

AUSTRALIAN TOURISM INDUSTRY SUBMISSION TO JOINT REVIEW OF BORDER FEES, CHARGES AND TAXES

Prepared by

Tourism & Transport Forum

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- Accommodation Association of Australia
- Australian Business Aviation Association
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Executive Summary

Australia's visitor economy is a \$110 billion industry, employing close to one million people and supporting 280,000 businesses across metropolitan and regional Australia. Tourism has been identified as one of Australia's five super growth industries with the sector expected to grow more than 10 per cent faster than global gross domestic product.

Tourism has long championed the need for reform in visa policy and passenger facilitation. It is critical that we position ourselves to be internationally competitive, visionary, accessible and efficient. The Australian government, with all the states and territories, has endorsed an aggressive tourism target as part of the Tourism 2020 Strategy. In order to achieve these targets, we must consider the current impediments to growth in conjunction with the opportunities to drive demand.

There is much work being done in this area and we invite the Department of Immigration and Border Protection, the Australian Customs and Border Protection Service and the Department of Agriculture to consider this submission in the context of the other bodies of work presented, including the recent industry submission to the Review of the Skilled Migration and 400 Series Visa Programme, and the industry-supported Tourism 2020 Draft Strategy.

We welcome the opportunity to comment on current charges within the scope of this review.

A snapshot of key recommendations

New products and services

1. Introduce user-pays premium processing options:
 - a) Customs, immigration and quarantine clearance within premium lounges
 - b) Expedited visitor visa applications
 - c) Off-terminal clearance for business jets at fixed base operations
2. Expedite introduction of automated departure processing for standard travellers
3. Introduction of joint visitor visas with New Zealand
4. Develop model for small, integrated border processing teams for regional airports
5. Introduction of Australian passport cards for travel to limited destinations
6. Open the Tourist Refund Scheme processing to private providers
7. Investigate extending electronic travel authorities to more Asian countries
8. Invest in greater use of visual biometric technology to eliminate physical checkpoints

Current fees and charges

9. Review border fees and charges against federal government cost recovery guidelines
10. Reduce the Passenger Movement Charge for short-haul routes
11. Progressively reduce visitor visa fees for priority source market countries
12. Remove the indexation of passport fee increases
13. Reduce the working holiday maker visa fee from \$420 to its 2012 level of \$280

Tourism as a super growth industry

Manufacturing is declining. The mining investment boom is waning. Against the backdrop of an economy in transition, tourism continues to emerge as one of the foundations of Australia's future prosperity. Australian tourism offers high-employment opportunities, a rapidly expanding base of potential customers and a strong competitive advantage. Tourism is already Australia's largest service export, employing almost twice as many people as the mining industry, and generating expenditure of over \$100 billion every year - more than all our primary industries combined (see box).

The significant potential of Australia's tourism industry was highlighted in the recent Deloitte Access Economics report *Positioning for Prosperity*. The report identified tourism as one of Australia's five super growth industries capable of collectively delivering an additional \$250 billion to the national economy over the next 20 years [1]. This potential is contingent on good government policy.

The visitor economy is critical to the Australian economy

- **\$110 billion:** Tourism consumption in Australia totalled \$110 billion in 2012-13
- **\$90.7 billion:** Tourism's contribution to Australian gross domestic product (GDP), a 5.3% share of the Australian economy
- **929,000:** Jobs supported by visitor expenditure, either directly or in related industries. This represents one in every 12 jobs across the country
- **\$10.6 billion:** Total tax revenue generated by visitor expenditure for federal, state and local governments
- **\$270 million:** Spending per day by international and domestic tourists and business travellers

Key to achieving this potential is to maximise the potential engagement and visitation from Asian markets.

Australia's position in the Asia-Pacific presents the industry with an unparalleled opportunity to respond to the increasing number of Asian visitors wanting to come to Australia for holidays, to visit friends and family, for business or for education.

The Australian government, with all the states and territories, has endorsed an

aggressive tourism target as part of the Tourism 2020 strategy. Very strong growth in Asian visitor spending, the fastest growing segment of Australia's visitor economy, underpins the target of doubling nominal overnight visitor spending from \$70 billion in 2009 to \$115-140 billion by 2020. But at the moment even the lower end of the range seems out of reach.

Critical to delivering the upper bracket of the growth target is to deliver a welcoming and high-quality experience for Asian visitors – be they in Australia for a holiday, for business or to study.

With key competitors for the long-haul Asian traveller matching their marketing campaigns with government-wide efforts to cut red tape on business, streamline visa processes, and improve the airport welcome experience, it is clear that it will require effort across many areas of government if Australia is simply to maintain its market share of Asian outbound travellers, let alone grow market share and reach the Tourism 2020 targets.

Although Chinese arrivals continue to rapidly grow to Australia, our market share against rival long-haul destinations is declining. As an indicator of the challenge, both Canada and the USA are seeing significantly faster growth in Chinese arrivals than Australia, with the US up 23 per cent in 2014 and Canada up more than 30 per cent so far this year compared to 15 per cent growth to Australia.

The impact of taxes on travel

Tourism is subject to a range of taxes, fees and charges, which combine to reduce Australia's competitiveness as an international destination. Border fees and charges increase the cost of coming to Australia and act as a demand dampener at the decision-making phase of a trip. The most obvious of these in the Australian context is the Passenger Movement Charge (PMC), a \$55 tax on all international travellers over 12 years of age. Tourism is also the only export industry subject to the Goods and Services Tax (GST).

For a large proportion of inbound visitors, there is also a visa application fee, while all outbound Australians pay a tax in the form of a passport application fee in addition to the PMC.

The impact of these charges cannot be underestimated. Air travel is price-sensitive and the cost of an airline ticket is the first trigger in the decision process that leads to travel. In fact, the price sensitivity of air transport has increased in recent years due to online competition, low-cost carriers and corporate travel agreements. This has led to greater transparency of airfares and a greater expectation of ever-cheaper ticket prices. Several studies demonstrate that leisure travellers are the most price-sensitive and that demand is reduced by the introduction of any new tax on airline tickets that pushes up the price. This in turn makes government-funded promotion of Australia as a destination harder and will lead to a reduction in the potential growth of the industry.

The Passenger Movement Charge

Modelling by the International Air Transport Association suggests that holiday visitors (as distinct from those travelling to visit friends or relatives) are most sensitive to departure taxes such as the Passenger Movement Charge (PMC), with every price increase of 10 per cent estimated to generate a decline of 5-7 per cent in the number of leisure passengers travelling globally [2].

Using the average return airfare paid to Australia in early 2014 of \$1,628, IATA calculates the removal of the PMC would represent a decrease in total fare of 3.3 per cent. This in turn would drive an increase in passenger traffic of around 2.3 per cent annually, leading to 348,000 additional international passenger return journeys each year [3].

The most comprehensive review of the market depression that departure taxes exert was conducted on behalf of the Netherlands Ministry of Infrastructure and the Environment to understand the impact of its short-lived Air Passenger Tax, levied at €11.25 for European destinations and €45 for long-haul routes. For the period of one year from July 2008 to July 2009 Amsterdam Airport Schiphol recorded a net loss of approximately two million origin-destination passengers, leading the Dutch government to repeal the tax. Although half of the two million chose to fly from airports in neighbouring countries, the remainder opted not to travel [4]. Following its removal, air transport grew rapidly, with the country's main airport Schiphol recording record passenger figures in 2011 of almost 50 million. In total, despite the effects of the global financial crisis, total air passenger figures rose from 22.8 million in 2010 to 25 million in 2011.

European countries are moving away from departure taxes, as the impact on tourism is becoming more widely understood. Malta led the European movement away from taxing tourists, becoming the first country to repeal its departure tax in 2008 [5]. Another country to repeal its tourism tax is Ireland,

which abolished its Air Travel Tax in April this year [6] after economic modelling showed the losses to the economy of around €482 million [7]. Ireland has had a number of new international air services introduced from the United Kingdom and long-haul routes following the zero-rating of the tax. Even the United Kingdom government has announced it is to reduce its Air Passenger Duty for long-haul travel from April 2015 to stimulate the travel industry [8].

Similarly, Mexican legislators recently voted down an increase to their departure tax, mindful of the decrease in US travellers the move would provoke [9]. Germany's parliament resisted calls to raise the country's departure tax, the Luftverkehrsabgabe, after finance ministry modelling showed it cost the aviation industry over two million lost passengers through its 2.3 percent increase in flight prices [10]. Immediately after the tax's introduction in 2011, low-cost carrier Ryanair closed over 400 services from its German bases at Hahn, Berlin, Weeze and Bremen [11].

Closer to home, the New Zealand government abandoned plans to impose a NZ\$35 border charge ahead of its 2013 budget [12]. Its own studies found that the NZ\$179 million revenue the new tax would have brought to the New Zealand government would have been offset by a depression in tourism numbers, especially from Australia. The price sensitivity is most pronounced on short-haul routes, where the tax makes up a larger overall proportion of the fare. Analysis by the Tourism & Transport Forum (TTF) shows, for example, that the \$55 PMC represents around 18 per cent of the cheapest low season return air fare to New Zealand [13].

This is due to the PMC's inherent poor design as a flat tax. The PMC is the second highest departure tax among the member countries of the Organisation for Economic Cooperation and Development (OECD) after the United Kingdom's air passenger duty (APD). But unlike the APD, the PMC is not distance-tiered, making it the highest in the developed world for journeys under 3220km (see table). For example, a passenger flying from London to Istanbul – about 2500km - would pay around \$22 in tax under the APD, whereas a passenger on a comparable journey from Sydney to Auckland (2200km) pays \$55.

TOP FIVE DEPARTURE TAXES IN THE OECD					
Country	Tax name	Rate (short-haul)		Rate (long-haul)	
		Local currency	Australian	Local currency	Australian
United Kingdom	Air Passenger Duty	£13 <i>Band A (0 – 3220km)</i>	\$23.50	£97 <i>Band D (>8000km)</i>	\$175.70
Australia	Passenger Movement Charge	\$55	\$55	\$55	\$55
Germany	Luftverkehrssteuer	€ 8 <i>Band A countries</i>	\$11.50	€ 45 <i>>6000km</i>	\$62.50
Austria	Flugabgabegesetz	€ 7 <i>EU countries</i>	\$10	€ 35 <i>Long-haul countries</i>	\$50
Mexico	Derecho de No Inmigrante	Mx\$ 294	\$24.81	Mx\$ 294	\$24.81

In New Zealand, Australian leisure destinations like the Gold Coast and Cairns in particular, compete with Pacific beach resorts such as the Cook Islands, Fiji, Vanuatu and Hawaii for family holidays in the New Zealand market. So for New Zealanders, the impact of the PMC is more immediate: at the decision-making stage of a potential visit to Australia. For every New Zealand family of four with teenage kids who take a holiday in Australia, the tax represents an additional NZ\$250 hidden in the airfare or in the holiday package deal.

The additional \$55 charged by the Australian government is a serious demand inhibitor. In economic terms, the PMC is a per-unit tax on a price-elastic good, passed through and thus the burden is borne by consumers [14]. On a \$440 return air fare, the \$55 tax represents a 12.5 per cent price increase over base fare, suggesting a dampening of demand of around 9.3 per cent on leisure fares, based on the industry-accepted air fare price elasticity modelled by InterVistas for IATA [15]. In its 2014 paper on the trans-Tasman leisure market, TTF calculates that an additional 110,000 New Zealanders would have visited Australia last year had there been no PMC, assuming a total elasticity of -0.74 [13].

Air New Zealand calculates that a halving of the PMC would increase demand on trans-Tasman flights by four percent, adding a further \$1 billion in expenditure in Australia [16].

The savings to airlines of any removal of the PMC could translate into a 13 per cent additional yield which could underwrite new route development, reduce fares or boost seat capacity on existing routes. In simpler terms, unfeasible routes would become feasible and existing routes more profitable [17].

As found by InterVistas, the price sensitivity of short-haul routes is far greater than on long-haul, where the tax makes up a smaller proportion of the fare [15]. The tax is also more of a deterrent to inbound travel than outbound, since the tax applies equally to all destinations to which Australians may wish to travel, but for residents of most of Asia, Australia is \$55 more expensive than other destinations.

Tourism-dependent destinations such as Cairns or Darwin are within short-haul aircraft range of many Asian cities. Yet despite their proximity to South-East Asia, the rate of the PMC is a significant barrier to attracting new international passenger services to each city. Many low cost carriers in the region charge less than \$300 each way on short-to-medium haul flights within the region, making every additional dollar highly noticeable. This PMC effect is multiplied by high visa costs applied to the citizens of the Asian countries with growing low-cost carrier sectors (such as Indonesia) and the federally-mandated airport security charges that apply disproportionately to smaller international airports thanks to lower economies of scale.

Visas fees

The impact of visa application fees and processes on decision to travel is also high. A 2013 report for the United Nations World Tourism Organization and the World Travel & Tourism Council found that if the cost of obtaining a visa (including both the fee and associated costs) exceeds a threshold, potential travellers are simply deterred from making a particular journey or choose an alternative destination with less hassle [18]. This threshold is also relative, meaning Australia can gain a competitive advantage by making it easier and cheaper to visit than rival destinations.

TTF studied Australia's visitor visa system as a barrier to greater travel. It found, inter alia, that although Australia's visa regime is on par with other advanced economies in some respects, a more ambitious reform agenda is required if Australia is not to lose market share further in key Asian markets [19], including to reduce the cost of visas for key growth markets like China, India and Indonesia.

Working holiday schemes

A concrete example of the impact visa fees can have on visitation is the two recent hikes in the cost of working holiday visas. In the 2012-13 budget the then-federal treasurer Chris Bowen increased the two classes of visa 28 per cent from \$280 to \$360 from 1 January 2013. The increase had an immediate effect: the total number of first working holiday visa (subclass 417) applications fell from 139,090 in the second half of 2012 to 116,632 in the first six months of 2013 [20]. In the following six months, there was a 6.9 per cent reduction in working holiday scheme applications compared to the same period in 2012-13. This was particularly marked in Taiwan and South Korea, where applications fell by around one quarter [20].

The 2013 increase represented a 30 per cent fee increase relative to the year before. Rather than reflect on the damage done in the previous budget, working holiday visas were again targeted by the previous government in the 2013-14 budget, when application costs rose a further 15 per cent to \$420. With increasing volume delivering efficiencies of scale, greater use of technology in processing and with a demonstrated low-risk cohort, it is impossible to believe the former federal government's explanation that the charge increases represented realignment towards true cost recovery [21].

WORKING HOLIDAY MAKER VISA FEES			
Year	Fee	Increase	Percentage
2005	\$180	-	-
2006	\$185	+\$5	2.7%
2007	\$190	+\$5	2.7%
2008	\$195	+\$5	2.6%
2009	\$230	+\$35	17.9%
2010	\$235	+\$5	2.2%
2011	\$270	+\$35	14.8%
2012	\$280	+\$10	3.7%
Jan 2013	\$365	+\$85	30%
Sep 2013	\$420	+\$55	15%

Source: Department of Immigration and Border Protection

In total, the visa fee has more than doubled in the past nine years (see table left).

When coupled with a rise in the value of the Australian dollar, the rise in cost of Australian working holiday maker visas in key markets has been dramatically steep. In Euros, the visa is now 2.51 as expensive it was in 2005, in Japanese yen it is 2.65 times as expensive, in US dollars some 2.73 times as expensive and in pounds Sterling it is 2.92 times as expensive. The fee for British backpackers wishing to work and travel in Australia has risen from £77 in 2005 to £225 today.

Had the fee been indexed to inflation (which has averaged 2.8 per cent) the fee would today be \$226.

This repeated increase is counterproductive when set against Tourism 2020 goals. Working holiday makers are particularly valuable as visitors, since the visa stipulates a minimum savings level, which is invariably spent in Australia, together with any earnings from work over the course of the stay. The Australian Tourism Export Council found in 2012 that the gains in gross domestic product from the working holidaymaker schemes are conservatively estimated at \$85 million or up to \$700 million over 10 years [22].

International students

Similarly, education is both a source of visitors, as well as being one of Australia's main services exports, with many synergies across these two sectors. International students drive a large portion of the visiting friends and relatives market into Australia. The National Industry Innovation and Competitiveness Agenda identified and forecast growth in the international education sector, to increase to export value of more than \$19 billion to the Australian economy by 2020 [23]. Earlier research shows much of this growth will come from attracting students from China and India [24].

In this highly competitive market, where Australia competes with the prestigious education providers of North America and Europe, the cost of processing and supplying a student visa needs to be reviewed and reduced to a cost recovery basis, from its current high level of \$535. The downstream benefits of international students are seen in two ways: international students are travellers in Australia, with 82% taking at least one overnight trip, and day-trips and short breaks with friends. Visiting friends and relatives are a much higher proportion of international visitors than believed prior to a Sustainable Tourism Cooperative Research Centre study done in 2010: 78% of students hosted visitors from their home country while studying in Australia [25].

Current over-collection

The Australian government collects three taxes or charges from international travel. None of the income sources meet the Australian Government Cost Recovery Guidelines for fees or charges [24]. These are defined as charges imposed when a good, service or regulation is provided. A cost recovery levy is a tax that is earmarked to fund activities provided to those who pay the levy.

Each of the income streams was introduced as a cost-recovery mechanism, but each has now expanded to become another source of general taxation. As such, each now constitutes a tax on international travel. Together, receipts from the PMC, visa fees and passport applications total almost \$3 billion. Spending on passenger-related facilitation across all Australian government agencies and departments reaches \$1.7 billion (see table below).

The total budget for the border management function of the Department of Immigration and Border Protection is higher than the passenger-related expenses. Specifically the cost of mounting maritime patrols is a significant cost. Elsewhere maritime patrols to prevent clandestine arrivals of migrants by boat are managed as military function under the coast guards of relevant navies. *Operation Sovereign Borders* is often portrayed by the government as a military operation. As such, it is right that its budget be administered separately from the passenger processing element of border management.

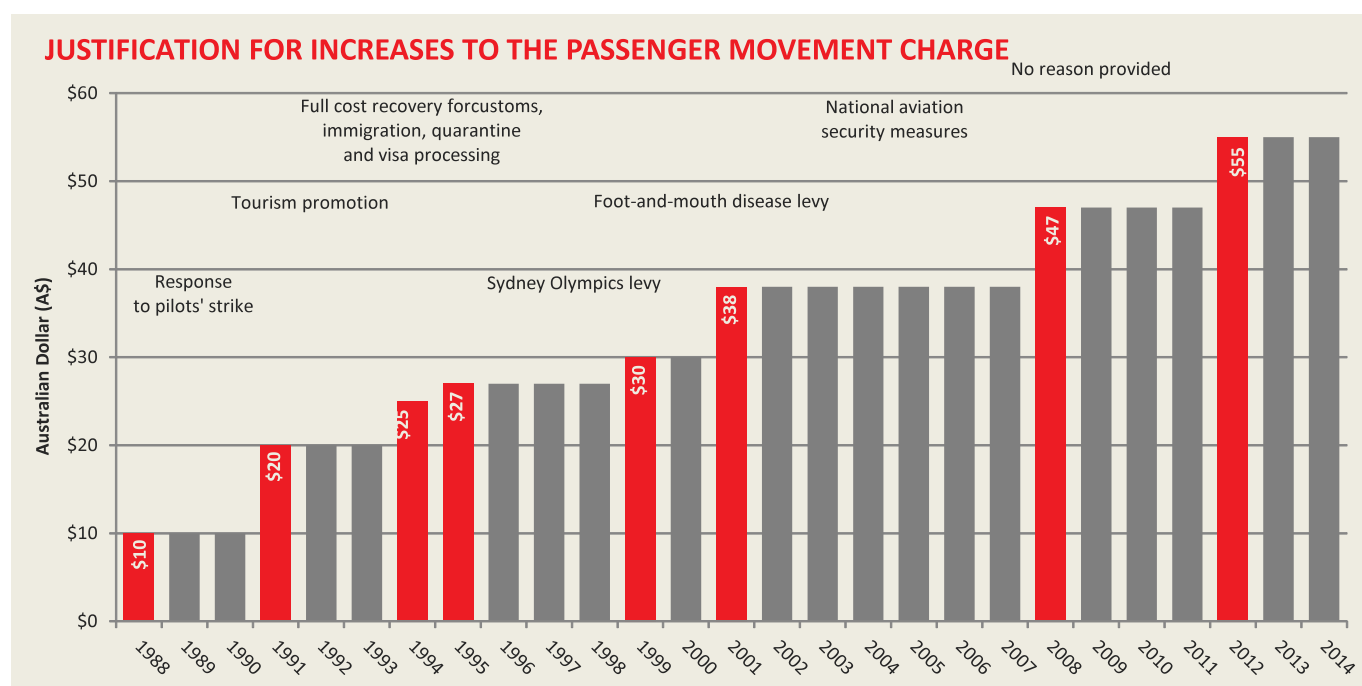
AUSTRALIAN BORDER FEES AND CHARGES, 2014-15		
Income	Collected by	Amount
Passenger Movement Charge	Australian Customs and Border Protection Service	\$908 million
Visa fees and fines	Department of Immigration and Border Protection	\$1.7 billion
Passport fees and consular service charges	Department of Foreign Affairs and Trade	\$376 million
	TOTAL INCOME	\$3 billion
Expense	Administered by	Amount
Passenger facilitation	Australian Customs and Border Protection Service	\$230 million (est)
Passport issuance	Department of Foreign Affairs and Trade	\$263.3 million
Consular assistance	Department of Foreign Affairs and Trade	\$12.8 million
Biosecurity	Department of Agriculture	\$360 million
Migration and temporary entry	Department of Immigration and Border Protection	\$872 million
	TOTAL EXPENSES	\$1.7 billion
<p>Sources: Budgeted Expenses for Outcome 2 (passport and consular services), Department of Foreign Affairs and Trade Annual Report 2013-14; Australian Quarantine Inspection Service Special account, Department of Agriculture Budget Statements 2014-15; Programme Component Expenses for Outcome 1, Department of Immigration and Border Protection Budget Statements 2014-15, Estimate for passenger facilitation based on Australian Customs and Border Protection Service Budget Statement 2012-13 with annualised programme reduction forecast</p>		

The Passenger Movement Charge

The Passenger Movement Charge (PMC) was introduced in July 1995 (replacing the departure tax). The PMC was introduced to recover the cost of customs, immigration and quarantine (CIQ) processing of inward and outward international travellers and fully offset the cost of issuing short-term visitor visas [27].

Recognised as an excise tax since 1996, the official hypothecation of the tax continued until 2001, when the federal government conceded that the PMC had moved beyond cost recovery and was a contributor to consolidated revenue [28]. That year the then-Department of Finance and Administration admitted an over-recovery of around \$80 million, created by the non-removal of the \$3 per passenger additional levy to cover Sydney Olympics passenger processing [29]. Successive governments have since raised the PMC rate, often using aviation security or health pandemics as justification. None of the rate rises has been reversed.

Government revenue from the PMC is now significantly more than the amount required to fund the Australian Customs and Border Protection Service’s passenger facilitation programme



Instead of funding passenger processing at airports and seaports as originally designed, the PMC has become, in the view of the Centre for Economics and Policy Study, “a transfer payment from tourism to non-tourism industries ... (as) an additional export tax, on top of existing taxes that international tourists pay. [30]”

The passenger facilitation programme administered by Customs was appropriated \$234 million in 2012-13. The sum likely to be spent on passenger facilitation this financial year is unclear, as passenger processing now falls under two new programmes: border enforcement and border management. However, based on the previous year-on-year decline in funding, TTF estimates Customs funding on

passenger facilitation to total no more than \$230 million in 2014-15. For Customs alone, the actual direct spend across airport operations in 2013-14 is \$1104 million.

Additionally, the Australian Quarantine Inspection Service, the secondary examination by biosecurity officers employed by the Department of Agriculture, will cost the federal government \$360 million this year [31]. It is unclear how much of the funding associated with the former Australian Quarantine Inspection Service is purely devoted to passenger processing. But even allowing for the total \$360 million, combined, primary and secondary examination lines would cost the government \$585 million this year while Customs forecasts receipts of \$907.9 million from the Passenger Movement Charge [32]. PMC revenue collection is forecast to total over \$1 billion by 2016-17, but expenditure on passenger programmes continues to drop. The profit made by the government from the tax flows into consolidated revenue.

The PMC is a breach of international treaties

In this regard, Australia is likely to be in breach of its Chicago Convention obligations by levying a departure tax far in excess of any cost to government of administering services necessary to facilitate civil aviation. Article 15 of the treaty specifically outlaws departure taxes, stating that:

“No fees, dues or other charges shall be imposed by any contracting state in respect solely of the right of transit over or entry into or exit from its territory of any aircraft of a contracting State or persons or property thereon.”

The International Civil Aviation Organization (ICAO) also makes a distinction between a charge (levied to defray the costs of providing facilities and services for civil aviation) and a tax (levied to raise general governmental revenues that are applied for non-aviation purposes) [33]. Australia confirmed to ICAO in 2009 that the PMC, by this definition, was “non-hypothecated tax levied on international passengers departing from Australian airports,” qualifying that it “contributes to recovering the costs of a range of aviation security initiatives”.

Aviation security, however, is assumed under international law to be the responsibility of the sovereign state, funded from general revenue rather than through a levy or charge. As a member of ICAO Council, the Australian government has a duty to ensure that ICAO policies are followed in both letter and spirit.

Although ICAO has no enforcement power, the Chicago Convention is the reference text for the World Trade Organization General Agreement on Tariffs and Services (GATS) Annex on Air Transport Services to which Australia is a signatory.

Visa fees and charges

As the Australian tourism industry looks increasingly to Asian markets to realise its ambitions of achieving \$140 billion in overnight visitor expenditure by the end of the decade, the disparity between the requirements of our traditional source markets and visitors from some of these key Asian markets requires close review.

Existing visa requirements mean a Chinese independent traveller faces a fee of \$130, has to produce considerable evidence, complete a 15-page paper-based application and wait up to 15 days for processing. Similar barriers impact potential visitors from India, Indonesia and Vietnam.

In contrast, a potential visitor from the United States, Britain or even Hong Kong can simply fill in a quick online form and receive an electronic visa for \$20.

Australia's universal visa system requires that all those travelling to Australia who are not Australian citizens or residents have a visa to enter Australia, except New Zealand citizens who can apply for a visa on arrival.

TEMPORARY ENTRY VISAS TO AUSTRALIA				
Electronic Travel Authority (subclass 601)	eVisitor (subclass 651)	Visitor (Subclass 600)	Working Holiday (subclasses 417, 462)	International student (subclasses 570, 571, 572, 573, 574, 575)
Nationals of low risk countries	European nationals	All other nationalities Four streams: <i>Tourist, Sponsored family, Business visitor, Approved Destination Status</i>	Select European, North American and Asian nationalities	People wishing to study in Australia
Service charge \$20	No fee	\$130-\$335	\$420	\$535
Online	Online	Paper or online depending on nationality	Online	Paper or online
12 month validity	12 month validity	3, 6 or 12-month validity	12 month (initial visa)	Varies
Source: Department of Immigration and Border Protection				

This year the Department of Immigration and Border Protection estimates its income from fees and fines to be \$1.7 billion [32]. Over the same period, its expenses for all permanent migration and temporary entry programs, including border management and visa processing, will reach \$872 million.

Looking specifically at visas applicable to tourists, the cost to government this year will be \$147.5 million to process visitor and working holidaymaker visas [32]. Student visas add a further \$86 million in expenses to the federal government. Many of these visas are issued free of charge (for European short-stay visitors), or for a nominal administration charge (for Electronic Travel Authorities). However, other nationalities bear disproportionate burden.

For example, Australia granted nearly 500,000 visitor visas to Chinese citizens in 2012-13, some 13.3 per cent of the total [34]. Visa application fees for Chinese visitors are usually \$130, with a \$30 visa application centre service fee. This represents \$80 million in fees from mainland China alone.

The federal government is progressively increasing the visa application charges (VACs), which are being indexed to the rate of inflation using the Consumer Price Index. The previous federal government embarked on a “user-pays” approach to visas, to ensure that “taxpayers no longer subsidise visa applicants [21]”. These changes largely applied to the least price-sensitive visa classes such as skilled migrants, partners of existing residents and family members.

Passport fees

Unlike comparable countries, the Australian government views passport applications fees as a tax, rather than a cost recovery exercise [35]. This is largely because demand for passports is relatively price inelastic, in that fee reductions do not materially stimulate demand [36].

PASSPORT FEES, SELECTED COUNTRIES		
Country	Fee (local)	Fee (Australian dollar)
Australia	\$244	\$244
Canada	C\$160	\$161
New Zealand*	NZ\$140	\$126
Singapore	S\$80	\$71.50
United Kingdom	£72.50	\$133
United States†	US\$110	\$125

Based on in-country passport application for 10-year adult passport books.
 *NZ passports are only valid for five years. †US initial applications also attract a US\$25 execution fee
 Sources: Australian Passport Office, Passport Canada, New Zealand passports / Uruwhenua Aotearoa, Singapore Immigration and Checkpoints Authority, Gov.uk, US Department of State

The Australian passport attracts the second highest fee in the world, far outstripping those in comparable countries (see table). Unlike most of these peer countries, Australia views passports as a tax revenue source, rather than a cost-recovery exercise. Other countries, notably New Zealand legislate that fees from passport applications can only be used for passport-related costs and cannot be used for general government revenue [37].

The Department of Foreign Affairs and Trade received \$368 million from passport applications and a further \$8 million from consular service charges [38]. Meanwhile the passport programme is forecast to cost the government \$263million this year and the cost to DFAT of such consular service is less than \$13 million. [39].

The damage of this policy is beginning to be understood. Although child passports are half the cost of adult books, for a family of four Australians travelling internationally, passport applications still represents an initial outlay of \$732. For lower income families, this is a considerable investment and can influence international travel plans. Since outbound travel by Australians assists international airlines in filling seats and making routes feasible, the tourism industry is resistant to any plans to raise passport fees further.

Need for new product innovation

The existing border fees model does not allow for innovation in product delivery. There are several new initiatives the tourism industry believes our border agencies should be prioritising:

a. Premium processing

There is a market for premium border processing, just as there is a market for differentiated premium product for every other stage of the travel supply chain from business class airlines and five star hotels to chauffeur-driven limousines and concierge services.

Border processing is one part of the overall travel experience that Australia is selling to the world. Different airports, airlines and third party providers will propose different models of premium processing. Features common to this kind of service elsewhere in the world are a high level of human touch, a separate arrivals lounge and dedicated passport controls.

Today's high-end travellers increasingly expect excellence in customer services. This is especially true of those originating from, or accustomed to, the service quality of the Arabian Peninsula or Asia. In these regions, border facilitation is seen as an integral part of the airport experience, which is in itself an integral part of the travel experience.

A cost recovery model would set parameters through which private operators could judge the profitability of their options for VIP processing. At present there exists no cost recovery model for border agency staff providing service above-and-beyond standard service.

Any enhanced passenger processing options that go beyond standard service should be priced at the level of cost recovery to government. The private companies marketing the service will build this into their offering, which will also include personnel and facility costs.

For example, At London's Heathrow airport a full concierge service through the UK border is offered to guests of five-star hotels, celebrities, sports teams and captains of industry. The Heathrow-by-Invitation services are charged to the traveller directly.

Elsewhere in the world these services are paid for by airlines on behalf of their top status flyers. The German airline Lufthansa has a first class terminal where its highest-ranking passengers can undertake all check-in, security and border formalities at no extra charge to them.

Another good model is to be found at Singapore, where a private provider, Jetquay, provides a door-to-door service from hotel via limousine to the airport and private immigration clearance and entry into a premium lounge. The service is sold through travel agencies and to airlines directly.

This kind of product innovation is critical if Australia is to attract the high net worth individual essential to achieving the aim of doubling expenditure under the Tourism 2020 targets.

Off-terminal clearance

Another potential market is in fixed-base operations, or business jet terminals. At present off-terminal border processing is inconsistent, with agents usually available at Sydney and Brisbane's jet bases, but not at those in Melbourne, Perth or Darwin. Business jet customers expect to complete border formalities in FBOs, as is customary elsewhere in the world.

Elsewhere, such as at the PrivatAir terminal in Geneva, baggage porters collect bags on behalf of travellers and process through Customs inspection. Thus the level of infrastructure required will depend on what service airlines, airports or third parties think will be market sustainable in the Australian context.

The tourism industry has advocated for enhanced passenger facilitation for all travellers to and from Australia. It is important to note, therefore, that whatever model be adopted has provisions to ensure no diminution of current service be permitted to allow for premium processing.

Principally this applies to roster period of existing staff. Any premium processing staff should be rostered in addition to existing staff and be returned to the standard line when not involved in premium or off-terminal processing, thus creating a bonus pool of occasional staff for the primary and secondary lines.

b. Automated departures control

Australia is unusual in having emigration controls in addition to immigration controls [40]. The human check on persons exiting against an alert list has developed over time, but was always chiefly a law enforcement function delegated to Customs by state and federal agencies.

The use of Customs officers to perform the function of checking passengers' right to fly is inefficient in the digital age; Technology has allowed more offenders to be intercepted onshore. Officers no longer stamp passports on exit and there is a strong case to be made for the full automation of departure controls at major airports.

Replacing humans with electronic barriers using facial biometric technology (eGates) for face-to-passport verification will allow border agents to focus their attention on travellers who pose a risk at the border, while legitimate travellers can be travel more efficiently with less manual intervention.

The tourism industry welcomed the announcement that the initial trial of departure eGates at Brisbane Airport for trans-Tasman departures will be extended in 2015. Funding for the 62 eGates was found as part of the federal government's \$630 million counterterrorism drive, with its focus on authenticating travel documents of departing passengers [41].

An added benefit of the installation of departure eGates is the reduction in physical footprint of the emigration control checkpoint area. This provides a commercial opportunity for airport operators if the area vacated is returned into the lease portfolio. In this scenario, were further enhancements required, airports could work collaboratively with border agents to develop co-funding models.

Digitise departure and arrival cards

In the next stage of electronic gates, the security function could also be integrated, further reducing the inconvenience to passengers. Key to this move will be the digitisation of outgoing and inbound passenger cards. For travellers between Australia and those countries also requiring both outbound and inbound forms, the same information has to be written out four times. For a family group, this can be especially onerous.

Nor is it necessary in the age of international-standard digital passenger name records. The passenger data required by border agencies can be transferred by the airline and matched against either visa or electronic travel authority (ETA) data. The questionnaire required to collect tourism statistics can be built into check-in kiosks and online procedures. While the sample rate would drop as a result of a delinking with compulsory biographical data on the card, the sample size would still be adequate.

In the US, the replacement in 2008 of its famous I-94w green arrivals form with digital data transfer has proved very successful. The move has resulted in a decrease in service times for front line service personnel of 25 to 30 seconds including finger printing per traveller [42].

c. Reduced visitor visa fees

Once a visa pioneer, Australia is now falling behind comparable countries when it comes to visa policy. Our competitive set is beginning to make changes to their visa application processes and charges. The consideration of the tourism industries in these countries has been at the forefront of these reforms. For example, in 2012 the United States agreed to loosen the stringent visa restrictions imposed on Brazilian citizens in the decade since September 2001. Lobbying from the tourism industry backed up intense diplomatic efforts from Brazil. The tourism industry contrasted the situation in Europe, where visa fees were waived and the application process was swift with the US situation of a US\$160 per person visa fee coupled with an interview and electronic vetting [43].

With evidence mounting around the world on the economic benefits of eliminating visa restrictions, governments are examining ways in which to reduce or remove the barriers [44]. For example, South Korea spotted an opportunity, in 2008; to break away from the pack of developed countries and offer visa free travel for Chinese nationals, first to its resort island Jeju, then more widely across the whole country. The result of the visa waiver scheme was immediate and impressive: In 2009 Chinese arrivals to South Korea grew 64.5% above 2005 levels. By 2011 South Korea had become China's most popular overseas destination with more than two million Mainland Chinese visitors [45].

Elsewhere, too, other countries are remodelling their visa regimes in light of this growing evidence of the damage such policies do to inbound tourism flows. The cost of data profiling has dropped exponentially, making the cost recovery exercise in collecting and analysing data on foreign nationals a less compelling reason to retain high fees and charges than in the last century. Underscoring this point, India announced in February that it is to replace traditional visa applications with Australian-style electronic travel authorities to citizens of almost every country, thanks chiefly to the roll-out of its new passenger data profiling tool [46]. The result, in the first six months was impressive, with a 28.9 per cent increase in the number of visitor visas issued in September 2014 compared to September 2013 [47].

Australia's ETA visitor visa is used as a model for other pre-travel visa waiver schemes and, as such, should be prioritised for key tourist markets currently requiring paper visas. Extending the scheme would be a low-cost, low-risk option for the Australian government to rapidly grow visitation from key Asian nations.

d. Priority visa application

Introducing a user-pays premium visitor visa processing model into the Australian visa application process would provide a faster option for passengers willing to pay for this service. A number of competitor destinations are introducing this service responding to shifts in trip planning behaviour and visitor demand. Australia already has priority visa application product for Skilled Migration class of visas. This could provide the model for a new product in the visitor visa space.

The best global example is the United Kingdom. Responding to growing demand from China, already their largest visa market, the UK government recently announced that 24-hour Super Priority Visas would be available to potential visitors in Beijing, Shanghai and Guangzhou [48]. The fee for this service is £600 (\$1090) and is in addition to the 3-day Priority Visa application process costing £ 150 (\$271), thus creating a three-tier visa product that responds to consumer demand.

The UK government consulted with the tourism industry and airlines before launching its new user-pays fee structure for its immigration products. A large majority (80 per cent) of respondents to a survey by the UK's immigration and security ministry, the Home Office, felt that visitors should be able to choose either individual premium services or a complete premium package depending on their needs [49].

The New Zealand government is aiming to introduce three-hour visa processing for high net worth individuals by the end of 2015, starting in China [50].

The US government allows expedited visa application appointments under certain conditions [51]. These differ depending on country of application but cover emergencies and humanitarian reasons. Currently the US government does not charge extra for these expedited appointments.

The development and ongoing administration of a premium service should be designed to not impact on resourcing for other visitor visa processing.

e. Joint visitor visas

New Zealand is often viewed as a complementary destination to Australia, particularly among long-haul travellers. In total, around 40 per cent of all non-Australian visitors to New Zealand are dual-destination visitors to both Australia and New Zealand [52]. For the Chinese, this rises to 54 per cent of visitors cross the Tasman when the two are brought together.

This is despite Asian visitors requiring separate visas for each country. The tourism industry on both sides of the Tasman welcomed the announcement decision by Prime Ministers Abbott and Key in February 2014 to allow Cricket World Cup visitors to apply once for a visa to visit both countries [53]. The visa pilot programme will run for the duration of the tournament and apply Australian visa rules for visitors wishing to visit both countries during their trip.

Asian visitors will increasingly expect multi-destination visas as they travel. Most are aware of the pioneering Schengen visa, which allows free travel to the 28 European states covered for a single application fee. This, in turn led the UK and Ireland to launch their own joint visitor visas and to offer a passport pass-back service that allows Chinese visitors to apply for the UK and Schengen visa at the same time [48].

Other joint visa examples can be found in Indonesia, Myanmar, Cambodia, and the Philippines who plan to launch a common electronic visa and then extend to other members of the Association of South East Asian Nations (ASEAN) as their immigration systems comply with joint standards [54]. Elsewhere Gulf states, African safari destination countries and Central American neighbours also offer joint visas.

In attempting to model the impact of visa reform in the trans-Tasman context, replacing two visa applications with a single process represents the major reform that would induce demand for dual destination itineraries. The inducement could be greater if the cost of this common visa were also significantly cheaper than the \$270 applicable today through two sets of visa processing fees.

A conservative estimate of the impact of a move to an affordable common electronic travel authority valid in both countries shows such a product would lead to an additional 132,000 Chinese arrivals to Australia and New Zealand by 2020 and 190,000 additional visitors from all target Asian countries whose citizens currently require a full visa to complete a trans-Tasman itinerary [13].

Once the formal evaluation of the Cricket World Cup visa experience is completed by both governments, the tourism industry would like to see a permanent joint visitor visa partnership established. In addition to the Asian markets, there may be other burgeoning markets such as Brazil that could be used as a pilot. The Cricket World Cup model is not a fair revenue share with New Zealand authorities and would not be equitable in the long term.

f. Small, flexible border processing teams

There is also an opportunity for the federal government to develop a lightweight border processing model for regional airports that leverages off the technological advances in border processing to deliver secure borders with fewer personnel.

Work towards this goal is already well progressed. Using a risk-based approach, the border agencies handling passengers from New Zealand at Sunshine Coast Airport were able to significantly scale back their presence between the 2012 and 2013 seasons from an average of 20 to eight. This was achieved through delegation of responsibilities and greater use of technology to risk profile passengers.

Any new model would be in line with the vision set out in the Customs Blueprint for Reform 2013-2018, which envisages border force officers deployed regionally by locale or function, using mobile technology to communicate back to larger bases in times of unusual operational needs [55].

Without designation as a full international airport, any regional airport wishing to trial international services or offer seasonal flights is liable to pay an additional levy to fund the border agencies required to process the flights. Yet without proving the viability of a service through a series of trials, airport

operators would be loath to embark on the lengthy and costly process of obtaining full international status.

Any new lightweight model would need to be available to regional airports as a clearly defined product, with a clear nominal cost attached to allow airports to plan. There is currently very little transparency around how much airports will be charged and little influence over the quality of service provision.

g. Passport cards

There has been innovation in passport issuance elsewhere in the world. Throughout the European Union, government-issued identity cards can be used for crossing land borders, even into the United Kingdom, which is not a signatory to the border-free Schengen Area [56].

However, in recognition that the passport application process and fee acted as a disincentive to international travel, the United States introduced a new product into the market in 2009 in the form of the People Access Security Service Card (PASS Card), an identity card valid as a travel document for land crossings between the United States and Canada or Mexico and sea travel to several Caribbean islands and Bermuda [57].

Now re-branded as the US Passport Card, the card application fee stands at US\$55 as opposed to \$110 for a conventional passport book, and almost eight million US citizens hold the card either in place or in addition to conventional passport books.

The Passport Cards cannot accept stamped visas and are currently not valid for international air travel. However, it has allowed many US citizens who would have deferred or declined international holidays to take a cheaper and easier way. Such innovation would be possible in the Australian context for travel to those countries that do not require visas from Australian leisure travellers, chiefly New Zealand, the European Union and Singapore.

h. Tourist Refund Scheme

Australia's retail offering is a key attraction for international visitors, particularly those from the growing Asian visitor markets. It is also a key part of achieving the yield targets associated with growing overnight visitor expenditure. To increase competitiveness in this area, Australia needs to reform its Tourist Refund Scheme (TRS). The TRS is the program under which departing travellers can claim back either the Goods and Services Tax (GST) or the Wine Equalisation Tax (WET) on purchases.

However, the current system, administered by the Australian Customs and Border Protection Service can be cumbersome and time consuming. It also costs the Australian taxpayer some \$14 million per year to administer, funded from the Customs budget.

The current system provides a negative impression of Australia to travellers as they depart, making them less likely to recommend Australia to their friends and them less likely to return. There has been significant reform to the TRS process in recent years, notably with the introduction of online claim forms and through a revision of the rules around multiple purchases and the minimum claim amount.

Take-up of the scheme is still far below that of comparable schemes in other jurisdictions; meaning Australian retailers are missing out. We believe that if the TRS scheme were easier and more heavily

marketed to international tourists, total spend in Australian stores would rise. This is evidenced by many other jurisdictions globally where the processing of tax refund schemes have been placed with private operators who have incentive to market destination shopping. Economic modelling, undertaken by KPMG on behalf of the Tourism Shopping Reform Group, estimates that by 2017 this reform could attract an extra 18,000 international visitors to Australia [58]. The reform could increase international visitor shopping spend by \$226 million.

We believe that opening up the Australian TRS to a private provider would between private refund providers would deliver even greater benefits, including promotion of Australia as a shopping destination in key source markets and an improved visitor experience. This is the model adopted very successfully by rival destinations in our region, such as Singapore, and used in more than 40 countries worldwide.

Towards a new equilibrium

User charges can offset general charges

There exists a market for each of these new products the tourism industry would like to see from the Australian government. Each can make a difference in improving the customer satisfaction perceptions of visitors to Australia as they enter or leave our country.

The Australian Customs and Border Protection Service already performs well by international standards when measured for customer satisfaction. The percentage of passengers processed within 30 minutes of joining the inwards queue reached 93.7 per cent so far this year, compared with a global benchmark of 85 per cent.

However, border agencies in Asia and the Middle East in particular are redefining the passenger experience at government checkpoints. Automation is making formalities less intrusive while simultaneously more secure for governments.

As illustrated in the case of the UK's Super Priority Visas or in premium processing options available in Europe and the US, there is a clear market for new border processing product. Yet the government is ill equipped to charge for these new products through the existing Passenger Movement Charge, passport application and visa fee structure.

Instead, a new model need to be developed that allows government to charge a commercial rate for premium products at a market-defined rate. The launch of such products would enhance the customer experience of those high net worth travellers who would avail themselves of premium services. We would expect this new revenue source would allow for a reduction in the rate of the PMC for price-sensitive short-haul routes and visitor visa application fees for ordinary travellers from Asia.

To ensure that any new fees and charges regime complies with international conventions and Australian guidelines on cost recovery, any new regime should be reviewed to ensure compliance. The model for this is the US series of departure and arrival charges, which are charged under the Airport and Airway Trust Fund revenue model to ensure the funds generated do not flow back to the general treasury [59].

The Australian Customs and Border Protection service is to merge with its department from July 2015. The new Australian Border Force will become a law enforcement arm of the department. As a revenue collector, the new merged entity may not be the most efficient option. As is understood to have been recommended by a Customs internal review of the PMC in 2013, the Australian Tax Office, rather than Customs might better administer any replacement border fees regime.

What is needed by the tourism industry is a new, fairer regime that is responsive to price sensitivity and open to new product innovation. The inequity between visitor visa charges needs to be evened out and a way to lessen the disproportionate burden on short-haul travellers needs to be found. The new border force needs a new revenue stream and passengers need a new equilibrium.

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