

23 January 2009

The Hon Michael Aird MP
Treasurer of Tasmania
Level 9, 15 Murray Street
Hobart TAS 7000

Dear Treasurer

Re: Tourism Industry Council Tasmania (TICT) 2009-10 Budget Submission and the impact of the global financial crisis

I am writing with regard to the 2009-2010 TICT Budget Submission to amend the priorities in light of changed economic conditions.

Background

The TICT Budget Submission was prepared during September and October 2008. The final list of five tourism priorities and support for two other priorities (TMAG redevelopment and the Three Capes Track) was finalised after extensive discussion among the members of the TICT Board and with the wider industry.

These priorities aimed to further stimulate demand for travel to Tasmania. Research and past experience has confirmed that Tasmania is a desirable destination with strong levels of repeat visitation. In a highly competitive environment and with domestic travel forecast to be flat into the future, these priorities would address some of the inherent market failures in tourism and support increased awareness of, and visitation to, Tasmania.

Global Financial Crisis

However, since preparing the original submission the global financial crisis has thrown the global and domestic economy and financial systems into turmoil. The effects of the global financial crisis are now being felt with a huge drop in both consumer and business confidence and subsequent impacts on consumption. This is already having an impact on demand for travel globally and domestically.

Forecasts from the Tourism Forecasting Committee

The Tourism Forecasting Committee (TFC) last December released forecasts for 2009 and beyond for both inbound and domestic tourism. The TFC is an independent body charged with providing present and potential tourism investors, industry and government with forecasts of activity across inbound, domestic and outbound tourism sectors. The Committee's latest forecasts take into account the impacts of the global financial crisis.

Because of the sharply falling economic growth in many of our key markets, international visitor arrivals are expected to decline by about 4.1% in 2009, with the sharpest falls in the first three quarters of 2009. Visitor nights, the vital indicator that reflects visitor numbers as well as length of stay, is forecast to decline by 5.4%. The only markets that are expected to rise in 2009 are India, China and the Middle East; and none of these are high visitation markets for Tasmania. It is expected therefore that Tasmania will experience a drop of at least 5.4% in international visitor nights.

Currently, international visitors represent 17.3% of total visitors to Tasmania. While international visitors are likely to be a strong source of long-term growth for the Tasmanian tourism industry, our share is unlikely to grow during 2009.

The TFC is also pessimistic about the prospects for domestic travel during 2009. It is predicting a fall in visitor nights of 0.9% in Australia and a fall of 0.7% in domestic visitor nights for Tasmania.

In summary, the TFC is forecasting a difficult year for the Australian (and Tasmanian) tourism sectors. Combining the current ratio of domestic visitors to international visitors, it is forecast that Tasmania will experience a decline in visitor nights during 2009 of approximately 1.5% (if current market share is maintained). There is also the very real prospect that conditions could become worse than those forecast by the TFC.

Tourism Industry Council Forum

The TICT invited leaders and representatives from the Tasmanian tourism industry to a forum to discuss the implications of the global financial crisis for the Tasmanian tourism industry. Around 50 people attended the forum on the 18th of November at Moorilla Estate. Attendees included: the TICT Board, regional tourism associations, local tourism associations, major transport operators, and other players in the Tasmanian tourism industry.

Presentations were made to the assembled audience by a range of speakers including:

- Dan Blair from BDA – the global financial crisis and the threats and opportunities for the Tasmanian tourism industry
- Caroline Wilkie from TTF – the global financial crisis and the national tourism agenda
- Rowan Sproule from Tourism Tasmania – the planned responses to the new environment by Tourism Tasmania
- Daniel Hanna from TICT – current and future impacts on the Tasmanian tourism industry and future priorities (results from a recent survey)

Following the presentations, the participants split into six small groups to discuss the threats and opportunities presented by the crisis. In addition, there was a strong discussion on what steps both the industry and the government should take to respond.

There were twelve key messages that emerged from the presentations, survey and workshops. They were as follows:

The Environment

1. The global financial crisis will have a significant impact on the national and global demand for travel in 2009 and probably beyond
2. Tasmania will not be immune from these impacts and faces significant challenges during 2009 that will impact on demand
3. Tasmania has a great opportunity to hold up well in the face of the crisis by achieving challenging but achievable share gains in the domestic market
4. A lift of half a percentage point in our competitive position can lead to continued growth

For Government

5. The tourism industry can continue to grow, invest and employ Tasmanians if it receives strong support from the Tasmanian Government
6. There is no need to radically alter the message or the delivery mechanism to our markets; it is important to be clear, consistent and aggressive
7. The Tasmanian Government must find more resources urgently to fund additional destination marketing activities through Tourism Tasmania, and give it the flexibility it needs to direct more of its existing resources into stimulating demand for travel to Tasmania
8. The Tasmanian Government can ensure that vital access to Tasmania is retained by both stimulating demand in key markets (those with direct air services), thorough destination marketing and by using state ownership of TT Line to maximize visitation by sea

For the Tourism Industry

9. The industry (through the TICT) should focus on one single priority for funding through the State budget process, increased investment in destination marketing
10. The industry (through the TICT) will urgently review Tourism 21 – the strategic business plan – to prioritise those strategies likely to be most effective in the current environment
11. The industry will quickly adopt new technology and ways of doing business that move away from traditional methods to the digital and online environment
12. The industry will work collectively to help promote the destination and convert interest to bookings

A full copy of the outcomes from the day is attached for your information.

Current Industry Feedback

During November, the TICT surveyed the industry (including all sector groups, regional tourism associations and local tourism associations) to determine the current state of play and confidence about the coming year. In addition, the survey

also asked respondents to rank the 09/10 TICT Budget priorities in order of importance in light of the global financial crisis. A summary of the outcomes of the survey is as follows:

- Current business performance is slightly down on the same time last year
- Nearly 60% of those surveyed believe that their business performance in the next twelve months will be worse compared to the last twelve months
- A greater proportion of operators are less likely to invest now compared to twelve months ago
- The most important investment that the State Government could make to assist the industry would be in additional destination marketing
- The priority of the Tourism 21 strategy is marketing followed by: customer service and quality, addressing labour and skills shortages, and moving into the digital and distribution environment

The feedback from both the forum and the survey is clear: it will be a difficult year but there are opportunities for Tasmania if we aggressively promote the destination in key markets. Both the survey and the forum (and all discussions since) have confirmed that there is one way that the State Government can best assist in maintaining a strong tourism industry in Tasmania, through an additional investment in demand stimulation activities through destination marketing.

Since the forum, the TICT has kept in close contact with operators and stakeholders in the industry to determine current business levels. The current industry performance can best be described as mixed, with some businesses and locations holding up in terms of visitation, while others are already starting to notice a downturn in visitation levels. However, the greatest concerns are being expressed about the prospects from March 2009 onwards. These concerns are based on the low levels of forward bookings.

Amended Budget Request

Accordingly, the TICT is amending the 2009-2010 Budget Submission to just focus on one priority. This priority is as follows:

Destination Marketing – a further investment in destination marketing funding (through Tourism Tasmania) at a cost to the Budget of \$6m per year.

The industry is clear and united on this. Destination marketing is the best possible way that the Tasmanian Government could support travel to Tasmania. The TICT does not attempt to define the actual media to be used to achieve the right customer connections. Instead, the industry is confident that Tourism Tasmania (in conjunction with contracted agencies) has the research and marketing expertise to implement an effective campaign. However, the industry is clear that an additional investment should focus on:

- Core markets of Victoria, New South Wales and Queensland; and
- Converting interest by people in coming to Tasmania to actual bookings.

These core markets are responsible for over 65% of current visitor expenditure. They represent the key ports of access to Tasmania and demand stimulation activities in these markets will give airlines the levels of demand, and confidence of future demand, to retain existing capacity. Stimulating demand in these markets will drive additional business to Spirit of Tasmania and provide additional benefits in terms of length of stay and regional visitation.

What does this mean?

The TICT is confident that an investment of an additional \$6 per annum in destination marketing is the single best way to tackle the impact of the global financial crisis. Tasmania can continue to grow visitor numbers, visitor expenditure and employment by gaining market share.

We must aim to grow our share of interstate trips taken by Australians market share by half a percentage point. Destination marketing – with a focus on converting in key core markets – is the most effective way to achieve market share gains.

A half a percentage point gain in the share of interstate trips taken by Australians will deliver industry growth of between 8% and 9%. This will generate additional revenue of about \$120 million a year and create between 1,500 and 2,000 direct and indirect jobs.

At a difficult time for the Tasmanian economy, it is clear that there are opportunities for tourism to deliver increased wealth and employment. However, these benefits will only occur if demand can be further stimulated in key markets through destination marketing with a focus on conversion.

What if Tasmania doesn't act?

The existing destination marketing activities will deliver a solid level of demand to visit Tasmania. But in the absence of a new stimulus, current activities will deliver, at best, the same market share and lead to a contraction of the Tasmanian tourism industry.

Based on the TFC forecasts we will see a 1.5% contraction in tourism activity during 2009. This will result in a loss of between 300 and 400 tourism jobs during 2009. If Australian tourism activity drops more severely than forecast, then there will be an even greater contraction and more job losses.

The TICT is determined to remain upbeat and focus on the opportunity that exists to keep tourism activity growing. Consequently we are setting aside all other budget priorities to focus squarely on the State Government investment that is most likely to deliver market share gains in the short-term.

Many competing destinations have already announced major additional destination marketing campaigns aimed at winning a greater share. Of most concern is the aggressive campaign launched just before Christmas by Tourism New Zealand in the Australian market. New Zealand is a major competitor to Tasmania; more so than many Australian destinations. Tourism New Zealand announced an additional

\$2 million would be spent in Australia over the summer, stating that “we are remaining active in markets where we believe we can have some effect either in stimulating latent demand or in limiting the level of decrease in arrivals...our concern remains the outlook from February and March onwards”. In addition to this, the Queensland Government announced in November an additional \$9 million package to “provide an important and much-needed injection into tourism given the downturn in the global economic climate”.

With other destinations ramping up their activity, Tasmania needs to respond aggressively or risk losing ground to our competitors.

When should the action be taken?

The TICT is urging an increase in funding for destination marketing activity prior to the Budget coming into effect from 1 July. The additional demand stimulation activity is urgently needed from February/March 2009. Because the Tasmanian tourism industry is still highly seasonal, the effects of a slowdown are most likely to be felt during the shoulder seasons of autumn and spring. Investment is vitally important in early autumn this year to stimulate stronger levels of conversion and visitation during the most vulnerable period for the industry.

Similarly, additional marketing investments in the shoulder season are likely to provide best value for money. Investments in winter will have only a minor impact, while in summer will only stimulate demand at times when many areas of the state are already full.

Finding the required funding

The TICT acknowledges that the global financial crisis has also impacted on the fiscal position of state governments. This is part of the reason why the TICT is amending its budget request at this time to only focus on one priority. While all of the original requests would deliver a more vibrant tourism sector, we consider it prudent to suspend all other requests and focus on the one that will make the most significant difference.

Industry is willing to do its share. Tourism businesses will increasingly promote the state through product marketing. Additional investment by the State Government in destination marketing focused on conversion will by necessity require strong industry “buy in” and complementary activities. The outcomes of the global financial crisis forum clearly demonstrated the commitment of operators in the tourism industry to undertake these additional activities if the State Government provides additional marketing resources. This would involve cooperative or complementary marketing activities to provide an effective destination and product mix to potential visitors.

Similarly, the TICT recognises that in a difficult budgetary climate that there may need to be some reprioritizing of existing State Government resources to fund additional destination marketing. The TICT is a willing partner in this process and is prepared to work with you and the State Government to identify opportunities for this

to occur so that the benefits of additional destination marketing do not come at an unsustainable cost to the Budget.

Summary

The TICT presents this amendment to our Budget submission for your consideration. Given the impact of the global financial crisis on the travel sector and the wider domestic economy, an investment in additional destination marketing to grow interstate market share is both necessary and prudent. This investment will allow the Tasmanian tourism sector to exploit the opportunities that exist in these difficult times. Importantly, it will help the industry to grow and continue to contribute strongly to the Tasmanian economy and to maintain or increase employment.

I would appreciate the opportunity to discuss the TICT submission with you in the near future and look forward to your reply.

Yours sincerely

Daniel Hanna
Chief Executive Officer

CC: Michelle O'Byrne, Minister for Tourism