Fiji Hotel and Tourism Association

Hon. Aiyaz Sayed Khaiyum
Minister for Economy, Public Enterprises,
Civil Service & Communications
Suvavou House, Victoria Parade,
Suva

Date 12 May 2017

Honourable Minister

RE: BUDGET CONSULTATIONS 2017 -2018
FIJI HOTEL AND TOURISM ASSOCIATION SUBMISSION

Thank you for the opportunity to present the Fiji Hotel & Tourism Association (FHTA) submission for the 2017/2018 National Budget on behalf of our tourism industry members. The Government's wide consultation efforts to meet its objective of driving broad-based and inclusive social and economic growth is both welcomed and supported.

The Association represents approximately 260 members that make up over 80% of the tourism industry and is inclusive of owners/operators, suppliers and service providers from the accommodation, transport, marine, IT, restaurant, communications, activities and trade segments around the country. Government's recognition of FHTA's pivotal role is very much appreciated and it is therefore with great optimism that we put forward our submission for the 2017/2018 budget planning process in the hope that we can assist to effect the best possible solutions through collaboration, cooperation and consensus.

The Honourable Prime Minister, when opening the Fiji Tourism Excellence Awards on Sat 18th Feb 2017 noted that the ambitious goal of the "Fijian Tourism 2021" plan being developed was ***"To make Fijian tourism an industry worth 2.2 billion Fijian dollars by the end of 2021"*** and that the Tourism Development Plan would tie in with the National Development Plan that was also being finalised this year.

The key features of the plan: *"To build an industry that is resilient, productive and focuses on quality; to refine and develop our existing markets and take the Fijian brand to markets we haven't yet tapped; to not only encourage more visitors to Fiji but encourage those visitors to spend more and improve our yields; to improve our training and address our skills shortages; to support existing businesses and encourage new ones, especially micro, small and medium operators; to improve co-ordination between the industry and government; to build our resilience to climate change and global economic shocks; and most important of all, to develop everything we do in a sustainable and inclusive manner".*

The Association wholeheartedly supports the Prime Minister's sentiments in addressing these key areas. Our proposals today are predicated on ensuring the long term sustainability of the tourism industry to enable continued investments and job creation.

1.0 Visitor Arrivals and Tourism Earnings – Fijian Tourism 2021

1.1 We applaud the government's commitment to increase the tourism industry to a $2.2 billion industry by the end of 2021 through the Fijian Tourism 2021 development plan. FHTA, and indeed we believe the entire industry, is widely supportive of the initiatives in the plan and intends to work with government and all stakeholders to achieve its aims.

1.2 According to FBOS, provisional earnings for tourism for 2016 were indeed a record at just over $1.6 billion. In order to reach $2.2 billion in revenue in five years the annual growth rate needs to be approximately 6.5%.

1.3 However, after increases in total earnings from tourism of 6.6% from the 2013 to 2014 and 11.1% from the 2014 to 2015 calendar years, the increase from 2015 to 2016 was a much less buoyant 2.7%. This rate of growth is simply not enough to reach the target.

1.4 We note that the visitor arrivals figures for 2016 reached an all-time high of 792,320 as per the provisional figures released by FBOS. This represents an apparently healthy increase of nearly 5% on the arrivals in 2015 of 754,835. However, if we drill down to the figures a bit more and compare the increase of arrivals for holiday purpose, we see that the increase is from 594,749 to 600,887 – a more moderate 1% increase.

Approximately 57% of the increase in arrivals came for the purpose of visiting friends and relatives (VFR) and 21% of the increase was for business purposes. Only 16% of the increase was for tourism purposes. No doubt VFR and businesspeople do use tourism-related facilities but certainly not at the rate of "genuine" tourists.

1.5 While there are no doubt several factors contributing to the marginal increase in tourist arrivals, we believe that a large element of the decline in percentage increase is due to the impact of the 25% total tax on turnover (9% VAT, 10% STT, 6% EL) versus the previous 20% total tax on turnover (15% VAT, 5% STT).

1.6 We certainly do not discount the effect of severe tropical Cyclone Winston on our visitor arrivals; however, we believe that the effects of the increased taxes **are more relevant**.

1.7 We strongly believe that all players in the tourism industry should pay the taxes they are legally obliged to pay – a fact that is clearly enshrined in article two of our Code of Ethics.

1.8 We believe that the impact of the increased taxes is felt strongest in:

a) Off-season and shoulder season where tourists are looking for discounts and deals

b) Food and Beverage and "extras" (activities, spa, massage, etc) spend
c) Micro, small and medium enterprises

We urge the government to look for ways to reduce the impact of this additional tax burden on the entire industry – but especially these three areas.

2.0 Destination Affordability – the need for a lower level of STT

The industry strongly believes that the increased level of taxation in Fiji is critically eroding competitive advantage and will continue to affect tourism demand. The Association is of the view that unless a holistic decision is made to reduce overall tourism taxes then visitor arrivals and yield will eventually reduce to unviable levels with the loss of visitors to alternative destinations.

2.1 The Service Turnover Tax (STT) has had a wider impact and is imposed on many restaurants, bars, cinemas, social clubs and tourism activities. At the same time, the threshold for certain STT operations have been reduced or even removed and this is affecting the micro, small, and medium- operators who may not have the ability to pass on or absorb the additional costs. Reducing STT will lower prices and potentially generate additional sales on the international and local markets which would increase overall Tax income and help improve our competitive advantage.

2.2 In a survey of the top eight destinations in the Asia / Pacific region for Australians seeking a family package holiday, Fiji emerged as the most expensive. The overwhelming view from our partners is that Fiji has become too expensive and does not represent the value for money we used to be famous for. We are starting to price ourselves out of the market as the total amount of 25% tax payable by tourists is affecting our competitiveness.

2.3 Commissions and travel agent mark-ups account for 25-30% of the selling price of packaged accommodation and locally sold tours/activities in most cases. In many cases, resorts which are built on native land have to pay roughly 4% of turnover to TLTB for ground rental. Out of each $100 paid by a tourist, the tourism operator may only retain roughly 41-46% as the actual VEP revenue – out of which cost of goods sold, wages, electricity, depreciation, insurance, interest, etc has to be paid. The impact on cash flow is especially dire.

2.4 Lower levels of STT would help reduce the current situation by reducing the impact of the competitive disadvantage incurred when revenue levels are driven above the STT revenue threshold. Normally taxation of this magnitude would have a tax-free threshold to avoid this situation, but as a consumer based tax here in Fiji, the tax is retrospective across all revenue once the threshold is reached. This means that competing businesses that are neighbours can have different tax rates, making competition almost impossible for the business over the revenue threshold.

2.5 A threshold based tax with a tiered tax rate as revenue increases would be a more equitable tax scheme; however, the association understands the impracticality of such implementing such a strategy as operators would not be able to charge varying prices as the move through the tiers. Some way to limit the impact on operators on the "up to break even" revenue would be appreciated.

2.6 Unless the current industry growth momentum is maintained, the Industry will not be able to reach the $2.2 billion revenue mark by the end of 2021. The Association is of the view that Government can reduce its STT percentage charged on the Tourism Industry but increase the nett yield to national coffers by widening the net of payers. A lower tax rate should mean more visitors – and greater per capita spend - so that the total Tourism tax revenue would not reduce in the longer term.

2.7 We request an exemption for STT and EL from retail outlets operated by hotel owners and operators.

2.8 The current legislation as interpreted by FRCA is forcing hotel owners/operators to lease out their retail operations to retail operators in order to maintain any competitive advantage. While a retail store leased to and operated by a retail organization will only be required to levy taxes at 9% (VAT) the hotel owners are required to levy 25% tax in their retail stores. This means that there can be two stores in the same hotel lobby charging different rates of tax; hence the same item can be priced differently in the two stores just meters apart.

3.0 Environment Levy (EL)

The Association recommends that a reduction of the EL be considered urgently. With the recommended reduction of the levy, the Association firmly believes that the widening of the scope of the levy to include all other industries that impact the environment in some form or fashion would be a more equitable execution than the current application of the levy almost solely on the tourism industry.

Further - serious practitioners of environmental sustainability programs should be offered tax incentives or grants to encourage long term viability especially where both customers and local communities are proactively involved in protecting the environment.
This will position Fiji firmly in the category of a nation actively practicing environmental programs on a holistic level that involves businesses, communities and visitors to the country.

3.1 The vulnerability of Pacific Island countries to climate change was recently seen firsthand in Fiji with the effects of TC Winston. The Government's leadership role in pushing this initiative through international forums and the added passionate advocacy from the Prime Minister – especially with his recent appointment as president of COP23 is applauded. We understand that combating climate change and protecting the environment is an expensive exercise. We understand therefore, the rationale for raising funds through mechanisms such as an Environment Levy (EL) for such worthy activities.

3.2 However, we fail to see the reasoning behind the EL almost exclusively being charged to the Tourism Industry. At 6% of all turnovers from the industry, this levy penalizes only one segment which is the very industry that leads the way in understanding and supporting measures for ensuring the environment is adequately protected to ensure its long term sustainability and viability. In fact, an obligation to ensure developments consider environmental sustainability is included in our FHTA Code of Ethics.

3.3 We further submit that not all organisations have been able to pass the added costs on to their customers – especially the micro, small, and medium operators who do not have the market cachet or presence of some of the larger operators and for whom the taxes are especially onerous. Even the larger operators are struggling to maintain a value-for-money offering. Fiji is fast becoming known (especially in our core source markets of Australia & New Zealand) as an "expensive destination".

3.4 Tourism businesses have a vested and active interest in keeping their areas clean and pristine. Fishing, kayaking, paddle boarding, diving, snorkeling, swimming, boating, or walking or simply relaxing on the beach are all activities where pollution can quickly derail a positive experience. In contrast, tourist areas that are kept clean and pristine are likely to be a more valued experiences but are also places tourists will more likely want to return. Tourism needs not only protection but where possible enhancement of the surrounding ecosystems to ensure the continued quality of the tourism experience as it is directly reliant on the environment for its business. As a result, tourism has a vested interest in conservation, biodiversity and sustainable fisheries programs that likely surpasses those of other industries.

3.5 Ideally the EL should be substantially reduced in terms of the percentage of turnover but be a broader based levy paid by every business operator or manufacturer who uses carbon based fuels, possibly with an exception for basic needs providers such as supermarkets or VAT-exempt entities. Broadening the base and reducing the actual percentage of the tax should allow government to raise as much money for the environmental protection and other activities without being an onerous burden on the tourism industry and our international guests. As such this tax should be applicable to land based transport, shipping, airlines, utilities and manufacturers.

The funds raised via this levy should then be allocated to specific projects such as keeping Fiji clean, environmental protection programs and "recycle/reuse/reduce" initiatives while addressing the effects of climate change. Many such projects would attract appropriate mirror funding or grants from the sustainable practice advocacy agencies like the Global Sustainable Tourism Council, UN Environment Programs and others supportive of sustainable tourism and/or environmental protection programs.

3.6 The majority of tourism operators are already contributing to environmentally friendly programs as part of their corporate and social responsibility programs. Some examples include the "No Plastic Campaign" in the Mamanucas, hotels & resorts using solar power and many recycling or reef protection models in use. Additionally, Marine members also pay a "Pollution Levy" as part of their fees to MSAF, so in reality pay two fees for the same environmental protection reasoning.

3.7 The Association recommends that options for consideration include reduction of the EL, widening the scope of the levy in terms of including other industries that should contribute as well and offering tax incentives for serious practitioners of environmental sustainability. With 2017 themed *The Year for Sustainable Tourism*, this would be an ideal time to be rewarding any sustainable tourism practitioners and encourage many more to do so.

3.8 The Association believes that in the long term a consumption tax might be more effective in reducing carbon emission as used in other countries. A tax on revenue does not actually penalize businesses for the effects on the environment or encourage best practices; sadly, it may actively encourage lower sales for small businesses to avoid being caught in the STT/EL net.

4.0 Hotel Incentives

We propose reintroduction of the Standard Investment Allowances for renovation and extension of existing hotels and recommend the 55% investment allowance be returned for any renovation and extension of existing hotel projects going forward.

4.1 Effective from 2017 no Investment Allowance incentives for existing hotels was provided, while the 55% Investment Allowance was reduced to 25% for projects in existing hotels approved in 2016 which was required to start in 2016 and be completed within 2 years.

4.2 Fiji competes for the same markets with other popular holiday destinations in Australia New Zealand, Indonesia, Thailand, Vietnam Hawaii, Tahiti, New Caledonia and the smaller Pacific islands (Cook Islands, Samoa, Tonga, Vanuatu, etc). The discerning and often sophisticated tastes of the target markets in China, Europe, US and neighboring Australia and New Zealand demand that the Fiji products maintain their competitive edge. To compete with these other destinations, hotel owners must continually update and upgrade their facilities to provide product differentiation, respond to customer demand for improved value and ensure continued infrastructure integrity as part of climate conditioning requirements (effects of tropical temperatures, proximity & exposure to the sea and cyclones).

Hotels that were self-insured or underinsured or with substantial deductibles would not have been able to make insurance claims after cyclone Winston. Their cost for rectification of minor damage would still have been substantial.

4.3 By providing existing hotel operators flexible options for renovation incentives – Fiji provides a more enabling environment to remain competitive with refreshed products and more consistent service delivery improvements. This incentive, if reinstated, would encourage the reinvestment of profits back into the improvement of the hotels and, as such, again drive tax income to government over the longer term.

4.4 FHTA welcomes new entrants to the market and supports a competitive environment. However, we maintain that the existing product has to be given the chance to continually improve so that a level playing field exists. Incentives to reinvest profits should be reintroduced. (tax on non-reinvested profits is not an effective incentive)

4.5 We believe that a reintroduction of Standard Investment Allowance of 55% accelerated depreciation with the 10% duty concession at the pre-2016 levels is the most appropriate course of action which will allow our existing products the chance to improve their facilities and remain competitive. Properties that are not able to reinvest economically will have to discount or reduce rates as they age, thereby limiting the tax revenue from this sector. Most worrying is that ultimately properties will have to reduce employment levels as a result of reduced revenue.

4.6 A reminder that accelerated depreciation will only benefit corporate tax paying properties and as such the benefit of re-introducing this important incentive will only advantage properties older than 10 years in age or after their SLIP benefit benefits have been exhausted.

5.0 Other Issues

We strongly recommend that the annual budget provided to MSAF be increased dramatically to improve the resources available to them so that the regulatory inspection services and certification processes can take place within best practice timeframes.

5.1 There is currently great difficulty being experienced across the industry in obtaining timely certification for vessels and crew in order to operate within marine regulatory requirements resulting in operators running, through commercial necessity, without the correct certification despite going through the correct procedures to pass inspections and obtain said certificates. This is a critical risk to the industry as the vessels' insurance would be invalid should an accident occur. MSAF the certification authority is drastically under staffed and operates with very limited resources resulting in extremely poor response times and late or non-issuance of the required certificates within specific timeframes.

5.2 We request that the annual budget given to MSAF is increased dramatically to improve the resources available to them that would allow them to increase staffing and surveyors as well as enable the implementation of temporary certificate issuance at all ports to address the current complications and inefficiencies in services provided to the marine industry.

5.3 We urge government to reconsider the overall economics of a proposed fly-in/fly-out cruise ship terminal as this will utilise limited aircraft seat availability for cruise ship passengers and reduce the number of seats available for hotel and accommodation providers. The fly-in/fly-out cruise operators are unlikely to be registered for VAT/STT/EL or any Fiji taxes aside from employment. This will undermine the tourism sector.

We recommend a review of import duties that are in place as a protection measure for local industries. Many of these industries are still very small and cannot cater to the much larger demand for locally supplied products or the quality that our guests expect and as such must therefore be imported at very inflated rates.

5.4 Through increased import tax and excise duties there has been a steady increase in rates for products that are widely used by the industry. Products such as beer, wine and spirits are standard products used in hospitality and enhance the visitor experience. Our food and beverage prices are considered very expensive in comparison to our market competitors and our guest comments on social media platforms as well as the slow decline of food and beverage spend and even forward bookings reflect this. Government takes at multiple levels on our food and beverage, firstly on import duty, later on consumption taxes, and finally on profit taxes. Reducing import tax and excise duties will assist in reducing price points which would generate more sales and resultant taxes.

5.5 Incentives for increasing local food production would seem to be far better than protection based tariffs and the consequential increase in local supplies would offset the need to import these products when supplies meet demand better.

Departure Tax should be reviewed and lowered

5.6 We request again that Government review the departure tax level as it is one of the highest in the world at present. We recommend that this could be reviewed downwards perhaps if not totally, then to coincide with Fiji's low season to incentivize more travelers to Fiji in the off-peak and shoulder seasons.

Refer Appendix 1 Departure Tax comparisons.

5.7 While the exemption of departure tax applicability has been amended to include passengers transiting for up to 72 hours in efforts to strengthen Fiji's position as a transit hub, a reduced departure tax would more effectively contribute to visitor perceptions of travel costs to Fiji and be a far more creative way to bring more visitors to Fiji.

We recommend that increased air capacity into Fiji is considered to promote the larger national interest by improving international trade, foreign investments and wider reaching tourism growth. We recognize that a synchronisation of all facets and sectors involved with the tourism industry is required to ensure that the maximum economic benefit is achieved for the country and the tourism industry.

5.8 FHTA appreciates the government's recent renegotiation of the Air Services Agreement with Australia to add 500 seats per week for each nation's carriers into Fiji. We encourage government to continue to review these levels to ensure that adequate airlift into Fiji is available at affordable rates.

5.9 We note that there remains anecdotal evidence that there is significant transit passenger traffic, especially on SYD-NAN-LAX and AKL-NAN-LAX and we remind government that substantially more tax revenue is available for passengers who remain in Fiji rather than transit through. We appreciate the 72 hour departure tax stop-over waiver; however, we encourage government to do more to ensure that a greater percentage of passengers on Fiji Airways spend more time in Fiji.

5.10 As with other countries, we should be looking at finalizing an air service agreement with China to increase Chinese visitor arrivals, while taking into consideration the interests of our national carrier. As an example, the successful codeshare arrangement on the Nadi-Los Angeles route can be used as a model. Chinese visitors are now highly sought after by many tourism destinations because of their high spend per day and utilization of high end tourism accommodation and services products

Alignment/Harmonisation of STT and EL with VAT Act

5.11 In addition to the points we make about the reduction of STT and EL we make the observation that the VAT act requires all prices in Fiji to be displayed as VIP. However the STT and EL acts have no such requirements. Therefore, for an item that costs \$10.00 VEP the legislation would require the item to be listed at \$10.90 VIP. However, the actual selling price is \$12.50. The STT and EL acts should be harmonized to ensure that all taxes should be included in all pricing displayed in Fiji. The only exception should be for overseas marketing.

Proposed Tourism Fiji budget allocation increase

5.12 Tourism Fiji is a vital driving force of our national marketing efforts. As such the Association has always advocated for an increased allocation for this organisation and once again proposes that funding is increased to Tourism Fiji.
The new long haul destinations of India via Singapore, San Francisco and potentially Shanghai /Guangzhou or Beijing require reinforcing of assets on the

ground. As well, there is an urgent need to review and significantly improve our marketing efforts in our three main source markets to recapture reducing visitor numbers from Australia and build more capacity out of New Zealand and USA.

6.0 Conclusion

6.1 The tourism industry faces many challenges each year to maintain viability, stay abreast of best industry practices, keep their product fresh and interesting and still remain competitive. To continue to do so, tourism operators cannot absorb (or pass on to their customers) any further tax increases and we hope with sincerity that some of the requests above can be delivered with this year's budget to reduce the current tax burden The small, micro, and medium businesses are especially hard-hit by the current tax structure whereby 25% of all turnover is deducted as tax. Most of these organisations would be locally owned and would not have any profit tax holiday – if they are even making a profit.

6.2 <u>Longer term view – 3-5 year horizon</u>

While not something that can be done within the next budget year, the association believes that some consideration should be given to the possibility of changing the Fijian currency from "the dollar". We feel that one possible reason that Fiji is perceived to be an expensive destination – especially by visitors from other countries that use the dollar as their currency (i.e. USA, Canada, Australia, New Zealand, and Singapore but not Hong Kong because it is not as valuable as Fiji Dollars) – is that there is a strong inclination to perceive the cost of items in their own currency. Competing destinations use currencies like *baht* (Thailand), *dong* (Vietnam), *rupiah* (Indonesia/Bali), *and rufiyaah* (Maldives) that are far less valuable than the exchanging currency. A 10-1 (or 100-1) devalued Fiji Dollar called the *'dola'* or any other name would end up with the price being expressed in significantly higher numbers but the process of calculating foreign exchange would be much more complex.

We do not believe that the issue is totally one of perception as the taxes are the primary issue; however, a non-dollar-based currency could insulate our economy from the perception issues in the future – especially, for in-country purchases.

The Association would be happy to discuss or clarify an issue or queries that may arise.

Sincerely

Fantasha Lockington
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