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Energy White Paper Taskforce  
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## Re: TAA Submission on Energy White Paper

Tourism Accommodation Australia welcomes the opportunity to provide a submission for the Federal Government's **Energy White Paper – Issues Paper**, released in December 2013. Australia's hotel accommodation sector is a major energy consumer and is an important player and voice in the nation's economy.

### About Tourism Accommodation Australia

Tourism Accommodation Australia (TAA) – a newly-formed division of the Australian Hotels Association (AHA) – represents the interests of the 24 Australian accommodation chains and over 800 individual members in the Hotel, Serviced Apartment, Integrated Resort, Motel and Vacation Ownership sectors. TAA has branches located in every Australian State and Territory as well as a Canberra-based national office. Servicing owners, operators, managers, franchises and other industry stakeholders, TAA is a division of the Australian Hotels Association.

The AHA is an organisation of employers in the hotel and hospitality industry registered under the Fair Work (Registered Organisations) Act 2009. For more information, visit [www.tourismaccommodation.com.au](http://www.tourismaccommodation.com.au) and AHA at [www.aha.org.au](http://www.aha.org.au)

### Snapshot: Australia's accommodation industry

Australia's accommodation industry is a major economic driver, with the industry directly contributing \$6.2 billion in gross product in 2010-11 (or 1.3% of total Australian Gross Domestic Product) (AECgroup, 2013). Tourism, which accommodation is a key and fundamental component, is Australia's second largest services export behind education.

Notwithstanding differences between cities and regions in Australia, the accommodation industry has been consolidating since 2008, with employment and the number of establishments falling in response to weak demand. New evidence suggests that demand has improved slightly over the past 12 months however the market remains highly price sensitive.

A consistent theme from consultations with accommodation operators is that over the past five years, cost pressures have continued to mount from labour, inputs and raw materials. However the market has prevented most of these costs being passed on to consumers by absorbing their impacts.

The Australian accommodation industry is a major employer, providing over 110,000 jobs in September 2012 (0.9% of Australia's labour force) (ABS 2012e). The industry has been hit hard since the onset of the GFC. Overall employment in the industry has fallen by approximately 6,500 persons since September 2008.

The decline in employment levels has been driven by a range of factors, including:

- The high Australian Dollar, which has made Australian accommodation relatively more expensive for both domestic and international visitors
- Increasing raw material and utility costs
- High labour costs in international terms, and
- Weak domestic and international macroeconomic conditions which have reduced demand for both tourist and business accommodation demand.

## Key points and recommendations on White Paper by TAA

TAA, which represents Australia's accommodation hotel industry, has investigated and analysed the impacts and costs on the sector from the carbon tax through a comprehensive study by the AECgroup released in March 2013. The full report can be found on the [TAA website>>](#)

TAA recently provided industry feedback to the Senate Standing Committee on Environment and Communication, saying that inefficient carbon tax needed to be repealed to put Australia's accommodation industry back on a more level playing field with international competitors and other investment classes and to facilitate opportunities to attract new investment in high-quality accommodation stock.

The ultra-competitive nature of the accommodation industry means that operators can't simply pass on their increased costs such as the carbon tax to consumers. This is compounded by the fact that price competitive international destinations are not subject to a carbon tax by their governments.

TAA supports the Federal Government's current intent pursue an Energy White Paper and as part of the Government's Direct Action: The Emissions Reduction Fund (ERF) to leverage existing processes including CFI (carbon farming initiative) and NGERs (national greenhouse energy reporting scheme) - to provide the required information for the program, removing the need to develop new systems which would add complexity and unnecessary burden to participants.

It is critical that ERF create opportunities for businesses to fund abatement initiatives that may not have otherwise been financially viable. It is important that careful consideration be given to funding duration with preference that it is paid for the life of the project to ensure that longer term projects with higher abatement potential can be considered.

TAA highlights the **following recommendations**:

- Allocation of funds available under the ERF need to support tourism due to the national contribution to GDP. Please note, that under the previous scheme the government said that the carbon tax does not have a direct impact on the industry and therefore we received no access to funds.
- Baselines will be critical as they will establish the performance benchmark against which future emissions are gauged and potential penalties assessed. The Government will need to provide clarity around how baselines account for changes in operating conditions and business structures. How a baseline accounts for variations is particularly important when considering the growth and expansion in operations.

## Cost impacts for accommodation hotels

AECgroup estimated that in 2012-13 the carbon tax already increased costs for accommodation businesses by up to 0.9%. This is a significant impact of 12% of profit on what is already a low margin industry with an average annual profit margin of only 7.2% (as estimated for 2012-13 without the carbon tax).

Across the Australian industry AECgroup estimated that the carbon tax cost will be up to \$114.9 million in its first year. Australian accommodation operators are enduring a range of cost rises with energy costs having seen the greatest immediate impact. As the price of carbon increases and extends to additional sectors such as transport, other major costs such as food and beverages will rise further.

In some instances, carbon tax costs are even being nominated as a basis for wage claims in upcoming enterprise bargaining processes. The industry has already shed jobs and consolidated significantly since 2008 due to rising costs. The carbon tax will contribute to this worrying trend across much of Australia.



## Current Carbon Tax Impact Estimates

To estimate the impact of the carbon tax on the Australian accommodation industry in dollar terms, current proportional impacts on individual cost items were estimated from the literature and applied to TAA (2012) industry survey benchmark annual expenditure and ABS (2008) benchmark expenditure proportions on a per room basis.

### Summary of Accommodation Services Estimated Carbon Tax Impacts (2012-13)

Expense Item	Average Expenditure Per Room Available (2012)	Low Range Carbon Tax Impact	High Range Carbon Tax Impact
Total Costs Per Available Room	\$55,425	\$284	\$506
Carbon Tax % Cost Increase	-	0.5%	0.9%
Total Cost 200 Room Operation	-	\$56,818	\$101,207
Total Cost to Industry*(\$m)	-	\$64.5	\$114.9

Note:\* Industry cost based on ABS (2012e) room counts of 227,015 for hotels, motels, and serviced apartments with 15 or more rooms.

Source: AECgroup

The estimated annual profit margin for a benchmark Australian 200 room operation (without carbon tax) is currently 7.2%. The estimated impact of the carbon tax in 2012-13 is to reduce this margin to between 6.4% and 6.7% based on operators being unable to pass on costs through higher room prices in the current market.

Overall, this translates to a 6.6% to 11.8% reduction in profitability.

## Conclusion

Australia's hotel accommodation industry is a major contributor to the national economy and part of the social fabric of local communities. However the introduction of the carbon tax has had a major impact on this important sector, especially in terms of increased costs and added uncertainty. Profit reductions have been estimated of up to **12% attributable** to increased costs related to the tax.

The ultra-competitive nature of the accommodation hotel industry means that operators can't simply pass on their increased costs to consumers such as the carbon tax. This is compounded by the fact that price competitive international destinations are not subject to a carbon tax by their governments.

Therefore, TAA recently supported the Federal Government's commitment to repeal the carbon tax from 1 July 2014. TAA supports current intent pursue an Energy White Paper and as part of the Government's Direct Action: The Emissions Reduction Fund (ERF) to leverage existing processes including CFI (carbon farming initiative) and NGERS (national greenhouse energy reporting scheme).

TAA's position is that the current inefficient tax needs to be removed and reformed to put Australia's accommodation industry back on a more level playing field with international competitors and other investment classes and to facilitate opportunities to attract new investment in high-quality accommodation stock.

TAA appreciates the opportunity to provide this submission to the Federal Government in good faith and looks forward to making further submissions for the upcoming Energy White Paper.

## For further information, contact:

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