

8 May 2009

Australia's Future Tax System (AFTA) Secretariat
The Treasury
Langton Crescent
PARKES ACT 2600

Sent via: AFTS@treasury.gov.au

Re: ADFA submission to "Australia's Future Tax System" review

Dear Sir/Madam,

Thank you for the opportunity to make a submission on "Australia's Future Tax System" review.

The Australian Duty Free Association (ADFA) is a national association representing the interests of over 45 leading stores in tourism duty free retailing. These stores have a presence "on-airport" at all of Australia's international airports, and "off-airport" across Australia's major cities.

ADFA has a strong interest in "Australia's Future Tax System" review because of the importance of duty free concessions for the Australian duty free industry.

Our submission is therefore focused on question 11.4 of the consultation paper:

"If health and other social costs represent the principal rationale for specific taxes on alcohol and tobacco, is any purpose served in retaining duty free concessions for passenger importation of these items?"

In ADFA's view, removing duty free concessions:

- **puts at risk over 1500 jobs nation-wide and will undermine the viability of the Australian duty free industry;**
- negatively impacts Australia's major international airports by threatening their ongoing non-aeronautical revenues and flowing onto their capacity to invest in critical infrastructure;

- creates a competitive disadvantage for Australia as a tourist shopping destination; and
- simply shifts, sales and revenue to other countries (a loss of up to \$100 million) for no commensurate benefit to Australia.

In addition, ADFA fully supports the submissions and recommendations of our members and those made by Australian airports concerning this important matter.

Should you require any further information please do not hesitate to contact me on (02) 9669 2044 or KyleK@DutyFreeSecurity.com.au

Yours sincerely,



Kyle Karsten
Chief Executive Officer
Australian Duty Free Association

CC: Hon Martin Ferguson, Minister for Tourism
Hon Wayne Swan, Treasurer
Hon Bob Debus, Minister for Home Affairs
Hon Anthony Albanese, Minister for Infrastructure and Transport

ADFA SUBMISSION TO "AUSTRALIA'S FUTURE TAX SYSTEM" REVIEW

ABOLISHING DUTY FREE CONCESSIONS WILL COST AUSTRALIAN JOBS

AFDA is alarmed by suggestions of removing duty free concessions given the significant commercial impact this will have on our duty free industry in Australia, and on its ability to survive.

There are approximately 1,500 Australians employed in duty free retail across the country and many more employed in their extended supplier communities.

More than 1500 jobs will therefore be put at risk as a direct result of duty free concessions being abolished.

Maintaining jobs in this current global economic crisis is critical for the Australian economy, which remains in recession.

REMOVING DUTY FREE CONCESSIONS WOULD IMPOSE COSTS TO AUSTRALIAN TOURISM AND AUSTRALIA'S MAJOR INTERNATIONAL AIRPORTS

Duty free shopping is rated the third favourite tourist activity for tourists visiting Australia and duty free sales account for over 45 per cent of tourism shopping.

Duty free sales are therefore vital to Australian tourism.

In 2007-08 tourism accounted for 3.6 per cent of Australia's gross domestic product, 10.1 per cent of Australia's exports and 4.7 per cent of total employment.

Substantial as these national figures appear, they greatly understate the importance of tourism to many regional areas of Australia.

Tourism is responsible for almost 7 per cent of Australia's total regional employment. It generates almost 13 per cent of total employment in the Northern Territory and over 8 per cent of employment in Tasmania (STCRC 2007).

Tourism underpins employment growth in many regions of Australia. It accounts for between 16 and 20 per cent of total employment in Queensland regions such as the Sunshine Coast, the Gold Coast and Tropical North Queensland. For individual regions such as Peterman in the Northern Territory and Snowy River in New South Wales this rises 46 per cent and 42 per cent respectively and to 55 per cent of total jobs for Lord Howe Island.

Importantly, tourism adds critical diversification to Australia's balance of payments. When commodity prices fall this places pressure on the exchange rate making Australia more attractive to international visitors and boosting AS revenues from inbound tourism. It thus has a strong counter cyclical effect to swings in Australia's mineral exports.

Duty free shopping is also critical to Australia's international airports.

Over 65 per cent of total airport revenues derive from non-aeronautical revenues and duty free concessions are the largest source of non-aeronautical revenue.

In 2006-07, Sydney Airport alone generated over \$169 million in retail revenue representing 23 per cent of its total revenue.

It follows that any threat to duty free concessions in Australia will have a significant, adverse and ongoing impact on the Australian duty free industry, Australia's major international airports and the Australian economy more broadly.

REMOVING DUTY FREE CONCESSIONS WILL PUT AUSTRALIA AT A COMPETITIVE DISADVANTAGE

Abolishing duty free concessions will have a material impact on Australia's international competitiveness because travellers will simply conduct their duty free purchases abroad.

The impact will not only be lost tobacco and alcohol sales to Australia (for no commensurate health benefit – as will be discussed) but many travellers will choose to do their duty free shopping for other product categories abroad too.

ADFA estimates that over \$100 million could be put at risk if duty free concessions are abolished in Australia,

The Federal Tourism Minister, the Hon Martin Ferguson, acknowledged that threats to duty-free tobacco, for example, are:

“...likely to result in the loss of sales and revenue to other countries ...it is important that the public health benefits of reducing tobacco consumption are balanced against broader business and tourism industry interests” (see attachment)

ARE HEALTH POLICY OBJECTIVES REALLY AT ODDS WITH TOURISM OBJECTIVES?

Put simply, there is no public health benefit from abolishing duty free concessions.

For example, duty free tobacco sales equate to approximately 1 per cent of Australia's total industry volume – any potential outcomes for public health will be negligible to begin with.

However, based on the principles of good regulatory practice, the onus is on government to demonstrate how abolishing duty free concessions would provide net public benefits.

How will purchasing duty free products in Singapore, Bangkok or New Zealand for example, instead of in Australia, achieve health objectives?

It won't.

Travellers with the intention of purchasing duty free tobacco or alcohol products will do so irrespective of prohibitions imposed on Australia's international airports and our duty free operators – they'll simply purchase them from abroad.

There will be absolutely no commensurate benefit by way of a reduction in the incidence of smoking or consumption of alcohol in Australia.

Tourism shopping facts

Tourism is a significant industry and a major contributor to the Australian economy, generating 3.6 per cent of Australia's gross domestic product, 10.1 per cent of Australia's exports and 4.7 per cent of total employment.

The value of tourism exports (\$22,350M) is close to the entire value of rural goods (\$25,135M), greater than coke, coal and briquettes (\$22,021M) and only trails metal ores and minerals (\$35,219M) on export value.

Shopping is a significant component of the economic impact of tourism.

Shopping is rated the third favourite tourist activity for tourists visiting Australia.

Duty free sales account for over 45 per cent of tourism shopping in Australia.

In 2006-07, the retail industry (visitors consuming retail goods) accounted for 19 per cent of tourism's gross value added.

Duty free shopping is also critical to Australia's International Airports.

Over 65 per cent of total airport revenues in Australia derive from non-aeronautical revenues.

Typically, duty free concessions are the largest source of non-aeronautical revenue at Australian International Airports.

In 2006-07, Sydney Airport alone generated over \$169 million in retail revenue representing 23 per cent of its total revenue.