Carbon Tax Impacts on the Australian Accommodation Industry

Tourism Accommodation Australia

Final
March, 2013
Disclaimer:
Whilst all care and diligence have been exercised in the preparation of this report, AEC Group Limited does not warrant the accuracy of the information contained within and accepts no liability for any loss or damage that may be suffered as a result of reliance on this information, whether or not there has been any error, omission or negligence on the part of AEC Group Limited or their employees. Any forecasts or projections used in the analysis can be affected by a number of unforeseen variables, and as such no warranty is given that a particular set of results will in fact be achieved.
Executive Summary

The Australian carbon tax was brought into effect as part of the Clean Energy Act (2011) and associated legislation in July 2012.

Tourism Accommodation Australia (TAA) engaged the AECgroup to undertake a study analysing the impact on the Australian accommodation industry of the tax to date. The tax is not directly applied to accommodation, however has caused significant price rises for major cost items to the industry.

This study undertakes an evidence-based review of the impact of the carbon tax and analyses the likely implications this will have on the future competitiveness, investment and activity levels of the Australian accommodation industry. In order to conduct an analysis of impacts on TAA members, a generic cost structure for an Australian accommodation business was developed and carbon tax impacts by cost area evaluated.

Carbon Tax Design

The Australian carbon tax is currently charged at $23 per tonne carbon dioxide equivalent (CO₂-e) through the Clean Energy Act (2011) and associated legislation. The rate is scheduled to increase by 2.5% over the next two years, before moving to a market-based Emissions Trading Scheme (ETS) in 2015.

In 2015, the tax moves to a market-based Emissions Trading Scheme (ETS) price of carbon, which the Commonwealth Treasury (2011) forecasts being $29 per tonne in 2015 increasing to a nominal cost of around $350 per tonne by 2050.

The tax is complex in its application, currently applying to approximately 300 of the largest emitting entities in Australia. A range of subsidies and programs are associated with the tax in an attempt to reduce the impact on trade-exposed industries and smooth the transition to more carbon efficient practices. The tax will evolve in its application over time, for example the tax will extend to heavy on-road vehicles used by business from July 1, 2014.

Australian Macroeconomic Indicators Post Carbon Tax

The design of the Australian carbon tax commences at a low level with relatively few businesses directly taxed and a large number of mitigating subsidies and programs. It then ramps up gradually into the future. Furthermore it appears the full impact of the tax has not yet been passed on due to a range of factors such as market conditions, timing of contract renegotiations or fear of ACCC litigation for businesses that incorrectly estimate the impact.

For these reasons and the short time the carbon tax has been in effect the impact of the tax is difficult to ascertain distinctly from the usual volatility of macroeconomic indicators. The clearest discernible impact of the carbon tax has unsurprisingly been through increased electricity and energy prices.

Australian Accommodation Industry

The Australian accommodation industry is a major economic sector, 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, of which accommodation is a key 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 about 2008, with employment and the number of establishments falling in response to weak demand. Evidence suggests that demand has improved slightly over the past year, 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 and raw materials, however the market has prevented most of these costs being passed through to prices by absorbing their impacts. The strong Australian dollar (making Australia expensive relative
to international competitors) and weak consumer confidence have also been key negative factors.

**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.

**Table E.1: Summary of Accommodation Services Estimated Carbon Tax Impacts (2012-13)**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Costs Per Available Room</td>
<td>$55,425</td>
<td>$284</td>
<td>$506</td>
</tr>
<tr>
<td>Carbon Tax % Cost Increase</td>
<td>-</td>
<td>0.5%</td>
<td>0.9%</td>
</tr>
<tr>
<td>Total Cost 200 Room Operation</td>
<td>-</td>
<td>$56,818</td>
<td>$101,207</td>
</tr>
<tr>
<td>Total Cost to Industry*($m)</td>
<td>-</td>
<td>$64.5</td>
<td>$114.9</td>
</tr>
</tbody>
</table>

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. This translates to a 6.6% to 11.8% reduction in profitability.

**Future Carbon Tax Impact Estimates**

A feature of the carbon tax is that it is intended to grow in price and application into the future. To estimate the future impact, Commonwealth Treasury’s (2011) estimated carbon prices to 2049-50 were applied within the cost structure used to estimate the 2012-13 impacts. Inflation was assumed at 2.5% per annum and the impact of the extension of the tax to road transport was applied from 2015.

The projections do not incorporate industry and economy responses to reducing carbon emissions (there-by reducing cost impacts of the tax). In the immediate term, major structural changes to carbon emission patterns in the Australian economy appear unlikely, and in practice accommodation businesses have limited further direct options to mitigate emissions at a viable cost.
Projected industry impacts escalate exponentially over the next 37 years due to the real increases in the carbon price and additional impacts driven by the extension of the carbon tax to heavy vehicle business use:

- By 2017-18 impacts increase to $474 - $757 per available room (PAR) or 0.8% to 1.2% of costs, adding $95,000 - $151,000 per year to a 200 room establishment; and
- By 2050 impacts increase to $3,465 - $4,714 PAR or 2.5% to 3.4% of costs, adding $693,000 - $943,000 per year to a 200 room establishment.

Total industry impacts are projected to increase to $107.5 - $171.8 million in 2017-18 and $786.7 million - $1.1 billion in 2049-50 with no mitigation.

**Conclusion**

A systematic analysis of the Australian Government’s carbon tax and the structure and competitive position of the Australian accommodation industry since July 2012 has been prepared. Impacts have been identified that are significant to the current and future competitiveness of the industry. The tax is complex and difficult to trace, adding to the uncertainty within industry regarding their future cost structure.

Current impacts on a benchmark average Australian accommodation business are estimated at an additional 0.5% to 0.9% to total costs. This may appear minimal, however in an environment of weak demand as demonstrated by the data and feedback from operators, this represents up to 11.8% of profits.

Industry believes that it can take, and has taken, some measures to reduce the cost impact of the tax. However feedback is also that the options are limited, both due to cost effectiveness of mitigation and that most of the cost impact is through suppliers.

The carbon tax is likely to impact the viability of Australian accommodation operators until such time as consumer confidence is strong enough to pass on all the costs and/or suppliers to the industry from the broader Australian economy are able to mitigate the costs in their operations.
# Table of Contents

**DOCUMENT CONTROL** ........................................................................................................ I
**EXECUTIVE SUMMARY** ....................................................................................................... I
**TABLE OF CONTENTS** .......................................................................................................... V

1. **INTRODUCTION** .............................................................................................................. 6

2. **CARBON TAX OVERVIEW** ............................................................................................. 7
   2.1 Australian Government Carbon Tax .................................................................................. 7
      2.1.1 Carbon Tax Support Packages .................................................................................. 8

3. **EXISTING LITERATURE REGARDING THE IMPACT OF THE CARBON TAX** ... 11
   3.1 Commonwealth Treasury Strong Growth Low Pollution: Modelling a Carbon Price.. 11
   3.2 Australian Industry Group Survey: Business Pricing Responses to Australia’s Carbon Tax, the First Six Months ................................................................................ 11
   3.3 Tourism & Transport Forum Submission to the Prime Minister’s Task Force on Energy Efficiency.................................................................................................................. 12
   3.4 The Carbon Price Mechanism & the Property Sector, Report to the Property Council of Australia (Allen Consulting Group) ................................................................. 12

4. **AUSTRALIAN MACROECONOMIC INDICATORS POST CARBON TAX** .......... 14
   4.1 Producer Price Inflation ................................................................................................... 14
   4.2 Consumer Price Inflation ................................................................................................ 15
   4.3 Unemployment ................................................................................................................ 16
   4.4 Gross Domestic Product .................................................................................................. 17
   4.5 Summary .......................................................................................................................... 18

5. **ACCOMMODATION INDUSTRY OVERVIEW** ................................................................. 19
   5.1 Employment .................................................................................................................... 19
   5.2 Establishments .................................................................................................................. 20
   5.3 Visitation Levels .............................................................................................................. 20
   5.4 Occupancy Rates ............................................................................................................ 21
   5.5 Revenue .......................................................................................................................... 22
      5.5.1 Room Rates ............................................................................................................. 22
   5.6 Operational Costs ............................................................................................................ 23
   5.7 Construction Costs ......................................................................................................... 24
   5.8 Summary .......................................................................................................................... 25

6. **ESTIMATED CARBON TAX IMPACTS** ............................................................................. 26
   6.1 Assumptions ..................................................................................................................... 26
   6.2 Estimated Impacts ............................................................................................................ 28

7. **FUTURE IMPACTS OF THE CARBON TAX** ................................................................. 31
   7.1 Assumptions ..................................................................................................................... 31
   7.2 Forecast Impacts .............................................................................................................. 31

8. **SUMMARY OF FINDINGS** .............................................................................................. 35

**REFERENCES** ......................................................................................................................... 36
1. Introduction

The Australian carbon tax was brought into effect by the Australian Government in July 2012 at a rate of $23 per tonne of carbon dioxide equivalent (CO₂-e) as part of the Clean Energy Act (2011) and associated legislation. The introduction of the tax has generated considerable concern across the business community regarding the impact of the tax on business viability and subsequent economic and employment impacts.

With the carbon tax having been in effect for six months, Tourism Accommodation Australia (TAA) engaged AECgroup to undertake a study analysing its impact on the Australian accommodation industry.

The purpose of this study is to undertake an evidence-based review of the impact of the carbon tax and analyse the likely implications this will have on the future competitiveness, investment and activity levels of the Australian accommodation industry.

Specifically the study has the following key aims:

- Review existing published data detailing the impacts of the carbon tax both pre and post-implementation;
- Review the performance of key Australian macroeconomic indicators following the implementation of the carbon tax;
- Develop an industry profile of the Australian accommodation industry, including:
  - Industry size, structure, and drivers;
  - Current competitive position;
  - Operational and financial structure;
- Identify the pathways through which the carbon tax impacts (directly or indirectly) on the accommodation industry;
- Estimate the impacts of the carbon tax on the Australian accommodation industry over 2012-13, given the operating conditions, structure of the industry and the established impacts of the carbon tax; and
- Consider the potential future impacts of the carbon tax on the Australian accommodation industry in terms of operational viability, employment, and capital investment.
2. Carbon Tax Overview

The following section reviews the structure of the Australian carbon tax including timing, implementation, forecast price levels and associated support programs. The design and implementation of the tax is rather complex.

2.1 Australian Government Carbon Tax

The Australian carbon tax came into effect in July 2012 at a starting rate of $23 per tonne CO$_2$-e under the Clean Energy Act (2011) and associated legislation. The rate is scheduled to increase by 2.5% over the next two years, before moving to a market-based Emissions Trading Scheme (ETS) in 2015.

Commonwealth Treasury (2011) forecasts an initial ETS price of $29 per tonne based on the EU market rate. Prices are forecast to increase at a real rate of 5.0% per annum, reaching a nominal cost of around $350 per tonne by 2050 (see Figure 2.1).

Figure 2.1: Projected Australian Carbon Price 2012-2050

Source: Commonwealth Treasury (2011)
Note: Nominal prices assume inflation of 2.5% per annum

The tax applies to entities with direct carbon dioxide emissions of 25,000 tonnes or greater which currently equates to approximately 300 entities across Australia.

The tax is currently being borne across a range of industry sectors including stationary energy, industrial processes, resource extraction, and non-legacy waste. An effective carbon tax is applied to aviation, marine, and rail transport through increases in the fuel excise (household transport fuels, light vehicle business transport and off-road fuel use by the Agriculture, Forestry and Fishing industries are currently exempt). The Australian Government intends to extend the carbon tax to heavy on-road vehicles used by business (over 4.5 tonnes gross vehicle mass) from July 1, 2014. The carbon tax also applies to fugitive emissions, which are the major contributor to total emissions in the Australian coal industry.

Though pricing carbon is not currently a widespread policy globally, several countries and the European Union have implemented a price on carbon through various mechanisms. Carbon prices are also applied in some states and provinces of the United States and Canada.
Notably Australia’s carbon tax imposes a carbon price well in excess of other established schemes. The Australian carbon price is currently over four times the price on the European ETS, which will be used as a benchmark for pricing in Australia beyond 2015-16, and 16 times the New Zealand price (see Figure 2.2). It should be noted that the European carbon price is exchange-traded and hence volatile from day to day.

Figure 2.2: 2012-13 Benchmark Carbon Prices ($AU/t CO$_2$e)

Source: Bloomberg (2013), SBS (2012), AECgroup

2.1.1 Carbon Tax Support Packages

A range of support measures were introduced along with the carbon tax as part of the Clean Energy Future package. Programs introduced were designed in significant part to assist businesses and households to adjust to the initial impacts of the introduction of the carbon tax. The majority of the programs will be gradually withdrawn over the coming years. An overview of each of the support packages is provided in the sections below.

2.1.1.1 Households

In conjunction with the implementation of the carbon tax, the Australian Government provided an increase in the personal income tax tax-free threshold from $6,000 to $18,000 alongside increases in welfare payments. In addition to achieving other policy goals, the increased tax free threshold was designed to offset the impacts of the carbon tax on low income households. Further income tax cuts are planned for 2015 to coincide with the move to an ETS.

It should be noted that increases to the middle income tax rates largely negate the increased tax-free threshold for persons with a taxable income above $80,000 per annum.

Further one off cash handouts were provided to offset the increased cost of the carbon tax for lower income persons in year one:

- Families receiving payments under the family tax benefit received a cash advance of $300;
- Students receiving Austudy received cash payments of up to $190; and
- Pensioners and self-funded retirees (with a Commonwealth Seniors Card) received a $250 cash advance.
2.1.1.2 Industry

**Jobs and Competitiveness Program**

The Jobs and Competitiveness Program is scheduled to provide $8.6 billion of assistance targeted at Emissions-Intensive Trade-Exposed (EITE) industries. These industries undertake carbon intensive activities but are constrained in their ability to pass on carbon tax costs due to prices for their products being set in global markets.

Assistance is currently provided to between 40-50 industrial activities, including:

- Steel;
- Aluminium;
- Zinc; and
- Cement manufacturing.

Assistance will be provided to cover between 66% and 94% of industry average carbon tax costs, depending on the emissions intensity of the activity. The industry assistance will be removed gradually by 1.3% each year as it is envisioned that industry will adjust to the carbon pricing mechanism.

**Clean Technology Program**

The $1.2 billion Clean Technology Program was introduced with the aim of directly improving the energy efficiency of the manufacturing sector and supporting research and development in low pollution technologies. The Clean Technology Program provides support for manufacturers through the following avenues:

- $800 million Clean Technology Investment Program which provides grants to manufacturers for investments in energy-efficient capital equipment and low-pollution technologies;
- $200 million Clean Technology Food and Foundries Investment Program provides businesses in the food processing, metal forging and foundry industries with grants for energy efficiency improvements; and
- $200 million Clean Technology Innovation Program available to businesses investing in research and development in renewable energy and other low pollution technologies.

**Steel Transformation Plan**

The $300 million Steel Transformation Plan provides additional support to the steel industry to adjust to the impacts of the carbon tax. The assistance is in addition to eligibility for the Jobs and Competitiveness Program, and was provided in recognition of the acute viability and competitiveness challenges facing the steel industry. The steel industry will also receive a small increase in free carbon permit allocation from 2016-17 onwards.

**Coal Sector Jobs Package**

The Coal Sector Jobs Package will provide $1.3 billion transitional assistance to the coal industry in order to implement carbon abatement technologies.

As emission levels vary significantly between mines, the package provides assistance to mines with the highest levels of fugitive emissions (emissions of at least 0.1 tonnes of CO$_2$-e per tonne of saleable coal produced). The subsidy is currently provided for up to 80% of fugitive emissions above 0.1 tonne of CO$_2$-e per tonne of saleable coal.

**Coal Mining Abatement Technology Support Package**

The Coal Mining Abatement Technology Support Package will provide $70 million in addition to the Coal Sector Jobs Package to assist coal mines develop and implement new technologies to reduce their carbon emissions.
Energy Efficiency Information Grants Program

The Energy Efficiency Information Grants Program is providing funding of $40 million to industry associations and not-for-profit organisations to provide information regarding energy efficiency to small and medium sized businesses and community organisations. Projects funded under the Energy Efficiency Information Grants Program include:

- Training and tools to assist organisations to understand their energy use;
- Information products illustrating ways organisations can improve energy efficiency; and
- Support services aimed at improving organisations energy management.

Small Businesses

Small businesses (with less than $2 million annual turnover) received an increase in the allowable instant asset write-off from $5,000 to $6,500 from the 2012-13 financial year designed in part to help offset the impacts of the carbon tax.
3. Existing Literature Regarding the Impact of the Carbon Tax

The following section reviews existing works detailing the impact of the carbon tax in Australia. It should be noted that with the carbon tax having been in effect for approximately six months, empirical work detailing its impact remains limited.

Studies analysing the carbon tax pre-implementation typically relied upon Computable General Equilibrium (CGE) modelling. While CGE modelling is widely accepted as the best methodology to analyse structural economic impacts such as the carbon tax, it is dependent on a large number of assumptions for which accurate data is often unavailable. Hence the modeller/s professional judgement is required in the model development and/or modelling process, and different modellers can reach different outcomes.

As a result, modelled estimates of the impact of the carbon tax (including by the Commonwealth Treasury) are not definitive, and remain open to conjecture.

3.1 Commonwealth Treasury Strong Growth Low Pollution: Modelling a Carbon Price

Detailed modelling was undertaken by Commonwealth Treasury (2011) prior to the implementation of the carbon tax in order to estimate the impact on the Australian economy. The results of Treasury forecasts have been used extensively as a basis for estimating the future revenues received from the carbon tax as well as the industry and household assistance packages.

Key outcomes from Treasury modelling of a $23 per tonne carbon price and subsequent forecast increases include:

- Aggregate increase in consumer prices of 0.7% over 2012-13, including:
  - 10% increase in electricity consumer costs;
  - 9% increase in gas costs;
  - Under 0.5% increase in food costs;
- An average family would pay $9.90 more per week ($515 per year) in the first year of the scheme’s introduction;
- A further small increase in the consumer price index (CPI) is projected following the move to an ETS in 2015-16, otherwise the carbon tax is projected to have a negligible impact in inflation;
- Gross National Income (GNI) per person grows by 1.1 per cent per year to 2050 with carbon pricing, compared to 1.2 per cent per year without carbon pricing; and
- Carbon pricing reduces Australia’s emissions by 159 Mt CO₂-e in 2020 and over 400 Mt CO₂-e by 2050 compared to what would happen without carbon pricing.

3.2 Australian Industry Group Survey: Business Pricing Responses to Australia’s Carbon Tax, the First Six Months

This study undertaken by Australian Industry Group (2012) utilised a panel of surveys undertaken in June, July and November 2012 in order to assess the stated impact of the carbon tax in the first six months of implementation. Across the 485 businesses surveyed in November, the carbon tax was estimated to have increased energy prices by an average of 14.5%. Other key findings include:

- Manufacturing businesses reported energy price increases of 14.5%;
- Services businesses reported increases averaging 13.6%, with the Accommodation, Café’s, and Restaurants subsector reporting average increases of 15.5%;
- Construction sector businesses reported energy cost increases of 14.8%;
A third of manufacturing and construction firms and approximately half of services businesses were unable to isolate the direct impact of the carbon tax on their energy costs; and

Around half of businesses experienced an increase in some of their input costs immediately after the implementation of the carbon tax on July 1.

### 3.3 Tourism & Transport Forum Submission to the Prime Minister’s Task Force on Energy Efficiency

The submission to the Prime Minister’s Task Force on Energy put forward in 2010 by Tourism and Transport Forum (2010) highlighted the sensitivity of the Australian accommodation industry to rising electricity costs. The submission noted that accommodation properties are 24-hour operations which have significant energy intensive features, including:

- Lighting of both public areas (including the hotel lobby, food & beverage facilities, day spa, gym and business lounge facilities) in addition to individual guest rooms;
- Air conditioning and ventilation of both open public areas and individual guest rooms;
- High hot water requirements for guest rooms and in restaurant kitchens; and
- Other significant appliances drawing electricity in guest rooms and public areas such as televisions, hairdryers, and cooking facilities for serviced apartments.

While the submission identified significant potential for energy savings given appropriate infrastructure upgrades, a range of factors were hindering industry take up including a prevalence of aging buildings and broad industry conditions.

### 3.4 The Carbon Price Mechanism & the Property Sector, Report to the Property Council of Australia (Allen Consulting Group)

This report was commissioned by Property Council of Australia (Allen Consulting Group, 2011) in order to assess the projected impact of the carbon tax on the property sector. Key notes from the study:

- Very few businesses in the property sector are likely to be classified as large emitters, and as such this sector is unlikely to see any significant direct impact from the carbon tax;
- The carbon tax will flow through the economy to increase the prices of goods and services that produce emissions, both directly and indirectly;
- While the property sector is not impacted directly, the sector does account for a large amount of final energy use. Estimates suggest that it is responsible (indirectly) for around 24% of Australia’s total greenhouse gas emissions;
- Prices paid by the property sector for crucial inputs including energy and materials will rise as suppliers who are large emitters raise their prices to recoup the costs increases they incur due to the carbon tax;
- Construction costs will rise under the carbon tax driven by:
  - Inputs with high embodied emissions (such as steel, glass, aluminium, and cement);
  - Direct use of energy in construction;
  - Labour costs which will rise due to general price increases;
- There is a degree of uncertainty over how much costs will rise. The impacts of the carbon tax on construction will vary according to:
  - The type of building;
  - The location of the building;
The impact of government shielding on prices provided to assist some specific industries and producers;

- The ability of the sector to shift construction processes towards lower emissions technologies;

- The impact on the price of an illustrative 200 square metre house is expected to be $3,645. This amounts to around $18 per square metre or a 1.7% increase in cost;

- The impact on a three story commercial building with 11,588 square metres of gross floor area is expected to be $318,043, amounting to around $27 per square metre or a 1.5% increase;

- Where suppliers of key upstream products do not pass on the full value of government shielding to their customers the costs of construction will rise significantly; and

- The costs to operate a commercial building are expected to increase by around 1.8% on average.
4. **Australian Macroeconomic Indicators Post Carbon Tax**

The following section considers Australia’s key macroeconomic indicators following the implementation of the carbon tax in order to identify:

- Any significant broad impacts following the implementation of the carbon tax; and
- Overall macroeconomic trends over the post July 2012 period.

The Australian carbon tax has been designed to start at a low impact level and ramp up annually into the future. Macroeconomic indicators are volatile due to a large number of additional national and international influencing factors. Combined with the design of the Australian carbon tax this makes it difficult to trace clear impacts from the tax though most parts of the economy at this early stage.

4.1 **Producer Price Inflation**

The quarterly year on year rise in energy input costs for the manufacturing industry since December 2010 is illustrated in Figure 4.1. It should be noted that input producer prices for services industries such as accommodation are not recorded by the ABS. Key notes from producer price inflation include:

- Electricity costs rose sharply following the introduction of the carbon tax:
  - Year on year producer prices increased 17.2% over the three months to September 2012;
  - Year on year producer prices rose 26.1% over the three months to December 2012;
- Smaller (though still considerable) rises in natural gas prices of 2.9% and 10.2% respectively;
- Broader producer price inflation has been negative over the last six months. The falling producer price index (PPI) has been due to a range of factors including:
  - The continued high Australian Dollar mitigating the cost of imported inputs;
  - Generally weak trading conditions for Australian manufacturers, leading to weak demand and discounting across a range of inputs;
- Energy producers have incurred significant cost increases over the second half of 2012. Given the monopoly nature of energy producers they are in a strong position to pass much of these costs on to consumers;
- While the introduction of the carbon tax was a major driving force behind the rise in energy costs, other factors contributed to the overall rise, in particular rising electricity network and infrastructure costs; and
- As energy prices typically form only a modest proportion of total costs for manufacturers, the sharp cost increases have not yet significantly impacted broader PPIs. Furthermore many inputs for the accommodation industry may be sourced internationally and are therefore not impacted by the introduction of the carbon tax.
4.2 Consumer Price Inflation

The year on year percentage change in quarterly Consumer Price Inflation (CPI) since December 2010 is illustrated in Figure 4.2. Headline CPI for the September Quarter posted a modest rise of 2.0% year on year. Components of CPI which did record a significant impact from the introduction of the carbon tax were:

- Electricity (18.5% increase year on year); and
- Gas and other household fuels (18.9% increase year on year).

As electricity costs form a relatively small portion of household expenditures, the significant price rises in energy did not flow through to significantly impact the headline CPI.
4.3 Unemployment

Australian trend and seasonally adjusted unemployment rates since January 2011 are provided in Figure 4.3. The unemployment rate has been on a steady increase since the introduction of the carbon tax in July 2012 (increase of 0.2 ppt trend series and 0.8 ppt seasonally adjusted). However a broad range of additional factors have impacted Australian unemployment over the past six months, including:

- Weaker commodity prices which have flow-through to resource sector employment;
- Significant cut backs in public sector employment; and
- Generally soft global macroeconomic conditions.

Recorded unemployment remains at low levels compared to most developed nations. At this stage there appears to have been little discernible direct impact from the carbon tax on official unemployment levels.
4.4 Gross Domestic Product

Australian real Gross Domestic Product (GDP) rose 0.6% over the three months to September 2012. GDP performance was in line with the trend of slowing growth since December 2011, driven in significant part by falling commodity prices over the period.

To this point the net impact of the carbon tax on economic growth appears to have been modest, however it is difficult to isolate the impact of the tax from the associated industry and household subsidies and from broader economic conditions.
4.5 Summary

There has been limited macroeconomic data released since the implementation of the carbon tax in July 2012. Key points from the analysis of major macro-economic indicators are:

- Generally weaker macro-economic indicators since July 2012;
- Strongest discernible impact of the carbon tax has been through increased electricity and other energy prices, with:
  - Quarterly producer electricity prices rising 17.2% and 26.1% year on year over the two quarters following the introduction of the carbon tax; and
  - Quarterly consumer electricity prices rising 18.5% and gas and other household fuel prices rising 18.9% year on year over the three months following the implementation of the carbon tax; and
- It is particularly difficult to separate the impact of the carbon tax either from its associated Clean Energy Future subsidies or from broader unrelated national and international macroeconomic impacts.

It is likely that the broader impacts of the tax will become clearer over time and as subsidies are reduced.
The Australian accommodation industry is a broad services sector incorporating hotels and resorts, motels, and serviced apartments. Recent analysis by AECgroup found that tourism accommodation in Australia directly contributed $6.2 billion in gross product in 2010-11 (or 1.3% of total Australian Gross Domestic Product).

An overview of the industry including employment levels, cost structure, and establishment counts is provided in the sections below. Overall, the Australian accommodation industry has suffered from weak demand since the global financial crisis (GFC) and high costs, particularly when compared to international competitors due to the high Australian dollar. The result has been contraction in the sector – both in employment and rooms. Whilst some encouraging demand indicators have emerged in the last 12 months, this is only a partial recovery of the declines of previous years.

According to consultation with industry, the most challenging factor in recent years has been the inability to pass cost increases through to their customers due to weak consumer confidence. The resulting profit squeeze has been the key driver of the decline in the sector.

5.1 Employment

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.

Figure 5.1: Australian Accommodation Industry Employment Levels

Source: ABS (2012e) Cat, No: 8635.0
5.2 Establishments

In September 2012 there were an estimated 4,222 accommodation services establishments with 15 or more rooms across Australia (ABS 2012e). Establishment numbers have been in decline since late 2009, the consolidation has been driven by the same factors impacting on employment levels. While the number of establishments has declined overall room numbers have remained largely flat, ranging between 225,000 – 227,000 rooms. The data suggests that market forces are leading to less viable businesses being replaced by larger, more viable operators.

![Figure 5.2: Accommodation Industry Establishment Counts](chart)

Source: ABS (2012e) Cat, No: 8635.0

5.3 Visitation Levels

Domestic and international visitors spent 484 million nights across Australia over the year ending September 2012 (Department of Resources, Energy and Tourism, 2013). While longer-term growth in visitation has been minimal, demand levels have improved over 2012.

Consultation with industry indicates that while demand from leisure travel has remained firm, meetings and conference attendance has reduced significantly over the past 6 months as businesses across a range of industries attempt to control their costs.
Figure 5.3: Rolling Annual Visitor Nights Australia (2006-2012)

Source: Department of Resources, Energy and Tourism (2013)

5.4 Occupancy Rates

Quarterly room occupancy rates for the Australian accommodation industry since March 2006 display a clear seasonal pattern, peaking over the September to December tourist season, while falling away considerably over the March-June slack season.

Industry occupancy rates have been steadily recovering since 2009, as the industry consolidation has led to flat overall room numbers alongside steadily increasing demand.

Figure 5.4: Australian Accommodation Industry Occupancy Rates

Source: ABS (2012e) Cat, No: 8635.0
5.5 **Revenue**

The Australian accommodation industry recorded takings from accommodation of $2.3 billion over the three months to September 2012. Industry revenues have increased steadily in nominal terms, rising 18.7% since the September Quarter of 2009.

**Figure 5.5: Australian Accommodation Industry Revenue from Accommodation ($ Million)**

Revenues Per Available Room (PAR) have recovered in nominal terms from $8,547 over the three months to September 2009 to $10,093 over the three months to September 2012 (ABS, 2012e).

5.5.1 **Room Rates**

In September 2012 the Average Daily Rate (ADR) for Australian accommodation was $164 (ABS, 2012e). Aside from the seasonal pattern which is typical of accommodation revenues, ADR has increased steadily in nominal terms throughout the post GFC period.
Figure 5.6: Australian Accommodation Industry Revenue per Available Room and Average Daily Rate

Source: Source: ABS (2012e) Cat, No. 8635.0

Comments From Industry – Demand Conditions
Consultation with TAA members indicates that while overall visitation has remained firm since the introduction of the carbon tax, business demand has softened. Typical comments from TAA members are:

- Meetings and events have been down since August, what would have been a 100 person conference last year is now 50 people. We feel that this is very widespread.
- Businesses have become very choosy about how many people they send to meetings and conferences.
- Leisure demand has remained solid. However businesses are clearly trying to control their costs. Usual business we receive from the finance industry has been particularly weak.
- Market conditions are variable across Australia.
- We have noticed no impact on demand numbers whatsoever, however we have not passed on any of our increased costs.

5.6 Operational Costs
The operational cost structure of the Australian accommodation industry from the most recent ABS (2008) Accommodation Services survey is provided in Table 5.1. Notable features of the industry cost structure include:

- Consistent with the majority of hospitality activities, labour represents the largest share of total costs at 35.7% (ABS, 2008);
- Major cost items likely to have been impacted by the carbon tax include:
  - Electricity, gas, and water charges (3.7% of total expenditures);
  - Foodstuffs used for preparing meals (5.5% of total expenditures);
  - Laundry and cleaning services (2.5% of total expenditures); and
o Rental of land, buildings and other structures (8.3% of total expenditures).

### Table 5.1: Accommodation Services Industry Cost Structure (2006-07)

<table>
<thead>
<tr>
<th>Expense Item</th>
<th>Expenditure ($m)</th>
<th>Proportion of Total Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Labour costs</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wages and salaries</td>
<td>$2,699</td>
<td>30.5%</td>
</tr>
<tr>
<td>Employer contributions to superannuation</td>
<td>$243</td>
<td>2.7%</td>
</tr>
<tr>
<td>Salary sacrificed earnings, share based payments and stock options</td>
<td>$17.8</td>
<td>0.2%</td>
</tr>
<tr>
<td>Workers' compensation premiums/costs</td>
<td>$82.9</td>
<td>0.9%</td>
</tr>
<tr>
<td>Fringe benefits tax</td>
<td>$15.5</td>
<td>0.2%</td>
</tr>
<tr>
<td>Payroll tax</td>
<td>$102</td>
<td>1.2%</td>
</tr>
<tr>
<td><strong>Total Labour Costs</strong></td>
<td>$3,160.7</td>
<td>35.7%</td>
</tr>
<tr>
<td><strong>Purchases</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foodstuffs for use in preparing meals</td>
<td>$487</td>
<td>5.5%</td>
</tr>
<tr>
<td>Liquor and other beverages</td>
<td>$217</td>
<td>2.5%</td>
</tr>
<tr>
<td>Other finished goods for resale</td>
<td>$127</td>
<td>1.4%</td>
</tr>
<tr>
<td>Other non-capitalised purchases</td>
<td>$2,401</td>
<td>2.7%</td>
</tr>
<tr>
<td><strong>Total Purchases Costs</strong></td>
<td>$1,072</td>
<td>12.1%</td>
</tr>
<tr>
<td><strong>Rent, leasing and hiring</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land, buildings and other structures</td>
<td>$733</td>
<td>8.3%</td>
</tr>
<tr>
<td>Motor vehicles</td>
<td>$10.1</td>
<td>0.1%</td>
</tr>
<tr>
<td>Other</td>
<td>$88.1</td>
<td>1.0%</td>
</tr>
<tr>
<td><strong>Total Rent, Leasing and Hiring Costs</strong></td>
<td>$831.2</td>
<td>9.4%</td>
</tr>
<tr>
<td><strong>Misc.</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electricity, gas and water charges</td>
<td>$331</td>
<td>3.7%</td>
</tr>
<tr>
<td>Repair and maintenance</td>
<td>$327</td>
<td>3.7%</td>
</tr>
<tr>
<td>Advertising, marketing and promotional expenses</td>
<td>$252</td>
<td>2.9%</td>
</tr>
<tr>
<td>Management fees/charges paid</td>
<td>$244</td>
<td>2.8%</td>
</tr>
<tr>
<td>Laundry and cleaning services</td>
<td>$221</td>
<td>2.5%</td>
</tr>
<tr>
<td>Travel agent, frequent flyer and Internet booking commission</td>
<td>$123</td>
<td>1.4%</td>
</tr>
<tr>
<td>Payments to other businesses (e.g. employment agencies) for staff</td>
<td>$88.3</td>
<td>1.0%</td>
</tr>
<tr>
<td>Other contract, subcontract and commission expenses</td>
<td>$181</td>
<td>2.0%</td>
</tr>
<tr>
<td>Insurance premiums</td>
<td>$101</td>
<td>1.1%</td>
</tr>
<tr>
<td>Land tax and land rates</td>
<td>$152</td>
<td>1.7%</td>
</tr>
<tr>
<td>Telecommunication services</td>
<td>$86.9</td>
<td>1.0%</td>
</tr>
<tr>
<td>Computer software expensed</td>
<td>$24.4</td>
<td>0.3%</td>
</tr>
<tr>
<td>Interest</td>
<td>$397</td>
<td>4.5%</td>
</tr>
<tr>
<td>Bank charges other than interest</td>
<td>$68.0</td>
<td>0.8%</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>$382</td>
<td>4.3%</td>
</tr>
<tr>
<td>Bad and doubtful debts</td>
<td>$48.5</td>
<td>0.1%</td>
</tr>
<tr>
<td>Other</td>
<td>$794</td>
<td>9.0%</td>
</tr>
<tr>
<td><strong>Total Misc. Costs</strong></td>
<td>$3,780</td>
<td>42.8%</td>
</tr>
<tr>
<td><strong>Total Costs</strong></td>
<td>$8,843</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Source: ABS (2008) Cat, No. 8695.0

### 5.7 Construction Costs

In addition to increasing operational costs the carbon tax will also generate a significant impact for the accommodation industry through increased construction costs. Allen Consulting Group (2011) estimates indicate the carbon tax would immediately add (in 2012-13) around $27 per square metre to the cost of building a new establishment. The tax will also impact upon renovation and refurbishment activities, which are often significant in CBD establishments which utilise predominantly older buildings.
5.8 Summary

Key features of the Australian accommodation industry include:

- Major sector in terms of both employment, value added and services exports;
- Highly labour intensive;
- Industry has been under considerable pressure from 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;
  - Internationally high labour costs and restrictive labour regulations;
- The industry has consolidated both the number of beds and labour requirements in recent years in response to weaker demand;
- While visitor arrivals and occupancy levels appear to be recovering, strong international competition and increasing cost pressures continue to drive industry consolidation; and
- Significant seasonality in demand resulting in a cycle of discounting of room rates each year.

As a result the industry has declined in terms of both employment and number of establishments over recent years. According to industry the decline has been driven by a profit squeeze with weak consumer demand preventing increased costs being reflected in charges to customers. Consumer demand in terms of raw numbers has by many accounts been relatively healthy.
Developing estimates of the impact of the Australian carbon tax through flow-on effects remains a challenging exercise. In order to examine the impact on the Australian accommodation industry, a detailed cost breakdown for the sector has been considered against available evidence for cost rises clearly attributable to the carbon tax.

6.1 Assumptions

Whilst the carbon tax will have some impact on prices for almost every cost item, in many cases the level is likely to be immaterial and has been ignored. In future years, as the price of carbon rises, the flow-on price rises through these other items may become significant, particularly when aggregated.

Impacts of the carbon tax on the hotel industry have been estimated under high and low scenarios. The ultimate flow-on impact on industry will depend on:

- Pass through levels of government shielding, that is, how effectively accompanying subsidies and grants offset the impact of the carbon price from various sectors; and
- Other factors which impact prices (bargaining position of individual operators, commodity prices, demand conditions, consumer preferences).

Table 6.1: Accommodation Services Industry Carbon Tax Impacts (2012-13)

<table>
<thead>
<tr>
<th>Expense Item</th>
<th>Low Range Carbon Tax Impact</th>
<th>Source</th>
<th>High Range Carbon Tax Impact</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labour costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wages and salaries</td>
<td>0%</td>
<td>AECgroup</td>
<td>0.0%</td>
<td>AECgroup</td>
</tr>
<tr>
<td>Employer contributions to superannuation</td>
<td>0%</td>
<td>AECgroup</td>
<td>0.0%</td>
<td>AECgroup</td>
</tr>
<tr>
<td>Salary sacrificed earnings, share based payments and stock options</td>
<td>0%</td>
<td>AECgroup</td>
<td>0.0%</td>
<td>AECgroup</td>
</tr>
<tr>
<td>Workers’ compensation premiums/costs</td>
<td>0%</td>
<td>AECgroup</td>
<td>0.0%</td>
<td>AECgroup</td>
</tr>
<tr>
<td>Fringe benefits tax</td>
<td>0%</td>
<td>AECgroup</td>
<td>0.0%</td>
<td>AECgroup</td>
</tr>
<tr>
<td>Payroll tax</td>
<td>0%</td>
<td>AECgroup</td>
<td>0.0%</td>
<td>AECgroup</td>
</tr>
<tr>
<td>Purchases</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foodstuffs for use in preparing meals</td>
<td>0.4%</td>
<td>Commonwealth Treasury (2011)</td>
<td>1.1%</td>
<td>60% of the Sep quarter on quarter rise in CPI</td>
</tr>
<tr>
<td>Liquor and other beverages</td>
<td>0.4%</td>
<td>AECgroup</td>
<td>0.5%</td>
<td>60% of the Sep quarter on quarter rise in CPI</td>
</tr>
<tr>
<td>Other finished goods for resale</td>
<td>0.0%</td>
<td>AECgroup</td>
<td>1.0%</td>
<td>AECgroup</td>
</tr>
<tr>
<td>Other non-capitalised purchases</td>
<td>0.0%</td>
<td>AECgroup</td>
<td>1.0%</td>
<td>AECgroup</td>
</tr>
<tr>
<td>Rent, leasing and hiring</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land, buildings and other structures</td>
<td>0.0%</td>
<td>AECgroup</td>
<td>1.5%</td>
<td>Allen Consulting Group (2011)</td>
</tr>
<tr>
<td>Motor vehicles</td>
<td>0.0%</td>
<td>AECgroup</td>
<td>0.0%</td>
<td>AECgroup</td>
</tr>
<tr>
<td>Other</td>
<td>0.0%</td>
<td>AECgroup</td>
<td>0.0%</td>
<td>AECgroup</td>
</tr>
<tr>
<td>Misc.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electricity, gas and water charges</td>
<td>10.0%</td>
<td>Commonwealth Treasury (2011)</td>
<td>13.6%</td>
<td>AI Group (2013)</td>
</tr>
<tr>
<td>Repair and maintenance</td>
<td>1.5%</td>
<td>Allen Consulting Group (2011), AECgroup</td>
<td>2.0%</td>
<td>Allen Consulting Group (2011), AECgroup</td>
</tr>
<tr>
<td>Advertising, marketing and promotional expenses</td>
<td>0.0%</td>
<td>AECgroup</td>
<td>0.0%</td>
<td>AECgroup</td>
</tr>
<tr>
<td>Expense Item</td>
<td>Low Range Carbon Tax Impact</td>
<td>Source</td>
<td>High Range Carbon Tax Impact</td>
<td>Source</td>
</tr>
<tr>
<td>------------------------------------------------------------------------------</td>
<td>----------------------------</td>
<td>------------------</td>
<td>----------------------------</td>
<td>------------------</td>
</tr>
<tr>
<td>Management fees/charges paid</td>
<td>0.0%</td>
<td>AECgroup</td>
<td>0.0%</td>
<td>AECgroup</td>
</tr>
<tr>
<td>Laundry and cleaning services</td>
<td>3.0%</td>
<td>AECgroup</td>
<td>5.0%</td>
<td>AECgroup</td>
</tr>
<tr>
<td>Travel agent, frequent flyer and Internet booking commission</td>
<td>0.0%</td>
<td>AECgroup</td>
<td>0.0%</td>
<td>AECgroup</td>
</tr>
<tr>
<td>Payments to other businesses (e.g. employment agencies) for staff</td>
<td>0.0%</td>
<td>AECgroup</td>
<td>0.0%</td>
<td>AECgroup</td>
</tr>
<tr>
<td>Other contract, subcontract and commission expenses</td>
<td>0.0%</td>
<td>AECgroup</td>
<td>0.0%</td>
<td>AECgroup</td>
</tr>
<tr>
<td>Insurance premiums</td>
<td>0.0%</td>
<td>AECgroup</td>
<td>0.0%</td>
<td>AECgroup</td>
</tr>
<tr>
<td>Land tax and land rates</td>
<td>1.0%</td>
<td>AECgroup</td>
<td>2.0%</td>
<td>AECgroup</td>
</tr>
<tr>
<td>Telecommunication services</td>
<td>0.0%</td>
<td>AECgroup</td>
<td>0.0%</td>
<td>AECgroup</td>
</tr>
<tr>
<td>Computer software expenses</td>
<td>0.0%</td>
<td>AECgroup</td>
<td>0.0%</td>
<td>AECgroup</td>
</tr>
<tr>
<td>Interest</td>
<td>0.0%</td>
<td>AECgroup</td>
<td>0.0%</td>
<td>AECgroup</td>
</tr>
<tr>
<td>Bank charges other than interest</td>
<td>0.0%</td>
<td>AECgroup</td>
<td>0.0%</td>
<td>AECgroup</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>0.0%</td>
<td>AECgroup</td>
<td>0.0%</td>
<td>AECgroup</td>
</tr>
<tr>
<td>Bad and doubtful debts</td>
<td>0.0%</td>
<td>AECgroup</td>
<td>0.0%</td>
<td>AECgroup</td>
</tr>
<tr>
<td>Other</td>
<td>0.0%</td>
<td>AECgroup</td>
<td>0.0%</td>
<td>AECgroup</td>
</tr>
</tbody>
</table>


Comments From Industry – Carbon Tax Observations

Consultation with industry highlights that while the impact of the carbon tax has varied depending on the competitive position of individual businesses, energy prices have been the major impact upon operations so far. It would seem that some suppliers are not passing on the costs of the tax of yet, representing a pool a latent future cost inflation that may be passed on to the accommodation industry in the future.

Typical responses from industry are:

- Our audit from July last year showed an impact of $82,000 for electricity.
- Our electricity costs have increased $9,000-$10,000 per month since the introduction of the carbon tax, with a similar increase in gas. Our strong tendering process has helped us to avoid increases in broader supply costs.
- We haven’t noticed an impact on broader supplies as yet. We change suppliers often and feel they are absorbing the costs. We will continue to monitor things when the carbon tax is added to transportation.
- We have been investing to mitigate costs, but prices are rising faster than we can respond.
- Carbon tax is not such an issue at the higher end of the market.
- While we have noticed some impacts in our food and liquor, they haven’t been a major impact on operations.
- Electricity costs have increased 15%-20% across operations this year with the same levels of consumption. Providers have used the carbon tax as an excuse to push through additional charges.
- We are in a strong bargaining position with our suppliers, however we can do nothing with the monopoly utility companies.
- We are not clear on how prices will be impacted in the future. Not all suppliers have passed on their cost rises yet.
- Rising electricity prices is highlighted as a key factor in our enterprise bargaining agreement asking for above inflation wage increases.
- We have decided to continue with our expansion, the construction industry is desperate for work and are absorbing the increased costs.
6.2 Estimated Impacts

To estimate the impact of the carbon tax on the Accommodation industry in dollar terms, the proportional impacts from Table 6.1 have been applied to:

- TAA (2012) industry survey benchmark annual expenditure per room available; and

The resulting estimated dollar costs to accommodation services businesses over 2012-13 are provided in Table 6.2. Key outcomes of the analysis include:

- Under the low range impact estimates, the carbon tax imposes additional costs of $284 per available room (PAR) (0.5% of total costs);
- Under the high range impact estimates the carbon tax imposes additional costs of $506 PAR (0.9% of total costs);
- These costs equate to an additional $57,000-$101,000 per annum for a 200 room operation; and
- Across the Australian industry the carbon tax imposes additional costs of $64.5 million and $114.9 million per annum respectively.

### Table 6.2: Accommodation Services Estimated Carbon Tax Impacts (2012-13)

<table>
<thead>
<tr>
<th>Expense Item</th>
<th>Proportion of Total Expenditure</th>
<th>Average Expenditure Per Room Available (2012)</th>
<th>Low Range Carbon Tax Impact</th>
<th>High Range Carbon Tax Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Labour costs</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wages and salaries</td>
<td>30.5%</td>
<td>$16,905</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Employer contributions to superannuation</td>
<td>2.7%</td>
<td>$1,496</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Salary sacrificed earnings, share based payments and stock options</td>
<td>0.2%</td>
<td>$111</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Workers’ compensation premiums/costs</td>
<td>0.9%</td>
<td>$499</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Fringe benefits tax</td>
<td>0.2%</td>
<td>$111</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Payroll tax</td>
<td>1.2%</td>
<td>$665</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td><strong>Total Labour Costs</strong></td>
<td>35.7%</td>
<td>$19,787</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td><strong>Purchases</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foodstuffs for use in preparing meals</td>
<td>5.5%</td>
<td>$3,048</td>
<td>$12</td>
<td>$38</td>
</tr>
<tr>
<td>Liquor and other beverages</td>
<td>2.5%</td>
<td>$1,386</td>
<td>$6</td>
<td>$7</td>
</tr>
<tr>
<td>Other finished goods for resale</td>
<td>1.4%</td>
<td>$776</td>
<td>$0</td>
<td>$8</td>
</tr>
<tr>
<td>Other non-capitalised purchases</td>
<td>2.7%</td>
<td>$1,496</td>
<td>$0</td>
<td>$15</td>
</tr>
<tr>
<td><strong>Total Purchases Costs</strong></td>
<td>12.1%</td>
<td>$6,706</td>
<td>$18</td>
<td>$68</td>
</tr>
<tr>
<td><strong>Rent, leasing and hiring</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land, buildings and other structures</td>
<td>8.3%</td>
<td>$4,600</td>
<td>$0</td>
<td>$68</td>
</tr>
<tr>
<td>Motor vehicles</td>
<td>0.1%</td>
<td>$55</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Other</td>
<td>1.0%</td>
<td>$554</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td><strong>Total Rent, Leasing and Hiring Costs</strong></td>
<td>9.4%</td>
<td>$5,210</td>
<td>$0</td>
<td>$68</td>
</tr>
<tr>
<td><strong>Misc.</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electricity, gas and water charges</td>
<td>3.7%</td>
<td>$2,051</td>
<td>$186</td>
<td>$246</td>
</tr>
<tr>
<td>Repair and maintenance</td>
<td>3.7%</td>
<td>$2,051</td>
<td>$30</td>
<td>$40</td>
</tr>
<tr>
<td>Advertising, marketing and promotional expenses</td>
<td>2.9%</td>
<td>$1,607</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Management fees/charges paid</td>
<td>2.8%</td>
<td>$1,552</td>
<td>$0</td>
<td>$0</td>
</tr>
</tbody>
</table>
## Expense Item

<table>
<thead>
<tr>
<th>Expense Item</th>
<th>Proportion of Total Expenditure</th>
<th>Average Expenditure Per Room Available (2012)</th>
<th>Low Range Carbon Tax Impact</th>
<th>High Range Carbon Tax Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Laundry and cleaning services</td>
<td>2.5%</td>
<td>$1,386</td>
<td>$40</td>
<td>$66</td>
</tr>
<tr>
<td>Travel agent, frequent flyer and Internet booking commission</td>
<td>1.4%</td>
<td>$776</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Payments to other businesses (e.g. employment agencies) for staff</td>
<td>1.0%</td>
<td>$554</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Other contract, subcontract and commission expenses</td>
<td>2.0%</td>
<td>$1,108</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Insurance premiums</td>
<td>1.1%</td>
<td>$610</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Land tax and land rates</td>
<td>1.7%</td>
<td>$942</td>
<td>$9</td>
<td>$18</td>
</tr>
<tr>
<td>Telecommunication services</td>
<td>1.0%</td>
<td>$554</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Computer software expenses</td>
<td>0.3%</td>
<td>$166</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Interest</td>
<td>4.5%</td>
<td>$2,494</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Bank charges other than interest</td>
<td>0.8%</td>
<td>$443</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>4.3%</td>
<td>$2,383</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Bad and doubtful debts</td>
<td>0.1%</td>
<td>$55</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Other</td>
<td>9.0%</td>
<td>$4,988</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td><strong>Total Misc. Costs</strong></td>
<td><strong>42.8%</strong></td>
<td><strong>$23,722</strong></td>
<td><strong>$266</strong></td>
<td><strong>$370</strong></td>
</tr>
<tr>
<td><strong>Total Costs Per Available Room</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>$55,425</strong></td>
<td><strong>$284</strong></td>
<td><strong>$506</strong></td>
</tr>
<tr>
<td><strong>Carbon Tax % Cost Increase</strong></td>
<td>-</td>
<td>-</td>
<td>0.5%</td>
<td>0.9%</td>
</tr>
<tr>
<td><strong>Total Cost 200 Room Operation</strong></td>
<td>-</td>
<td>-</td>
<td>$56,818</td>
<td><strong>$101,207</strong></td>
</tr>
<tr>
<td><em><em>Total Cost to Industry</em> ($m)</em>*</td>
<td>-</td>
<td>-</td>
<td>$64.5</td>
<td><strong>$114.9</strong></td>
</tr>
</tbody>
</table>

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

Source: AECgroup

### Comments From Industry – Cost Pressures

Consultation with industry highlights that operators are struggling to pass on increased costs to customers at present due to ongoing weak consumer confidence since the Global Financial Crisis.

Some operators are planning to reduce their impacts though new technologies and improved processes. However others indicated that in their cases there were few additional efficiency savings available in their operation. Some operators indicated that they were delaying investment due to the rising costs and uncertain demand conditions.

Typical comments from TAA members are:

- Increased utility costs due to the carbon tax will be over $150,000 in 2013. We are unable to pass these costs on and are forced to absorb them internally.
- We have already invested heavily to increase water efficiency and meet regulations, we do not have the capacity for similar investments in energy efficiency at this time.
- We have chosen not to pass on the increased costs of around $15 per room due to the competitive environment.
- The market won’t tolerate price increases at the moment.
- We have undertaken an external energy audit, which has shown the potential for significant savings if we implement the appropriate procedures and infrastructure.
- Our energy costs are determined largely by the outside temperature and there is very little extra we can do to increase efficiency.
- We are always looking at investments to save costs.
- We are looking at new chiller and laundry facilities that will reduce our consumption considerably, however these items were due for replacement anyway.
- Many of our properties are leased therefore we have very limited scope to improve efficiency through upgrading infrastructure.
- Employment is the obvious area to try to offset cost rises if other options don't stack up.
- We are holding off on a refurbishment that would have occurred this year, increased costs from the carbon tax has been a part of that along with broader uncertainty.
7. **Future Impacts of the Carbon Tax**

The ongoing impacts of the carbon tax on the accommodation industry have been estimated to 2050 based on Commonwealth Treasury’s forecast carbon prices and the cost impact structure developed in Section 6. A key feature of the carbon tax is that carbon prices, and the subsequent impact of carbon on supplier prices, is expected to continue to grow into the long term.

### 7.1 Assumptions

Key assumptions underpinning the forecasts are:

- Impacts flowing through to the accommodation industry due to increases in the carbon price remain proportional to 2012-13 impacts;
- Commonwealth Treasury (2011) carbon price projections;
- Constant industry size has been used, representing the impact of increased prices on current operators. That is, the projection only accounts for the impact on the current industry size, not the growth in the industry that will likely occur in the future;
- Additional impacts are incorporated from 2015 as the carbon tax is extended to heavy vehicle use as summarised in Table 7.1; and
- Average general inflation of 2.5% per annum.

It is important to note that the projections do not incorporate industry and economy responses to reducing carbon emissions (thereby reducing cost impacts of the tax). Such changes will occur, but will be driven by a range of factors such as technological advances, industry investment potential, consumer behaviour and general economic conditions that are highly uncertain looking forward. In the immediate term, major structural changes to carbon emission patterns in the Australian economy appear unlikely, and hence the bulk of the costs appear unlikely to be mitigated.

| Table 7.1: Likely Impacts Inclusive of Heavy Vehicle On-Road Business Use from 2014-15 |
|--------------------------------|-----------------|-----------------|
| **Low Series** | **High Series** |
| Foodstuffs for use in preparing meals | 1.0% | 5.0% |
| Liquor and other beverages | 1.0% | 5.0% |
| Other finished goods for resale | 1.0% | 5.0% |
| Other non-capitalised purchases | 1.0% | 5.0% |
| Other contract, subcontract and commission expenses | 0.0% | 1.0% |

Source: AEC Group

### 7.2 Forecast Impacts

Results of the projections are reported in Figure 7.1 and Table 7.2. The projected industry impacts escalate exponentially over the next 37 years due to the real increases in the carbon price and additional impacts driven by the extension of the carbon tax to heavy vehicle business use. Key points from the projections include:

- Carbon tax impacts to increase to $474 - $757 PAR by 2017-18 or 0.8% to 1.2% of costs, adding $95,000 - $151,000 per year to a 200 room establishment;
- Carbon tax impacts to increase to $3,465 - $4,714 PAR by 2050 or 2.5% to 3.4% of costs, adding $693,000 - $943,000 per year to a 200 room establishment; and
- Total industry impacts are projected to increase to $107.5 - $171.8 million in 2017-18 and $786.7 million - $1.1 billion in 2049-5050.
Figure 7.1: Projected Carbon Tax Cost to the Australian Accommodation Industry

As mentioned in the introduction to this section, the actual impact of the tax in the long term won’t be entirely linear as forecast here. There are a broad range of factors that will influence the future impact of the carbon tax on individual operators and the accommodation industry, many of which are subject to considerable uncertainty, including:

- Ability of industry to reduce power consumption over time;
- Future Australian and global carbon prices;
- Ability of utility providers to switch to lower emission sources;
- Future reductions in government shielding;
- Ability of suppliers to pass on increased costs to accommodation operators; and
- Ability of operators to pass on costs to customers.

While factors such as improved energy efficiency and cleaner energy sources have the potential to lessen the impact, factors such as reduced government assistance will act to increase the burden on the economy and accommodation industry.
### Table 7.2: Accommodation Industry Cost Projections (2012-2050)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Carbon Price</strong></td>
<td>Real ($2009-10)</td>
<td>$21.00</td>
<td>$26.80</td>
<td>$35.00</td>
<td>$46.90</td>
<td>$62.40</td>
<td>$81.90</td>
<td>$99.80</td>
<td>$121.30</td>
<td>$131.00</td>
</tr>
<tr>
<td></td>
<td>Nominal</td>
<td>$23.00</td>
<td>$32.65</td>
<td>$48.25</td>
<td>$73.15</td>
<td>$110.11</td>
<td>$163.51</td>
<td>$225.43</td>
<td>$310.00</td>
<td>$351.74</td>
</tr>
<tr>
<td><strong>Costs With Carbon Tax PAR</strong></td>
<td><strong>Low Series</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total Labour Costs</td>
<td>$19,787</td>
<td>$22,387</td>
<td>$25,329</td>
<td>$28,657</td>
<td>$32,423</td>
<td>$36,683</td>
<td>$41,504</td>
<td>$46,958</td>
<td>$49,335</td>
</tr>
<tr>
<td></td>
<td>Total Purchases</td>
<td>$6,706</td>
<td>$7,614</td>
<td>$8,650</td>
<td>$9,829</td>
<td>$11,168</td>
<td>$12,688</td>
<td>$14,403</td>
<td>$16,349</td>
<td>$17,199</td>
</tr>
<tr>
<td></td>
<td>Total Rent Leasing and Hiring Costs</td>
<td>$5,210</td>
<td>$5,895</td>
<td>$6,669</td>
<td>$7,546</td>
<td>$8,537</td>
<td>$9,659</td>
<td>$10,928</td>
<td>$12,364</td>
<td>$12,990</td>
</tr>
<tr>
<td>Electric &amp; water charges</td>
<td>$2,051</td>
<td>$2,411</td>
<td>$2,840</td>
<td>$3,355</td>
<td>$4,691</td>
<td>$3,585</td>
<td>$3,704</td>
<td>$3,830</td>
<td>$3,960</td>
<td></td>
</tr>
<tr>
<td>Repair and maintenance</td>
<td>$2,051</td>
<td>$1,070</td>
<td>$1,216</td>
<td>$1,381</td>
<td>$1,417</td>
<td>$1,454</td>
<td>$1,491</td>
<td>$1,530</td>
<td>$1,970</td>
<td></td>
</tr>
<tr>
<td>Laundry &amp; cleaning services</td>
<td>$1,386</td>
<td>$1,586</td>
<td>$1,816</td>
<td>$2,082</td>
<td>$2,198</td>
<td>$2,259</td>
<td>$2,321</td>
<td>$2,386</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land tax and land rates</td>
<td>$942</td>
<td>$1,070</td>
<td>$1,216</td>
<td>$1,381</td>
<td>$1,417</td>
<td>$1,454</td>
<td>$1,491</td>
<td>$1,530</td>
<td>$1,570</td>
<td></td>
</tr>
<tr>
<td>Other Costs</td>
<td>$17,293</td>
<td>$20,828</td>
<td>$23,577</td>
<td>$26,688</td>
<td>$31,253</td>
<td>$36,473</td>
<td>$42,391</td>
<td>$49,145</td>
<td>$51,941</td>
<td></td>
</tr>
<tr>
<td><strong>Total Costs</strong></td>
<td></td>
<td>$55,425</td>
<td>$62,861</td>
<td>$71,312</td>
<td>$80,919</td>
<td>$91,824</td>
<td>$104,195</td>
<td>$118,172</td>
<td>$134,027</td>
<td>$140,951</td>
</tr>
</tbody>
</table>

**Costs Without Carbon Tax PAR** | **Low Series** |         |         |         |         |         |         |         |         |         |

**Costs With Carbon Tax PAR** | **High Series** |         |         |         |         |         |         |         |         |         |

**Total Labour Costs**       | $19,787       | $22,387 | $25,329 | $28,657 | $32,423 | $36,683 | $41,504 | $46,958 | $49,335 |
**Total Purchases**          | $6,706        | $7,614  | $8,650  | $9,829  | $11,168 | $12,688 | $14,403 | $16,349 | $17,199 |
**Total Rent Leasing and Hiring Costs** | $5,210 | $5,895  | $6,669  | $7,546  | $8,537  | $9,659  | $10,928 | $12,364 | $12,990 |
**Electric & water charges** | $2,051        | $2,411  | $2,840  | $3,355  | $4,691  | $3,585  | $3,704  | $3,830  | $3,960  |
**Repair and maintenance**  | $2,051        | $1,070  | $1,216  | $1,381  | $1,417  | $1,454  | $1,491  | $1,530  | $1,970  |
**Laundry & cleaning services** | $1,386 | $1,586  | $1,816  | $2,082  | $2,198  | $2,259  | $2,321  | $2,386  |         |
**Land tax and land rates** | $942          | $1,070  | $1,216  | $1,381  | $1,417  | $1,454  | $1,491  | $1,530  | $1,570  |
**Other Costs**              | $17,293       | $20,828 | $23,577 | $26,688 | $31,253 | $36,473 | $42,391 | $49,145 | $51,941 |
**Total Costs**              | $55,141       | $62,861 | $71,312 | $80,919 | $91,824 | $104,195| $118,172| $134,027| $140,951|
## Carbon Tax Impacts on the Australian Accommodation Industry

### Final Report

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Costs</strong></td>
<td></td>
<td>$55,425</td>
<td>$62,892</td>
<td>$71,387</td>
<td>$81,059</td>
<td>$92,049</td>
<td>$104,530</td>
<td>$118,633</td>
<td>$134,648</td>
<td>$141,646</td>
</tr>
<tr>
<td><strong>Costs Without Carbon Tax PAR (High Series)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Labour Costs</td>
<td></td>
<td>$19,787</td>
<td>$22,387</td>
<td>$25,329</td>
<td>$28,657</td>
<td>$32,423</td>
<td>$36,683</td>
<td>$41,504</td>
<td>$46,958</td>
<td>$49,335</td>
</tr>
<tr>
<td>Total Purchases Costs</td>
<td></td>
<td>$6,639</td>
<td>$7,511</td>
<td>$8,498</td>
<td>$9,615</td>
<td>$10,878</td>
<td>$12,307</td>
<td>$13,925</td>
<td>$15,755</td>
<td>$16,552</td>
</tr>
<tr>
<td>Total Rent, Leasing and Hiring Costs</td>
<td></td>
<td>$5,142</td>
<td>$5,818</td>
<td>$6,582</td>
<td>$7,447</td>
<td>$8,426</td>
<td>$9,533</td>
<td>$10,786</td>
<td>$12,203</td>
<td>$12,821</td>
</tr>
<tr>
<td>Electricity, gas and water charges</td>
<td></td>
<td>$1,805</td>
<td>$2,042</td>
<td>$2,311</td>
<td>$2,614</td>
<td>$2,958</td>
<td>$3,347</td>
<td>$3,787</td>
<td>$4,284</td>
<td>$4,501</td>
</tr>
<tr>
<td>Repair and maintenance</td>
<td></td>
<td>$2,011</td>
<td>$2,275</td>
<td>$2,574</td>
<td>$2,912</td>
<td>$3,294</td>
<td>$3,727</td>
<td>$4,217</td>
<td>$4,771</td>
<td>$5,013</td>
</tr>
<tr>
<td>Laundry and cleaning services</td>
<td></td>
<td>$1,320</td>
<td>$1,493</td>
<td>$1,689</td>
<td>$1,911</td>
<td>$2,162</td>
<td>$2,447</td>
<td>$2,768</td>
<td>$3,132</td>
<td>$3,290</td>
</tr>
<tr>
<td>Land tax and land rates</td>
<td></td>
<td>$924</td>
<td>$1,045</td>
<td>$1,182</td>
<td>$1,338</td>
<td>$1,514</td>
<td>$1,713</td>
<td>$1,938</td>
<td>$2,192</td>
<td>$2,303</td>
</tr>
<tr>
<td>Other Costs</td>
<td></td>
<td>$17,293</td>
<td>$19,565</td>
<td>$22,136</td>
<td>$25,045</td>
<td>$28,336</td>
<td>$32,059</td>
<td>$36,272</td>
<td>$41,039</td>
<td>$43,116</td>
</tr>
<tr>
<td><strong>Total Costs</strong></td>
<td></td>
<td>$54,919</td>
<td>$62,136</td>
<td>$70,301</td>
<td>$79,539</td>
<td>$89,991</td>
<td>$101,817</td>
<td>$115,196</td>
<td>$130,334</td>
<td>$136,932</td>
</tr>
<tr>
<td><strong>Costs to Industry (Par)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low Series</td>
<td></td>
<td>$284</td>
<td>$474</td>
<td>$727</td>
<td>$1,059</td>
<td>$1,469</td>
<td>$1,967</td>
<td>$2,510</td>
<td>$3,167</td>
<td>$3,465</td>
</tr>
<tr>
<td>High Series</td>
<td></td>
<td>$506</td>
<td>$757</td>
<td>$1,086</td>
<td>$1,520</td>
<td>$2,058</td>
<td>$2,714</td>
<td>$3,437</td>
<td>$4,314</td>
<td>$4,714</td>
</tr>
<tr>
<td><strong>200 Room Operation (Par)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low Series</td>
<td></td>
<td>$56,818</td>
<td>$94,748</td>
<td>$145,328</td>
<td>$211,804</td>
<td>$293,824</td>
<td>$393,318</td>
<td>$501,982</td>
<td>$633,348</td>
<td>$693,085</td>
</tr>
<tr>
<td>High Series</td>
<td></td>
<td>$101,207</td>
<td>$151,316</td>
<td>$217,280</td>
<td>$303,985</td>
<td>$411,520</td>
<td>$542,749</td>
<td>$687,318</td>
<td>$862,779</td>
<td>$942,801</td>
</tr>
<tr>
<td><strong>Costs to Industry (Par)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low Series ($m)</td>
<td></td>
<td>$64.5</td>
<td>$107.5</td>
<td>$165.0</td>
<td>$240.4</td>
<td>$333.5</td>
<td>$446.4</td>
<td>$569.8</td>
<td>$718.9</td>
<td>$786.7</td>
</tr>
<tr>
<td>High Series ($m)</td>
<td></td>
<td>$114.9</td>
<td>$171.8</td>
<td>$246.6</td>
<td>$345.0</td>
<td>$467.1</td>
<td>$616.1</td>
<td>$780.2</td>
<td>$979.3</td>
<td>$1,070.1</td>
</tr>
</tbody>
</table>

Source: AECgroup
8. Summary of Findings

Systematic analysis of the Australian Government’s carbon tax and the structure and competitive position of the accommodation industry since July 2012 has identified several key factors impacting on the current and future competitiveness of the industry. Of key note:

- There is significant uncertainty surrounding all aspects of Australia’s carbon tax, including:
  - Future price levels and the scheduled move to an ETS from 2015-16;
  - Pass through levels of government shielding;
  - The scheduled withdrawal of industry assistance packages;
  - The capacity of both industry and electricity/energy producers to reduce emissions over time and lessen the impact of the tax;

- The current cost of $23 per tonne CO$_2$-e is well in excess of any national or global benchmarks. These additional costs are adversely impacting the competitiveness of import competing industries including accommodation services;

- The accommodation industry is under significant competitive pressure from a range of areas 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;
  - Weak domestic and international macroeconomic conditions which have reduced demand for both tourist and business accommodation;

- While some operators are able to lessen the cost impacts through implementing improved technologies and processes, other operators lack the financial capacity following several difficult years in the industry to make the necessary adjustments;

- The impact of the carbon tax on accommodation businesses is significant and has been overlooked by government assistance programs. Analysis of 2012-13 impacts indicates:
  - Benchmark cost increases of $284 - $506 PAR, adding $57,000 - $101,000 per annum to the cost of running a benchmark 200 room establishment. The increased costs have been driven predominately through higher utility prices;
  - Total costs to industry of between $64.5 million - $114.9 million per annum;
  - Consultation with industry indicates an inability to pass through increased costs due to competitive pressures;

- The impact on company margins appears to be flowing through to capital expenditure, with indications of delayed investment for some businesses;

- Under current projections, the impact of the carbon tax on industry is set to increase significantly as carbon prices rise. Furthermore, the impact is set to spread to a broader range of inputs as the tax is extended to heavy vehicle on-road use. AECgroup projections of the future carbon price impact on the Australian accommodation industry suggest:
  - Carbon tax impacts to increase to $474 - $757 PAR by 2017-18, adding $95,000 - $151,000 per year to a 200 room establishment;
  - Carbon tax impacts to increase to $3,465 - $4,714 PAR by 2050, adding $693,000 - $943,000 per year to the cost of running a 200 room establishment; and
  - Total industry impacts are projected to increase to $107.5 - $171.8 million in 2017-18 and $786.7 million - $1.1 billion in 2049-2050.
References


Economics, Planning & Development
Business Strategy & Finance
Community Research & Strategy
Design, Marketing & Advertising
Information & Knowledge Management