking unwarranted advantage of the Scheme if it were to be extended to the whole industry.

F. GOVERNMENT ASSISTANCE

5.30 The industry argued that marketing assistance to single tourism operators through an extension of the EMDGS is distinct from funding for ATC promotion and both forms of marketing are required to attract international tourists.

5.31 The Industry Commission reported in its 1989 inquiry into Travel and Tourism that it received no evidence that operators who received no Government marketing assistance were under-marketing their own products. The Commission saw no justification for Government assistance for specific product promotion.[111]

5.32 The Department of Finance argued that the cost effectiveness of extending the EMDGS to single tourism operators could be addressed by determining if the industry and the economy would be better off by reallocating some ATC resources to grants for individual tourism service providers.[112]

5.33 The Committee concludes that clearly both generic style advertising, of the kind conducted by the ATC, and specific product advertising by the industry is required to attract international tourists. The difficulties in obtaining conclusive evidence of a causal link between the availability of government assistance for overseas market development and increased export revenues is something which must be dealt with when the EMDGS is next reviewed. Since it is not a difficulty which applies exclusively to the tourism industry, the Committee considers that, until the review of the effectiveness of the EMDGS, due sometime before 1995, is conducted, there is sufficient evidence for assistance to the tourism industry under the EMDGS to continue.

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110 Austrade: Submission 28, p 23.

111 Industries Assistance Commission: *Travel and Tourism*, Report No 423, AGPS, 1989, p 194.

112 Department of Finance: Submission 36, p 4.

G. ADMINISTRATIVE CONSIDERATIONS

5.34 The ability of the tourism industry to adhere to the administrative requirements of the current EMDGS was examined in the light of the industry's alleged difficulty in meeting the performance test prior to its exclusion from the Scheme in 1985.

5.35 Austrade stated in evidence to the committee:

> "... from our experiences with the inbound tour operators and talking to other single service providers in the industry, they would have no trouble meeting the performance test in terms of the information they would need to provide to support it and being able to actually document all of Austrade's requirements under the legislation."[113]

5.36 The collection and reliability of tourism data has considerably improved over recent years, especially with the establishment of the Bureau of Tourism Research in 1987. The tourism industry now has the expertise and techniques to determine its value as an exporter. At the enterprise level, the sophistication of information technology in the tourism industry is such that expenditure by international tourists in hotels, for example, can be accurately quantified.

5.37 Where complete records are not available (for example, the earnings derived from overseas travellers visiting a tourist attraction where the admission fee is paid in cash) then it is a problem for the operator to address rather than the administrators of the Scheme.[114]

> "... the onus is on the claimant, not on Austrade, to make sure it is being done correctly. It is for the claimant to have the proper records that can be assessed and identified. If those records are not there, the claim is either disallowed or reduced by the appropriate amount. With that onus, which holds for all participants in this scheme, we believe that the export performance test could be administratively handled if it were extended to all the tourism industry."[115]

5.38 The Committee concludes that an extension of the EMDGS to the whole of the tourism industry would not create any insuperable administrative problems.

5.39 When tourism services entered the scheme in July 1990 the Government decided that due to major changes in the EMDGS over the period in which tourism had been excluded, any previous grants history should not be applied when considering the eight year grant rule. For similar reasons, Austrade suggested in their submission of

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113 McClelland G, Manager, Export Development Incentives Unit, Austrade: Transcript p 13.

114 Austrade: Submission 28, p 22.

115 Mr Meney, Austrade: Transcript p 212.

October 1992 that no previous claim history should be applicable when extending the application of the scheme to the remainder of the tourism industry.[116]

5.40 **The Committee concludes that the previous claim history should not be applied when considering the eight year grant rule.**

5.41 Austrade also suggested that, from an administrative viewpoint, it would be much simpler to treat all additional tourist service providers, not currently covered by the Scheme, as new claimants from 1992/93.[117] In their submissions of October 1992, ITOA and MIMA strongly supported this view, claiming that a starting date of 1 July 1992 would immediately stimulate overseas promotion by single service tourism providers with no implications for the 1992/93 budget as claims incurred in the current financial year would not be processed until next financial year.[118]

5.42 A starting date of 1 July 1992 would provide single service tourist providers with a financial boost which may stimulate additional export marketing above that currently planned for the 1992/93 financial year. Considering that the aim of the EMDGS is to encourage additional marketing and that an extension of the Scheme could not be formalised until late in 1992/93, a retrospective starting date may result in only limited additional marketing expenditure in the 1992/93 financial year and would, in effect, provide the industry with a windfall gain in respect to marketing expenditure undertaken before the extension of the Scheme.

5.43 **The Committee concludes that single service tourism providers should be included in the Scheme from 1 July 1993.**

H. Financial Implications

5.44 The Committee received some variation in the estimates of the additional costs of including the remainder of the tourism industry in the EMDGS. The Department of Tourism estimated the additional cost to be in the order of $9 million, Austrade $10-15 million and ITOA $15-20 million. The Motor Inn and Motel Association (MIMA) estimated that the additional cost of claims from the accommodation sector would be $12 million.

5.45 The number of additional claimants was estimated by Austrade, the Department of Tourism and ITOA to be 100-150. The difference in estimates of cost centres around assumptions made about the expected value of the average claim. The Department of Tourism argued that the value of the average claim of current tourism participants ($100,000) is high as it is associated with large multi-service companies (inbound tour operators). New tourism entrants' claims are expected to be lower due to the single product nature of their businesses. On this basis the Department believes

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116 Austrade: Submission 28, p 23.

117 ibid.

118 Motor Inns and Motels Association: Submission 26, p 23.

that the average value of claims under the EMDGS as a whole ($61,000) is appropriate for estimating the cost of additional tourism claims.[119] MIMA qualified their estimate as being based only on indicative figures which are most likely on the high side.[120]

5.46 Austrade suggested that the average claim of current tourism claimants is likely to increase as they are now familiar with the Scheme while new entrants' claims are likely to be relatively lower as it will take time for these claimants to develop marketing strategies based on assistance available through the EMDGS.

5.47 On the evidence presented to the Committee it would appear likely that the average claim of new tourism entrants would be expected to range between $60,000 and $100,000 and the additional cost of extending the EMDGS to the rest of the tourism industry is estimated to be $10-15 million with an associated operational cost due to increased administration, as estimated by Austrade, of $75,000 in the first year.[121]

5.48 The Department of Finance claimed that a "crucial test, of whether the proponents consider that more cost-effective outcomes for the industry and economy could be achieved by extending EMDGS, would be for the Tourism portfolio to propose to Government the reallocation of part of its budget for that purpose."[122] The framing of the 'test' appears disingenuous.

5.49 There are two separate questions being posed. The first is concerned with the optimal mix of government funds between assistance for generic type marketing, of the kind carried out by the Australian Tourist Commission, and product specific advertising, supported by grants under the EMDG Scheme. The second question is concerned with the relative proportion of government assistance that should be provided to different industries. The test posed by the Department of Finance would restrict the discussion simply to how the present budget allocation for tourism marketing should be distributed. This would not necessarily produce the most "cost-effective [outcome] for the ... economy" as the Department of Finance suggests.

5.50 Given the possible rate of return in export earnings from increased marketing by the tourism industry, there could well be an argument for increasing total government support for such marketing. If the estimated 30:1 return from increased promotion by the Australian Tourist Commission were to hold for increased promotion by the industry itself, then an extra $10 million to $15 million cost (as estimated by Austrade) of extending the EMDG Scheme would result in an additional $300 million to $400 million in export earnings.[123]

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119 Department of Tourism: Submission 29, p 8.

120 Motor Inn and Motel Association: Submission 26, p 22.

121 ibid., p 24.

122 Department of Finance: Submission 36.

123 Meney, S, Austrade: Transcript p 175.

5.51 The provision of funds to help promote international tourism could reasonably be expected to result in a net gain to government revenue. Additional expenditure on the EMDG Scheme should not be considered simply as another demand on government revenue, *without taking proper account of the likely financial return to government.*

5.52 The justification of the EMDG Scheme depends on the existence of a degree of market failure in the promotion of Australian exports. The argument is that total expenditure on marketing is below the amount that is required to produce the optimal result for the Australian economy.[124] The probable reason for such under-expenditure, if it occurs, would be that the benefits from marketing are not able to be fully captured by the person undertaking the expenditure. In other words, there is a 'free rider' problem - someone who does not make the expenditure is able to enjoy some of the gains which result from it. It was argued to the Committee that this free rider problem exists in the tourism industry and that it is the single service operator, the small operator, who is least able to capture for him or her self all the benefits from marketing.[125] If that is the case, then there should be net benefits to the economy as a whole from extending the Scheme to the single service operator. The Department of Tourism argued that the Scheme would probably provide greater returns when applied to tourism than it would when applied to the manufacturing sector.[126]

5.53 The Committee inquired into the separate question (referred to in paragraph 5.49) concerning the appropriate mix of generic and product marketing and whether Government funding of the ATC should be reallocated to finance an extension of the EMDGS.

5.54 The ATC stated in evidence to the Committee: "... while arguing for greater balance and for a greater effort in the area of price product advertising, we say this should not be at the expense of image advertising that we are doing."[127]

5.55 The industry commented favourably on the generic marketing carried out by the ATC and indicated it would not support any reduction in ATC funding to offset increased access to the EMDGS. Submissions and evidence received by the Committee detailed the need for both generic and product marketing of Australian tourism and suggested that additional Government assistance was required due to the competitiveness of the international market.

5.56 **The Committee concludes that the Government assisted generic marketing, undertaken by the ATC, and an extension of the assistance for product specific marketing available through the EMDGS would be complementary programs. Measures should also be taken to encourage approved joint ventures and consortia applicants.**

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124 Carmody, G, Consultant to ATIA: Transcript p 173.

125 ibid., p 225.

126 Spurr, R, Department of Tourism: Transcript p 242.

127 Santer G, Director, Marketing Operations, Australian Tourist Commission: Transcript p 85.

5.57 In summary, there are a number of key points to note concerning the financial implications of extending the application of the Scheme. There is excess capacity in the economy and in the industry which would easily allow for a substantial increase in the inflow of overseas tourists. The industry operators must make the initial marketing expenditure before they receive any grant under the Scheme. This helps ensure that the level and nature of marketing are based on commercial judgements about the likelihood of a reasonable return. Whatever the increased cost to the Government of an expansion of the Scheme (which would possibly be in the region of $10-15 million), the claimants must undertake more than double that cost in increased marketing. Again, this helps ensure that commercial judgements are made about the level and nature of expenditure. Finally, the return of foreign earnings as a result of increased marketing may approach a ratio of 30:1. There would appear to be a strong likelihood of a benefit to the economy far larger than the increased cost to the Government.

I. LEGISLATIVE AND REGULATORY REQUIREMENTS

5.58 The current eligibility requirements regarding tourism services are covered by the Export Market Development Grants Act 1974 and the Export Market Development Grants regulations. Section 11Z of the Act covers qualifying export development expenditure for persons claiming under the Scheme. This includes persons promoting the supply of "eligible tourism services". The definition of eligible tourism services is set out in the Regulations of the Act.

5.59 The inclusion of the rest of the tourism industry in the EMDG Scheme would require a change to the definition in the Regulations and a minor amendment to Section 11ZC of the Act which sets out the provisions governing approved joint ventures and consortia. Currently, joint ventures and consortia seeking to promote tourism services do not have access to the Scheme.[128]

128 Austrade Submission 28, p 25.

Recommendation 1

5.60 The Committee recommends that the application of the Export Market Development Grants Scheme be extended to include all of the tourism industry.

Recommendation 2

5.61 The Committee recommends that the part of the Act which describes joint ventures and consortia be amended to include tourism services.

Recommendation 3

5.62 The extension of the Scheme should take effect in relation to expenditure after 1 July 1993. Any previous claim history should not be applied when considering the eight year grant rule.

Recommendation 4

5.63 The Committee recommends that the funding of the application of the Export Market Development Grants Scheme to the whole of the tourism industry should not be contingent upon any corresponding decrease in the allocation of funds to the Australian Tourist Commission or to other parts of the tourism portfolio.

Arch Bevis MP
Chair
Report adopted by Committee 7 June 1993

APPENDIX I

CONDUCT OF THE INQUIRY

On 8 September 1992, the Minister for Tourism wrote to the Committee proposing terms of reference for an inquiry into the application of the Export Market Development Grants Scheme to the tourism industry.

The Committee advertised the inquiry nationally in major metropolitan newspapers. All State Premiers and the Chief Ministers of the Territories were written to as well as Commonwealth Ministers with a portfolio interest in the issues. In addition, letters inviting submissions were sent to tourism industry claimants under the EMDG Scheme since June 1990 and to the major industry associations. When the inquiry was re-activated in the 37th Parliament, the Committee wrote to all those who had made submissions inviting them to make any additions or alterations to their previous evidence. Appendix II lists those who made submissions. Forty-two submissions were received.

Four public hearings were held - 3 in Canberra and 1 in Sydney. Twenty-three witnesses gave evidence (some on two separate occasions). These are listed in Appendix IV. A transcript of all the evidence is available for inspection at the Committee Office of the House of Representatives and at the National Library of Australia.

APPENDIX II

LIST OF SUBMISSIONS

1. Mr John R Dart, Executive Director, Australian Federation of Travel Agents, Sydney NSW 2000 (dated 30 September 1992)

2. Mr Ian L Kennedy, Vice-President - Pacific Division, Pacific Asia Travel Association (PATA) Woolloomooloo, NSW 2011 (dated 2 October 1992)

3. Mr Denis Pierce, Managing Director - Australia, ATS Pacific, North Sydney, NSW 2060 (dated 2 October 1992)

4. Mr Bruce Bickerstaff, Managing Director, Meet the People, Randwick, NSW 2031 (dated 7 October 1992)

5. Mr Derek Winter, IntAussie Tours, Brisbane QLD 4000 (dated 8 October 1992)

6. Mr John Cronshaw, Executive Group Chairman, Fantastic Aussie Tours, Sydney NSW 2000 (undated)

7. Mr Colin Evans, General Manager, Sime Darby Travel Pty Ltd, Northbridge, Perth WA 6000 (dated 8 October 1992)

8. Mr John Murphy and Ms Robyn Murphy, Koala Golf Pty Ltd, Sandringham, Vic 3191 (undated)

9. Mr James Kimpton, Manager - Aviation policy, Ansett Australia, Melbourne Vic 3000 (dated 9 October 1992)

10. Mr Mustafa Issa, Director of Marketing, Australia/Pacific, Hyatt International Hotels, Edgecliff NSW 2027 (dated 12 October 1992)

10.1 Supplementary submission from Mr Mustaffa Issa (dated 29 October 1992)

11. Mr Patrick McKendry, Industrial Relations & Research Officer, Australian Hotels Association, Barton ACT 2600 (dated 14 October 1992)

12. Mr David Goldstone, Managing Director, Goldstone Enterprises Pty Ltd, Perth WA 6004 (dated 13 October 1992)

13. Mr Wayne R Saunders, General Manager, Ocean Blue Resort (Surfers Paradise) Pty Ltd, Surfers Paradise, Qld 4217 (dated 12 October 1992)

14. Mr Adrian Webster, Director, Bed and Breakfast Australia Pty Ltd, Gordon NSW 2072 (dated 12/10/92)

14.1 Supplementary submission from Mr Adrian Webster, Director, Bed and Breakfast Australia Pty Ltd, 5 Yarabah Av. (PO Box 408), Gordon NSW 2072 (dated 25/5/93)

15. Mr Bob Kinnaird, R T Kinnaird & Associates Pty Ltd, Balgowlah NSW 2093 (dated 13/10/92)

16. Ms Sharon Locke, Manager, Austravel Pty Ltd, North Sydney NSW 2060 (dated 13/10/92)

16.1 Supplementary submission from Ms Sharon Locke, Manager, Austravel Pty Ltd, Suite 3, 262 Alfred Street North, North Sydney NSW 2060 (dated 25 May 1993)

17. Mr Colin Knell, General Manager, Corporate Affairs, Jetset Tours Pty Ltd, Melbourne Vic 3004 (dated 14/10/92)

18. Mr Barry J Matters, Director, Australian Pacific Tours Pty Ltd, Melbourne Vic 3188 (dated 14/10/92)

19. Mr D J McLaughlin, Managing Director, Austasian International Tours, Brisbane Qld 4127 (dated 14/10/92)

20. Mr Geoff Brooks, Managing Director, Multi Media Public Relations, Toorak, VIC 3070 (dated 14/10/92)

21. Ms Judy Ashton, Managing Director, LandMark (South Pacific) Pty Ltd, Sydney NSW 2028 (dated 14/10/92)

22. Mr Patrick J Raper, Manager - Inbound, (Europe, The Americas, South-East Asia) South Pacific Tour Planners, Sydney NSW 2000 (dated 14/10/92)

23. Mr John Greenslade, Marketing Manager, Sovereign Hill Ballarat, Ballarat, VIC 3350 (dated 13 October 1992)

24. Ms Margaret Hudson, Manager Corporate Strategy, Australian Tourist Commission, Sydney NSW 2011 (dated 15 October 1992)

25. Ms Judy Ashton, Chairman, Inbound Tourism Organisation of Australia Ltd, Sydney NSW 2011 (dated 12 October 1992)

26. Mr G E Farrar, Executive Director, The Motor Inn & Motel Association of Australia, Sydney NSW 2000 (dated 14 October 1992)

26.1 Supplementary submission from Mr G E Farrar, Executive Director, The Motor Inn & Motel Association of Australia, Sydney NSW (dated 9 November 1992)

26.2 Supplementary submission from Mr G E Farrar, Executive Director, The Motor Inn & Motel Association of Australia, Sydney NSW (dated 7 June 1993)

27. Mr Peter O'Clery, Chief Executive, Australian Tourism Industry Association Ltd, Barton ACT 2600 (dated 16 October 1992)

27.1 Supplementary submission from Mr Peter O'Clery, Chief Executive, Australian Tourism Industry Association Ltd. (dated 23 November 1992)

28. Mr G J McClelland, Manager, Export Development Incentives, AUSTRADE (Australian Trade Commission), Canberra ACT 2601 (dated 19 October 1992)

29. Mr David Mazitelli, Executive Director, Commonwealth Department of Tourism, Canberra, ACT 2601 (dated 20 October 1992)

30. Mr Ross Willims, Director, Economic Policy Unit, Office of the Cabinet, Queensland, Brisbane Queensland 4000 (dated 22 October 1992)

31. Mr Bob Wood, Managing Director, Bob Wood South Pacific Tours Pty Ltd, Brisbane Qld 4000 (dated 27 October 1992)

32. Mr J F Ward, Chief Executive, Qantas Airways Ltd, Sydney NSW 2001 (dated 13 October 1992)

33. Hon John Brown, Chairman, The Tourism Task Force, (jointly with Horwath Services) Sydney NSW 2000 (dated 19 October 1992)

34. Mr Marshall Peron, Chief Minister, Northern Territory Government, NT House, Darwin NT 0800 (dated 30 October 1992)

34.1 Supplementary submission from Mr Marshall Peron, Chief Minister, Northern Territory Government, NT House, Darwin NT 0800 (dated 4 June 1993)

35. Mr Patrick McNamara, Deputy Premier and Minister for Tourism, Victorian Government, Melbourne Vic 3001 (dated 2 November 1992)

36. Hon Ralph Willis, Minister for Finance, Parliament House, Canberra ACT 2601 (dated 5 November 1992)

37. Mr R B Wilkins, Acting Director-General, the Cabinet Office, NSW Government, Sydney 2001 (dated 9 November 1992)

38. Mr Robert Gunning, National Secretariat, Australian Bus and Coach Association, North Parramatta NSW 2151 (dated 16 November 1992)

39. Mr Jonathon Ray, Group Director of Marketing, South Pacific Hotel Corporation Ltd., Sydney (dated 20 November 1992)

40. Hon R Groom, Premier of Tasmania, Executive Building, Level 11, 15 Murray Street, Hobart, Tasmania 7000 (dated 21 December 1992)

41. Hon Dr C Lawrence, Premier of Western Australia, 197 St George's Terrace, Perth WA 6000 (dated 29 December 1992)

42. Coopers & Lybrand Level 4, National Mutual Tower, 15 Lake Street, Cairns, Qld 4870 (dated 28 May 1993)

42.1 Supplementary submission from Coopers & Lybrand Level 4, National Mutual Tower, 15 Lake Street, Cairns, Qld 4870 (dated 31 May 1993)

APPENDIX III

LIST OF EXHIBITS

1. *Cairns and the Tropical North* (brochure from Inbound North Australia) - an attachment to submission no 3.

2. *Delivering Excellence In Destination Management* (brochure from ATS Pacific) - an attachment to submission no 3.

3. *Where In Asia Pacific Can Your Clients Feel The Hyatt Touch?* (brochure from Hyatt Hotels & Resorts) - an attachment to submission no 10.

4. *Australia and New Zealand: Luxury Motorcoach Tours and Safaris* (brochure from Australian Pacific Tours Pty Ltd) - attachment to submission no 18.

5. *Australia New Zealand South Pacific: 'Design your own' tours for the independent traveller* (brochure from Australian Pacific Tours Pty Ltd) - attachment to submission no 18.

6. Various brochures - attachment to submission no 20.

7. *Inbound Tourism Organisation of Australia - Introduction* - attachment to submission no 25.

8. *Inbound Tourism Organisation of Australia - Membership Directory*

9. *Australia* - attachment to submission no 5.

10. *Great Ideas* - attachment to submission no 5.

11. *Dive IntAussie: Australia's Great Barrier Reef* - attachment to submission no 5.

12. *Australia G'day* - attachment to submission no 5.

13. *Facts about Sovereign Hill* - attachment to submission no 23.

14. *Evaluation of the Australian Tourist Commission's Marketing Impact* March 1991 - attachment to submission no 24.

15. *Cooperative Marketing Scheme* Jan. 1990 - attachment to submission no 24.

16. *Cooperative Marketing Guide 1992/93* - attachment to submission no 24.

17. *ATIA Now* April 1992 - attachment to submission no 27.

18. *Tourism 2000: Key Directions for Human Resource Development* in *ATIA* July 1992 - attachment to submission no 27.

19. Carmody, G. *Japanese Outward Tourism: Prospects and Implications for Australia* Access Economics June 1992 - attachment to submission no 27.

20. *What is ATIA and what does it do?* ATIA pamphlet - attachment to submission no 27.

21. Ernest & Young: *Report on Investment in the Australian Tourism Industry* 1992- attachment to submission no 27.

22. Australian Tourist Commission: *A Strategic Evaluation of the Australian Tourist Commission's Marketing Activities in the United States 1984-1990.*

23. Australian Destination Centre: *Down Under Destinations.*

24. The National Centre for Studies in Travel and Tourism: *An Industry Survey conducted for the Australian Tourism Industry Association* Jan 1991. - attachment to submission no 27.1.

25. *Japanese vertical integration ... a myth!* a study of overseas tourism marketing expenditure - attachment to submission no 27.1.

APPENDIX IV

LIST OF HEARINGS AND WITNESSES

Canberra, 2 November 1992

Australian Tourism Industry Association
- Mr P O'Clery

Australian Trade Commission
- Mr C Lang
- Mr G McClelland
- Mr S Meney

Department of Tourism
- Mr J Beeston
- Mr P Bellchambers
- Mr K Maxted
- Mr D Mazitelli

Canberra, 12 November 1992

Department of Finance
- Mr A Edwards
- Mr A Moss
- Mr D Wallace

Sydney, 20 November 1992

Australian Hotels Association (NSW)
- Mr Roger Bruce Crellin
- Mrs Margaret Lucy Harop

Australian Tourist Commission
- Ms Margaret Hudson
- Mr Godfrey Santer

Inbound Tourism Organisation of Australia Ltd.
- Mr Leonard Anthony Taylor
- Mr John Robert Loughnan
- Mr Laurence Graham Stroud

Motor Inn, Motel and Accommodation Association of Australia
Mr Graham Farrar
Mr Don Beresford

Passport Tour Company
Mr Geoffrey Peter Lucas

Southern Pacific Hotel Corporation Ltd.
Mr Jonathan Andrew Peter Ray

The Tourism Task Force
Hon John Brown

Canberra, 25 May 1993

Australian Tourist Commission
Ms Margaret Hudson
Mr Godfrey Santer

Inbound Tourism Organisation of Australia
Mr Laurence Stroud
Mr John Loughnan

Australian Tourism Industry Association
Mr Peter O'Clery
Mr Geoffrey Carmody

Austrade
Mr Simon Meney
Mr Christopher Lang

Department of Tourism
Mr David Mazitelli
Mr Raymond Spurr
Mr Keith Maxted

Department of Finance
Mr Dean Wallace
Mr Adrian Moss
Mr Alan Edwards

Australian Hotels Association
Mr Patrick McKendry

APPENDIX V

REFERENCES

Books, Reports and Monographs

AUSTRADE: *Export Market Development Grants: A Guide to Benefits*, April 1991

Australian Bureau of Statistics: *Tourist Accommodation - Australia*, June Quarter, 1992, Cat No. 8635.0

Australian Bureau of Statistics: *Hotels and Motels with Facilities: Employment Details*, June Quarter, 1992

Australian Tourist Commission: *Evaluation of the Australian Tourist Commission's Marketing Impact*, 1991

Bureau of Tourism Research: *Australian Tourism Trends*, Canberra, 1991

Bureau of Tourism Research: *Tourism and the Economy*, Canberra, March 1992

Bureau of Tourism Research: *International Visitor Survey 1991*, Goanna Print Pty, Canberra, 1992

Bureau of Industry Economics: *Review of Export Market Development Grants Scheme*, Program Evaluation Report 5, AGPS, Canberra, 1988

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Committee of Review of Export Market Development Assistance: *Australian Exports - Performance, Obstacles and Issues of Assistance*, AGPS, Canberra, 1989

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Department of Tourism: *Tourism Workforce 2000*, 1992

Ferris Committee Report: *Lifting Australia's Performance as an Exporter of Manufactures and Services*, AGPS, Canberra, 1985

Forsyth, P & Dwyer, L: *Impacts of Foreign Investment in Australian Tourism* Occasional paper no 10 Report to the Department of the Arts, Sport, the Environment, Tourism and Territories and Queensland Treasury, published by the Bureau of Tourism Research, circa 1991

Industries Assistance Commission: *International Traded Services*, Report No 418, AGPS, 1989

Industries Assistance Commission: *Travel and Tourism*, Report No 423, AGPS, Canberra, 1989

Industries Assistance Commission: *Export Incentives*, Report No 156, AGPS, Canberra, 1978

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National Centre for Studies in Travel and Tourism: *Survey of Industry Funding of International Tourism Marketing*, James Cook University, 1991

Price Waterhouse Government Liaison Services: *Review of the EMDGS*, 1988

The Economist Intelligence Unit: *The Financing and Organisation of National Tourist Offices*, Travel and Tourism Analysis No 4, 1992