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The impacts of Australia's departure tax: Tourism versus the economy?

Peter Forsyth [a], Larry Dwyer [b,*], Ray Spurr [b], Tien Pham [c]

[a] Department of Economics, Monash University, Clayton, Victoria 3800, Australia
[b] School of Marketing, Australian School of Business University of New South Wales, NSW 2052, Australia
[c] School of Tourism, University of Queensland, St. Lucia, Queensland 4072, Australia

HIGHLIGHTS

- We estimate the tourism flow and expenditure effects of the recent increase in Australia's Passenger Movement Charge (PMC).
- We develop a framework to distinguish the effects of the increased PMC on the wider economy and on different tourism markets.
- Implications of the modelling results for the validity of industry criticisms of the PMC are discussed.
- Informs stakeholders of gainers and losers from departure tax increases in tourism destinations generally.

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ABSTRACT

This study estimates the flow and expenditure effects of the recent increase in Australia's Passenger Movement Charge (PMC), as well as the economic impacts on the Australian economy and the tourism industry. After discussing the nature of the PMC, it outlines the types of industry stakeholder concerns as to its effects on tourism both before and after the recent increase. It then presents a framework developed by the authors that can be used to distinguish the effects of the increased PMC on the wider economy and on different tourism markets. A computable general equilibrium model is then used to estimate the economic impacts of the increased charge on different Australian tourism markets – inbound, outbound and domestic. The implications of the modelling results for the validity of the industry criticisms of the PMC are discussed. The results confirm that the tourism industry will suffer, though it also indicates that the Australian economy will gain – thus there is a clash between the industry and wider economic interests. The types of issues addressed in this paper can inform policy making regarding the gainers and losers from departure tax increases in tourism destinations generally.

1. Introduction

Australia recently, and controversially, has increased the amount of the Departure Tax (the Passenger Movement Charge or PMC) levied on all travellers leaving Australia. Despite the ongoing concerns of tourism and transport stakeholders that the PMC is effectively an export tax that makes Australia a less competitive tourism destination, the government recently announced a 17 per cent increase in this tax from Aus$47 to Aus$55 per passenger,[1] to take effect from July 1, 2012. The PMC is of particular ongoing concern to the tourism sector. Australia is regarded already as a high priced destination. With a high value of the Australian dollar supported by a prolonged boom in mining exports, and a carbon tax/emissions trading scheme which began on July 1 2012, tourism stakeholders have argued that the additional charge will further impact adversely on inbound tourism, and further reduce the economic significance and employment potential of the nation's tourism industry.

The tourism industry's concerns need also to be seen in the light of the fact that the PMC is also a tax on outbound tourism – indeed for Australia, outbound tourism is larger, in visitor terms, than inbound tourism. Acting as a deterrent to outbound tourism, the PMC to an extent will encourage domestic tourism as a substitute. The tourism industry has not taken much notice of this effect.

This debate is occurring in the context of an ongoing weakening in the tourism share of the Australian economy. Tourism

* Corresponding author. Tel.: +61 2 9385 2636; fax: +61 2 96631985.
E-mail address: l.dwyer@unsw.edu.au (L. Dwyer).

[1] In December 2012 Aus$1.00 was approximately equal to US$1.04.

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remains Australia's largest services export industry, generating Aus$23.7 billion in 2010–11 or 9.0 per cent of total services exports (Australian Bureau of Statistics, 2011). While the industry remains a significant one to Australia, there are concerns that its share of global international travel is in decline. Overall, international arrivals to Australia grew by 0.7 per cent a year over the period 2000–2009. This is significantly slower than the previous average annual growth rates, 9.4 per cent (1980s) and 9.1 per cent (1990s). Over the past decade, the industry has underperformed against the broader Australian economy, with tourism's share of GDP decreasing from 3.4 per cent in 2000–01 to 2.4 per cent in 2010–11. At the same time, tourism's share of total Australian exports has fallen, from a peak of nearly 13 per cent in 2003–04 to 8.3 per cent in 2008–09 (Tourism Research Australia, 2012). Overall, long-term real average annual growth for total tourism consumption in Australia is forecast at 1.4 per cent in the period 2009–2020, much lower than the thirty year average of 3.2 per cent a year, indicating a declining path of tourism share towards 2020 (Tourism Research Australia, 2012).

Looked at globally, departure, and more specifically, aviation taxes have become increasingly widespread in recent years. European countries that have imposed aviation taxes include Denmark, Germany, Austria, France, Malta, UK and the Netherlands. Some Asian countries, e.g. India, have also imposed such taxes, or increased existing ones (van Egmond & de Jong, 2010). Whatever their form, aviation taxes have proved to be controversial. Amidst great publicity, the Dutch aviation tax was abandoned in its first year of operation (Veldhuis, 2010). A study of the effects of the German aviation tax by the German Aerospace Center (DLR) claimed that it reduced Gross Value Added and employment as well as tax revenues at all levels, from federal, to state and municipality (Berster et al., 2010). Meanwhile, there has been much criticism by, for example by the World Travel and Tourism Council, of the decision of the UK government to increase the Air Passenger Duty (APD) again in 2012, with claims of resulting huge losses to tourism and the UK economy (WTTC, 2012a, 2012b).

Although these studies have reinforced criticism of aviation taxes by tourism stakeholders, the assessment techniques and findings of these studies can be questionable. While they highlight the negative effects of aviation taxes on tourism output (and other economic variables), they take tourism revenues as a benefit, giving no weight to the costs of providing tourism output. Thus, they provide no estimate of the net gains or losses to the economy from their imposition. Each of these studies also employs input-output analysis, an approach guaranteed to produce negative results for any tax imposed on the tourism industry (Dwyer, Forsyth, & Spurr, 2004; Forsyth, Niemeier, & Dwyer, 2012). These studies do not take into account the substitution effect of domestic tourism for outbound tourism. Moreover, since the different gainers and losers from aviation taxes are not sufficiently distinguished in the above analyses, they are of limited value in helping us understand the issues involved in assessing the effects of the increased charge in Australia as this depends importantly on the balance of the gains and losses accruing to stakeholders.

The study presented in this paper provides an assessment of the increase in Australia's PMC on the Australian economy and on the tourism industry. It has five aims:

- First, to discuss the nature of Australia's PMC;
- Second, to outline the types of industry stakeholder concerns as to the effects of the PMC on tourism, both before and after the recent increase;
- Third, to present a framework developed by the authors that can be used to distinguish the effects of the increased PMC on the wider economy and on different tourism markets. This framework highlights the conflicting interests of the tourism industry and the broader Australian economy;
- Fourth, using a computable general equilibrium (CGE) model, to estimate the economic impacts, on both the tourism industry and the wider economy, of the increased charge on different tourism markets – the inbound market, the outbound market, which has had much less attention from stakeholders and other researchers; and,
- Fifth, to discuss the implications of the modelling results for the validity of industry criticisms of the PMC.

This discussion is directly relevant to assessing the effects on the tourism industry and the wider economy of departure taxes that exist or are being introduced in other countries. It is argued that the types of issues addressed in this paper can inform policy making regarding the gainers and losers from increases in departure or aviation taxes in tourism destinations generally.

2. The Passenger Movement Charge

The PMC is a government charge on passengers departing Australia, including departing international visitors and Australian residents, irrespective of whether they intend to return to Australia or not. It is administered by the Australian Customs Service (ACS) and is collected by airlines and shipping companies as part of their ticketing arrangements on behalf of ACS (Australian Government, 2008). The collected revenue is then remitted to the Australian government. The PMC was set at $47 per passenger since 1 July 2008, but was increased to $55 on July 1, 2012.

The PMC was projected to yield $615.47 million in 2010–11 (Australian Customs and Border Protection Services, 2011) and is projected to generate between $800 million and $900 million in government revenues in 2011/12. The increase will take the annual revenues from the departure tax to over $1billion by 2015/16.

There can be several motivations for a government to impose a tax on air passengers. These include: as an environmental charge; to provide funds for specific passenger related services; to raise general government revenues; and to fund specific non-transport initiatives (Keen & Strand, 2007). The PMC charge contains elements of each of the latter three objectives. Unlike in other countries, such as the UK, the tax has not been regarded as an environmental charge. The charge has been mainly justified, in the past, as a means to recover the costs of border control functions such as customs, immigration and quarantine, but recently it has become more of a revenue raising measure. In 2005 the Productivity Commission, a government advisory body, estimated that at a rate of $38 in 2002–03 it just covered costs (Productivity Commission, 2005). Recently, a proportion (10 per cent) of the revenues raised by the increase in PMC has been earmarked for assistance to the tourism industry in the form of additional funding to Australia's national tourism organisation, Tourism Australia ($61 million over 4 years) to assist with their push into Asia through an *Asian Marketing Fund Tourism Australia (2012)*.

2.1. Industry concerns

Five main types of criticisms of the charge have been voiced by the travelling public and the tourism industry in particular. These are:

1. The Australian tourism industry is already heavily taxed. The key taxes affecting tourism price competitiveness are the Passenger Movement Charge (PMC), visa fees and the Goods and Services Tax (GST). There has been an increasing trend in Australia to levy increased taxes and charges on international visitors for revenue raising purposes. Tourism generated