



National Tourism Alliance

**Submission
to the
Federal Government
Carbon Pollution Reduction
Scheme Green Paper**

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Executive Summary

The NTA is pleased to put before the Federal Government our views in relation to the Carbon Pollution Reduction Scheme proposed in the Green Paper. Key recommendations of this submission are:

- Strong leadership by Australia on climate change, and indeed specifically a cap and trade scheme, is supported. However, as detailed below this should not be discriminatory against tourism, nor should it lead to Australia being significantly worse off against our international competitors.
- Despite the difficulties for policy regulators in assessing the impact on tourism (given it cuts across industries) more consideration of the implications for tourism needs to be given in the final CPRS. Apart from the comments about natural tourism assets, tourism received very little thought in the Green Paper even though it is one of Australia's largest economic contributors.
- Implications for transport and the effect on the movement of visitors is the biggest single direct effect of the CPRS. However, it is the flow on effect to downstream small businesses servicing tourists that needs to be given primary focus.
- The Federal Government needs to better manage the linkages between its various strategic goals. The finalisation of a national aviation strategy and a long term tourism strategy are just two examples of policy ambitions that may have conflicting interests (unless managed and understood) with the CPRS.
- In relation to aviation, the proposed CPRS should be altered to either recognise domestic aviation as export exposed, such that it is afforded the same treatment as others similarly categorised, or that specific compensation be put in place to offset the cost of the cap and trade system.
- Aviation should qualify for government assistance under the CPRS. At the very least a similar transitional approach as is proposed for petrol excise should be implemented, with a review based on a similar 3 year timetable.
- In relation to motor vehicle use, we need to send the right signals to Australians about how they use their motor vehicle, recognising that use for visitation has a much more positive contribution to Australia than commuting within congested cities. We should look to compensate for fuel costs increases where there are positive benefits in the vehicle being used.
- Accelerated depreciation allowances for hotels and operators putting in place equipment or building refits that demonstrably bring about greenhouse gas emission (“GGE”) reductions
- Accelerated depreciation for planes, motor vehicles in tourism businesses (e.g. tourist coaches, 4WD companies) where the replacements deliver significant GGE outcomes. (In its current form, the CPRS proposal takes cash out of the aviation sector, making it even more difficult to replace fuel inefficient planes)
- In remote tourism destinations, there is a reliance on generator power. Governments need to act to encourage greater certainty of biofuel supply and/or rebates for spending on solar power.
- Using the proceeds of the initial permit sale to compensate, but also for business education & accreditation, and to support and encourage small businesses to adapt and mitigate.

Introduction

Tourism is one of Australia's critical and most valuable economic and social assets:

- An economic contribution by tourism to Australia of \$40 billion to GDP¹
- Labour intensive, customer service industry with employment opportunities at all levels of skill, employing 482,800 jobs directly and 810,000 Australians both directly and indirectly².
- Regional dispersal – there are tourism related jobs and economic activity located in all areas of the country.
- Export earnings – both current (over \$22 billion³) and most importantly potential earnings.
- Money spent in Australia by tourists on services produced in Australia – the ultimate “Australian-made” offering.
- Dominated by small business owners who are embedded in local communities, delivering not just economic benefit but making a strong social contribution.
- Providing an economic benefit/purpose for the protection of natural assets, including our national parks which are so important in the context of climate change and sequestration.

There no other Australian industries that can claim this combination of assets.

This submission examines the important issue of the Carbon Pollution Reduction Scheme within a broader environmental context. With regard to tourism, NTA is ideally positioned to provide a holistic perspective of the industry's future, as it includes the following significant associations as its members:

- Australian Hotels Association
- Australian Tourism Export Council
- Australian Federation of Travel Agents
- Restaurant & Catering Australia
- Hotel, Motel & Accommodation Association
- Caravan, RV & Accommodation Industry of Australia
- Australian Casino Association
- Board of Airline Representatives
- Queensland Tourism Industry Council
- South Australian Tourism Alliance
- Tourism Council ACT
- Tourism Industry Council Tasmania
- Tourism Council Western Australia
- Tourism Industry Council NSW

¹ Department of Resources, Energy & Tourism, *Tourism Industry – Facts and Figures*, Australian Government, June 2008

² *Ibid.* p1

³ Department of Resources, Energy and Tourism, *Tourism Industry – Facts and Figures at a Glance*, Australian Government, June 2008, p 22

- Tourism Alliance Victoria
- Victorian Tourism Industry Council

Not only is the NTA membership comprehensive in its scope, but the leadership of these associations, representing over 45,000 businesses, can bring to the table a great deal of experience, knowledge and determination to address the diverse issues that face the tourism industry as a whole.

Environmental Leadership is Critical

Although this submission will outline a number of concerns in relation to the proposed structure of the CPRS, these are put forward within a context that those involved in tourism fully understand the need for Australia to be, and be seen to be, an environmental leader. Changes to environmental practices in tourism have been largely driven by the consumer – a shift in views of the Australian and global community has changed purchasing decisions.

Businesses in tourism have made major changes to their environmental management, and tourism leadership is driving changes on a range of fronts:

- Incorporation into existing tourism accreditation schemes environmental criteria to improve business practices, and working with Government in finalising an accreditation framework which will more readily embrace a broader range of schemes.
- A Government/Industry Climate Change Taskforce which sets out recommendations of business assistance in taking action on reducing their emissions.
- Green Table Australia, a scheme created by Restaurant & Catering Australia, based on a program in Canada recognising businesses that are doing what they can to reduce their CO2 emission: a commitment to natural gas and green electricity to power stoves; organic waste to compost; the recycling of paper, plastic, glass, and metal as much as possible; the use of energy-efficient equipment, lighting; water-saving equipment, and recycled, biodegradable and non-toxic supplies.
- Green Globe, implemented via the Sustainable Tourism CRC, is a benchmarking and accreditation program for tourism businesses.
- Ecotourism Australia – a certification program aimed at businesses offering an environmental or ecotourism experience.

Action on climate change is also strongly supported by tourism as some of our major assets will be those most affected. Loss of biodiversity and damage to natural tourism infrastructure (including the Great Barrier Reef and rainforest wilderness areas), will not only be major environmental issues, but also ones with strong economic and tourism consequences. Tourism businesses recognise the importance of action on climate change, and in particular have accepted that an emissions trading scheme is inevitable.

Therefore, strong leadership on climate change, and indeed specifically a cap and trade scheme, is supported. However, as detailed below, this should not be discriminatory against tourism, nor should it lead to Australia being significantly worse off against our international competitors.

CPRS in a Broader Context of Action

Government, industry and community action on climate change should not be reduced to a view that the CPRS is sufficient in terms of action on climate change. There is no doubt that a CPRS will dramatically change the landscape by putting a price on carbon, and will also affect activity due to Government's decisions on how the initial proceeds will be spent to compensate and facilitate change. However, carbon pollution under a CRPS is carbon neutral (with reductions only affected by a ramping down of the cap), and price signals alone in many situations may not be sufficient to change behaviour.

Governments should continue to support and reinforce all activity that reduces carbon emissions. In tourism, business size is overwhelmingly small, and the activities of these businesses should increasingly become focused on better environmental management. Practices such as recycling and preserving and planting green landscapes should continue to be encouraged through incentives and education.

In short, the enormous attention being given to the CPRS has a risk that broader activity will be de-emphasised. This should not be allowed to happen.

Linkages between Government Strategies

The federal government is urged to act in full consciousness of what at the moment could be seen as competing priorities. This includes:

- A national aviation strategy being finalised – one that will have major implications for growth and dispersal of tourism. We strongly support the importance of a healthy, economically viable and growing aviation sector. Given even the modest projections of international and domestic tourism (including leisure, business and education), we need more flights, more seats, more services and more destinations. Therefore, the CPRS cannot unfairly place a financial burden on aviation relative to competing consumer spend, and relative to other industries.
- Regional development – a strong goal of government is to strengthen the economic viability of regions and encourage growth. Tourism is a major opportunity to achieve this, so the CPRS should not be imposed in a way that reduces access to the regions via car or plane through imposing additional costs without direct compensation. Action that will minimize the tourism impact, but still act positively on climate change such as use of more fuel efficient vehicles or planes, should be incentivised rather than using the stick of the CPRS alone, which is likely to achieve reductions through reduced travelling. This is not a good outcome for tourism or Australia.
- Employment – Australia is experiencing major changes in employment patterns – booming industries such as mining are capital intensive, and traditional industries which are more labour intensive, such as manufacturing (including cars) are facing significant short and long term challenges. Tourism, with the correct policy prescriptions behind to assist it, is a great opportunity for jobs growth, not just in a few regions, but in most regions.
- National Long Term Tourism Strategy – the Government has set up a Steering Committee to report next year on ways we can grow tourism both

domestically and internationally. The CPRS should not make this more difficult by putting in place unfair barriers to growth opportunities.

Carbon Footprint of Tourism

In a timely report, the Sustainable Tourism CRC has released in September 2008 an analysis of the carbon footprint of tourism. Not surprisingly, the tourism use of transport (particularly air and motor vehicle) accounts for 82% of the Green House Gas emissions. By comparison, accommodation accounted for 4.5%, other activities 8.6% and retail 3.4%. Therefore, the implications for the transportation of visitors is a major feature of this submission. However, we should not forget that transport is a feeder for the rest of the industry – if the number of trips declines significantly then all businesses will be affected.

In relation to this research, the other significant finding was that despite the vehicle and airline emissions, the carbon footprint for tourism is less than our contribution to GDP. Importantly, air transport accounts for less than 5% of Australia's total GGE, so the imposition should not only be proportionate, but indeed sympathetic to its feeder role for broader economic gain.

Effects on Small Business

Tourist services are predominantly delivered by small businesses. The diversity of services, location and customer needs ensures that small business will always be the backbone of tourism. In terms of their direct cost impact, it is clear that the CPRS in its proposed form will negatively impact on these businesses, unless the business support funds appropriately compensate them. In addition to CPRS compensation, small businesses will need to be supported in their adaptation and mitigation activities.

Principles of Compensation

The money raised through the initial sale of permits has been earmarked for compensation. The principle of this compensation should enable consumer spending to occur in ways that will maximise economic and social benefit on those services and goods that in the absence of a CPRS they would have chosen to buy. In other words it should enable a minimization of market distortion for the demand of goods that are not directly carbon intensive. It should not be about major redistribution of income to meet other social needs. Other aspects of government spending, such as welfare, are best left to deal with those issues.

Specific Issues about the Proposed CPRS

In examining the potential impact on tourism of the proposed CPRS, we are again reminded that as tourism does not fit into a neat "industry box", the effect on tourism, and the basket of industries that service tourism, is often understated. This is definitely true of the proposed CPRS. In fact, the Green Paper, except in reference to the effect of significant natural and tourism assets such as the Great Barrier Reef, largely ignores tourism. The Green Paper also reinforces the view that many policy makers simply cannot get the mind around the fact that tourist services consumed in Australia by international visitors are exports.

Aviation Tourism

The proposed CPRS is discriminatory in how it treats aviation, and this will have a significant negative impact on tourism. Given the enormous increases in fuel price in the last 12 months, the aviation sector had already responded with a range of measures to reduce aviation fuel consumption. Some, such as fleet upgrades and changes in environmental practices, have been very positive or neutral in their effect on tourism and are to be highly commended. Others, such as fuel surcharges and reductions in flight numbers (and access), whilst understandable given the costs they have been facing, have been detrimental to tourism, and have exacerbated already challenging conditions within which tourism is trading. The Federal Government's own action in relation to supporting Far North Queensland is recognition of the problems caused by aviation and trading difficulties.

The negative impact being felt by tourism from the aviation fuel increase is a demonstration of the effect that a further price increase as a result of the CPRS will have on our sector. Ironically, it is likely that the CPRS will not add additional price signals for change by airline companies, as the cost of aviation fuel alone has already maximised that action. The CPRS will just add to costs and reduce the cash flow available to airlines. The extent to which they will pass some of that cost onto customers will add to the significant financial pain being felt by tourism⁴. Air travel is price sensitive and most importantly, internationally competitive. It is completely erroneous to conclude, as the Green Paper does, that the domestic aviation market is not export exposed. Australians make choices between domestic and international travel, and costs imposed on domestic flights and not international ones will further shift demand away from domestic tourism. In addition, domestic flights taken by international tourists are exports and deserve to be treated with the same understanding of their exposure as other export commodities.

Therefore, in relation to positive steps that can be taken by airlines, it is hard to see what else a "stick"-only approach (which the CPRS is) will achieve. All action to improve practice has been taken or planned to be taken, which leaves on cost and price increases on the horizon. As the cost of permits go up, the potential effect on tourism will increase.

In relation to aviation, the proposed CPRS should be altered to either recognise domestic aviation as export exposed such that it is afforded the same treatment as others similarly categorised, or that specific compensation be put in place to offset the cost of the cap and trade system. Aviation should qualify for government assistance under the CPRS. At the very least a similar transitional approach as is proposed for petrol excise should be implemented, with a review based on a similar 3 year timetable.

In addition, there are policy decisions made by Governments that lead to extra fuel use, including flight path restrictions. A genuine desire to cut GGE arising from aviation fuel should look beyond a CPRS mechanism. With quieter planes, as well as more fuel efficient ones, and with a public acceptance of the need to act, some of these options should be readdressed.

⁴ Aviation industry experts indicate that experience with passing on fuel increases is that in the short term, price increases are not passed on, but in the medium to long term around 60% is recovered from the consumer. This figure will clearly depend on international competition – including consumer resistance to fuel surcharges.

Motor Vehicle Tourism

The carbon pollution from cars and buses is the same, but the consequences of cutting it back are not. Car pollution in urban areas, curbed through greater use of public transport is a positive outcome not just for climate change, but for congestion and urban infrastructure requirements. However, carbon pollution curbed by Australians deciding not to travel to visit regional Australia has very negative consequences for the rest of the economy, particularly regional Australia and tourism and tourism dependant employment.

The Green Paper notes a transition period where fuel excise will adjust to compensate for CPRS. This provides an across the board compensation – not taking into account the different consequences of carbon pollution. Also, what happens after the 3 year period is important to be considered now so that there is certainty. We need to send signals to Australians, and provide education and incentives that encourage the reduction of fuel use where the consequences of that fuel use are economically detrimental, and look to compensate for fuel costs increases where there are positive benefits in the vehicle being used. Of course, alongside this should be incentives to switch to more fuel efficient travelling.

In short, the CPRS, through its compensation package such as excise changes or demand stimulation, should ensure that motor vehicle tourism is encouraged to grow.

Incentives for Positive Change

The Tourism Climate Change Taskforce and subsequent industry discussions reinforced the need for action in relation to:

- Mitigation
- Adaptation
- Innovation
- Education

Through the monies raised from the sale of permits, incentives and education support should be planned to ensure that action on climate change continues to be taken on a broad front inclusive of businesses of all sizes. Specifically, monies should be allocated to sector education programs, accreditation schemes that include environmental criteria, and taxation incentives to bring about changes in practices.

In relation to taxation, the following is recommended:

- Accelerated depreciation allowances for hotels and operators putting in place equipment or building refits that demonstrably bring about GGE reductions.
- Accelerated depreciation for planes, motor vehicles in tourism businesses (e.g. tourist coaches, 4WD companies) where the replacements deliver significant GGE outcomes. (In its current form, the CPRS proposal takes cash out of the aviation sector, making it even more difficult to replace fuel inefficient planes).

In remote tourism destinations, there is a reliance on generator power. Governments need to act to encourage greater certainty of biofuel supply and/or rebates for spending on solar power.

In our pre-2008-9 budget submission, the NTA put forward the following recommendations that are relevant to this area of positive incentives.

Some actions that could be taken are as follows:

- Supporting decision makers with practical guides, kits and benchmarking tools to assist in managing climate change impacts.
- Providing climate change projections and regional impact scenarios targeted to the tourism industry.
- Generating the knowledge to understand and manage climate change risks to water resources, biodiversity, coasts, human health, settlements and infrastructure.
- Working with key industry stakeholders to develop practical strategies to manage the risks of climate change impacts (prevention/mitigation strategies).

Summary

The tourism industry is a strong supporter of initiatives to reduce the impact of climate change and to reform practices with a significant carbon footprint, however, such initiatives should not be discriminatory against tourism, nor should it lead to Australia being significantly worse off against our international competitors.

Tourism brings great economic and social benefits to Australia. With a significant contribution to Australia's GDP both directly and indirectly, and as a greater employer than mining and agriculture, forestry and fishing⁵, the final CPRS must more fully assess the potential impact on Australia's tourism industry to ensure Australia's tourism industry remains sustainable and competitive.

⁵ Department of Resources, Energy and Tourism, *Tourism Industry – Facts and Figures at a Glance*, Australian Government, June 2008, p 22