



QUEENSLAND
TOURISM INDUSTRY
COUNCIL

The Voice of Tourism

**Submission to
the Treasury
on Crowd
Sourced
Equity Funding**

Queensland Tourism Industry Council

Po Box 13162
George Street QLD 4003
P (07) 3236 1445
F (07) 3236 4552
E policy@qtic.com.au
www.qtic.com.au

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Introduction

The Queensland Tourism Industry Council (QTIC) welcomes the opportunity to provide feedback to the Treasury on the report into Crowd Sourced Equity Funding (CSEF).

This submission aims to provide the Committee with tourism industry intelligence on Crowd Sourced Equity Funding and provide opportunities for government to address barriers mitigating against investment, particularly the regulatory and policy environment with a view to maximize opportunities for tourism (as well as other industry sectors), individuals and the broader Queensland community.

Tourism in Queensland

Tourism is a key economic driver in many Queensland regions, supporting regional employment and community growth, employing over 241,000 people directly and indirectly, or 9.9% of all people employed in Queensland.¹ This is substantially more than the mining sector (79,000 direct jobs) or even agriculture, forestry and fishing combined (56,900 direct jobs)². The tourism industry in Queensland contributed \$17 billion to Queensland's Gross State Product (GSP), representing 7.7% of total GSP and generated \$3.8 billion in exports in 2010, making it the second largest export earner behind coal³.

The tourism sector is made up of a number of industry participants; including accommodation, hospitality, transport, retail, business and major events, recreation, and educational and cultural services⁴. The tourism industry is largely dominated by SMEs. With 9 in 10, 55,000 tourism businesses in Queensland employing fewer than 20 people; this is more than other sector of the economy⁵.

Queensland Tourism Industry Council

QTIC is the State peak body for tourism in Queensland. The voice of tourism, QTIC represents the interests of the tourism industry, including business operators, Regional Tourism Organisations (RTOs) and sector associations.

A private sector, membership-based tourism industry organisation; all of Queensland's 13 RTOs are members of QTIC as are 20 of the industry sector associations and in excess of 3,000 regional members, operating in all sectors of the tourism industry. QTIC works in partnership with government agencies and industry bodies at a local, state and national level (National Tourism Alliance), to strengthen the voice of tourism in all relevant policy forums.

QTIC remains committed to working with governments and industry through the following national and state strategies and working groups:

- Australian Government, Tourism 2020, Tourism Industry Potential
- Labour and Skills Working Group

¹ Tourism Research Australia, Tourism Key Economic Facts December 2013

² ibid

³ Tourism Queensland, Tourism Economic Key Fact December 2010

⁴ Service Skills Australia, Tourism, Hospitality and Events Environmental Scan 2011

⁵ Department of Tourism, Major Events, Small Business and the Commonwealth Games 2014, Destination Success: State of the Industry 2014

- Queensland Government, DestinationQ Industry Partnership Agreement and 12 Month Action Plan

QTIC Industry Intelligence Provider for the Ministerial Industry Council

QTIC is the Industry Intelligence Provider (formally the Industry Skills Body) for the Queensland tourism industry, providing industry intelligence on workforce development needs to the Ministerial Industry Council, an independent body that provides advice to the Minister for Education, Training and Employment. In this role QTIC works with government and industry on a range of workforce development and skills matters including intelligence relating to the identification of emerging labour and skills needs, skills investment advice, and workforce planning and development activities for the tourism industry.

FEDERAL TOURISM INITIATIVES

In December 2011, the Federal Government announced its national strategy *Tourism 2020*, with a goal of doubling the value of tourism to \$140 billion by 2020. One of the key factors that will dictate the success or failure of Australia's tourism industry to meet its global potential is to meet the expected surge in demand with sufficient increases from the supply side of the tourism industry, such as tourism, aviation capacity and transport infrastructure.

In the recently released report by Deloitte titled *"Positioning for prosperity? Catching the next wave"*, global growth trends and Australia's areas of advantage were examined and the results showed that our next waves of prosperity were likely to come from five sectors of which tourism was one (tourism, gas, agribusiness, international education and wealth management).

The report stated that *"there is a lot more potential growth in the pipeline [for Australia], with tourism projected to be among the world's fastest growing industries. Our forecasts have it growing 4% a year from now to 2033 – that is, more than doubling in size over the next two decades. Even better, many of those new travellers will depart from Asia"*.

All five of the obstacles stated in the report faced in achieving this potential growth, were supply issues, these being that are preventing Australia from keeping pace with the changing demands of the tourism industry. These obstacles are;

- The need to renew our infrastructure
- Trouble getting around
- Too few rooms
- Scarce skills
- Challenge of a cottage industry

STATE TOURISM INITIATIVES

The Queensland Government and the Queensland tourism industry share an ambition to restore Queensland's leadership position as Australia's premier tourism state. The Newman Government articulated its recognition of tourism as one of 'the four pillars of the economy', **with the declared goal of doubling visitor expenditure, to \$30 billion by 2020**. An important aspect of the necessary policy setting to achieving these targets is through effective migration programs that meet the needs of the tourism industry.

QTIC remains committed to working with government and industry to achieve training and employment outcomes through the following state strategy:

Destination Success

Destination Success, the 20-year tourism plan of the Queensland Government for tourism, prioritises six key themes that will grow the tourism industry; one of the six themes is 'grow investment and access'. A strategic direction under this theme is 'remove barriers to investment by reducing costs and stimulating investment by reducing costs and stimulating investor confidence, ensuring Queensland has a competitive advantage'. To achieve this direction the tourism industry requires an industry-led model to workforce development that is supported by a strong and responsive partnership with government.

FEEDBACK

QTIC welcomes the opportunity to provide industry feedback on the opportunities CSEF provides as part of the Governments Industry Innovation and Competitiveness Agenda.

“Facilitating CSEF in Australia has the potential to provide a competing source of funds for small businesses, reducing their reliance upon bank debt and, potentially, at the margin driving down the cost of finance for small businesses overall. CSEF may be particularly beneficial for the types of businesses that find bank finance more difficult to obtain, such as start-ups and other firms with innovative products”.

Potential of CSEF

CSEF has the potential to impact upon the tourism industry and the national economy as a whole. With CSEF the policy intention is to enable entrepreneurs the regulatory framework to raise equity funds online, its assistance for start-ups and Small and Medium Enterprises (SMEs) will be most prevalent. Determining which recommendations are made regarding CSEF should therefore be done so with the interests of SMEs as a priority.

As the discussion paper for CSEF outlines;

- **CSEF means lower costs**- cheaper than traditional equity markets as the compliance costs involved in traditional equity fundraising can be relatively expensive compared to the amount of funds that a small business would generally seek to raise
- **CSEF means more competitive equity sources**- Facilitating CSEF in Australia has the potential to provide a competing source of funds for small businesses and reducing their reliance upon bank debt thus reducing costs for businesses.
- **CSEF means greater access to finance**- by providing a source of equity for the types of businesses that find bank finance more difficult to obtain, such as start-ups, firms with innovative products and of courses SME's.

A survey of 1,200 SME's in Australia by Scottish Pacific, in conjunction with research firm East & Partners, found the Top 10 barriers for growth, in order of impact, for SME's are found on the next page⁶:

⁶ Australia Business Review 2014, Top 10 Barriers to Growth for Small Businesses, viewed 30/01/2015, <http://www.businessreviewaustralia.com/top10/1327/Top-10-Barriers-to-Growth-for-Small-Businesses>.

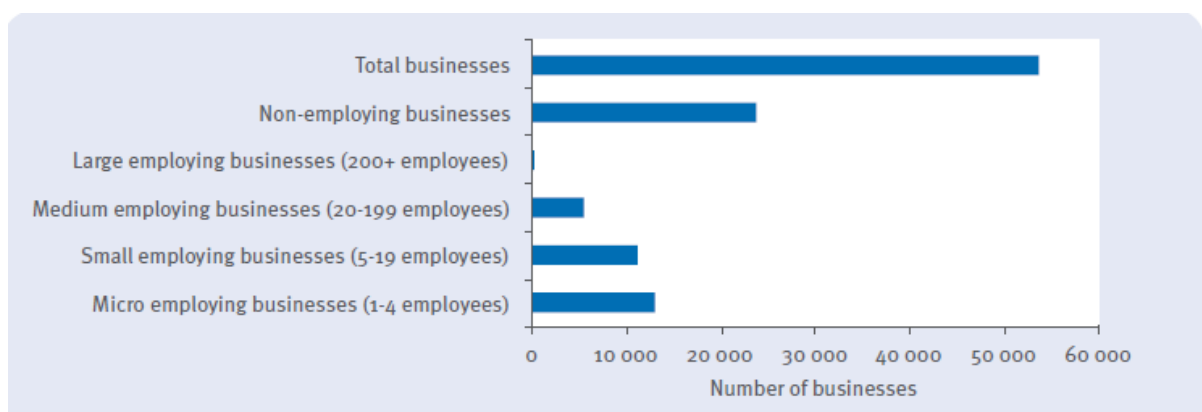
Top Ten Barriers to Growth for SMEs

1. High/multiple taxes
2. Credit conditions
3. Availability of credit
4. Red tape
5. Cash flow
6. Government policies
7. No private equity funding available
8. Margin compression
9. Offshore competition
10. Quality of available talent

As the table above demonstrates the expense and difficulty of obtaining equity is, collectively, the major barrier for SME's to grow their business and create economic growth. Therefore CSEF legislation provides an extremely promising avenue for creating economic growth and granting SME's, who are vital to the national economy, the equity required to grow their business and employ additional staff.

SMEs in the Tourism Industry

The tourism industry is largely dominated by SMEs. With 9 in 10, 55,000 tourism businesses in Queensland employing fewer than 20 people; this is more than other sector of the economy⁷.



Source: Tourism Research Australia cited in Department of Tourism, Major Events, Small Business and the Commonwealth Games 2014, Destination Success: State of the Industry 2014

The noted difficulties of SMEs in accessing and affording equity are having an adverse effect on the tourism industry. Without the necessary equity, Australia's tourism industry is tracking well below par for many of the key targets it needs to meet in the Federal Government's Tourism 2020 strategy to double the value of tourism to \$140 billion by 2020.

Tourism Businesses in Australia, a report by Tourism Research Australia, demonstrates in the graph on the next page, how difficult the current environment is for SMEs⁸. Queensland was the only state to report declines in the number of tourism business across all business sizes, over the three years to June

⁷ Department of Tourism, Major Events, Small Business and the Commonwealth Games 2014, Destination Success: State of the Industry 2014

⁸ Tourism Research Australia 2015, Tourism Businesses in Australia

2013. However, the decline in the number of business for non-employing and micro businesses was more pronounced for Queensland, than for all other states and territories.

FIGURE 3: PERCENTAGE CHANGE IN TOURISM BUSINESSES BY STATE, JUNE 2013 ON JUNE 2010



Source: Tourism Research Australia 2015, Tourism Businesses in Australia

A solution to address some of the barriers to growth is access to equity funding. CSEF can potentially provide an affordable and more assessable alternative for SME's in the tourism industry to obtain equity to grow their business.

Additionally CSEF legislation aims to create an environment more suitable for entrepreneurs to generate the equity to create innovation products and businesses thereby benefiting the national economy. The tourism industry in particular relies on entrepreneurs to develop innovative business ideas to create a richer visitor experience.

Policy Options

The prospects for this regulatory framework to work as intended requires regulations that provide a degree of security and confidence for all stakeholders. This balance must be found if government is to reduce the red tape and but also enable CSEF's potential to support SMEs.

'In order for CSEF to be sustainable, any regulatory framework needs to balance reducing the current barriers to CSEF with ensuring that investors continue to have an adequate level of protection from financial and other risks, including fraud, and sufficient information to allow investors to make informed decisions'.

QTIC provides feedback to Options 1 and Option 2, in the table below.

Issue	OPTION 1: CAMAC Model	OPTION 2: New Zealand Model	QTIC Feedback
Issuers			
Eligible issuers	Australian-incorporated issuers that must be either a public company or an 'exempt public company'. Limited to certain small enterprises that have not raised funds under the existing public offer arrangements.	New Zealand-incorporated companies.	Option 1
Relief from public company compliance costs	Available to exempt public companies, with relief from a range of compliance requirements, including annual general meetings, and audit requirements (up to a certain threshold). Exempt status available for a period of up to three to five years, subject to turnover and capital thresholds.	No CSEF-specific exemptions.	QTIC supports exempting CSEF issuers from compliance requirements due to resourcing and costs associated with these requirements. Option 1
Maximum funds an issuer may raise	Cap of \$2 million in any 12-month period, excluding funds raised under existing prospectus exemptions for wholesale investors.	Cap of \$2 million in any 12-month period, excluding funds raised under existing prospectus exemptions for wholesale investors.	
Permitted securities	One class of fully paid ordinary shares.	One class of fully paid ordinary shares.	QTIC supports both options
Disclosure requirements	Reduced disclosure requirements, including a template disclosure document.	Minimum disclosure requirements, with issuers and intermediaries to have in place arrangements to provide greater disclosure where there are no or high voluntary investor caps or the issuer is seeking to raise significant funds.	QTIC recognises that a trade-off must occur between reducing disclosure statement requirements are increasing investment caps. However investor caps have the potential to undermine the policy intent of CSEF which is to ability to raise funds. The ability to raise funds must remain the primary objective, not reducing red tape.
Intermediaries			
Licensing	Hold an AFSL and comply with licensing requirements, including membership of an external dispute resolution scheme.	Be licensed and comply with licensing requirements, including membership of an external dispute resolution scheme.	QTIC supports both options
Due diligence	Undertake limited due diligence checks on the issuer.	Undertake limited due diligence checks on the issuer.	QTIC supports both models; however where limited disclosure requirements exist for the Issuer, further research into this framework may be necessary.
Risk warnings	Provide generic risk warnings to investors.	Provide disclosure statements and generic risk warnings to investors.	QTIC supports the inclusion of disclosure statements and generic risk warnings to investors as this equates to a

			greater potential to limit risk/liability Option 2
Fee structures	Prohibited from being remunerated according to the amount of funds raised by the issuer, or in the securities or other interest of the issuer.	No restrictions on fee structures, although fees paid by an issuer must be disclosed.	QTIC supports there being no restrictions on fee structures as this will create flexibility and will encourage investment. Option 2
Interests in issuers	Prohibited from having a financial interest in an issuer using its website.	Permitted to invest in issuers using their platform, although details of any investments must be disclosed.	Option 1
Provision of investment advice to investors	Prohibited.	Not specified in legislation.	Option 1
Lending to CSEF investors	Prohibited.	Not specified in legislation.	Option 1
Investors			
Investment caps	\$2,500 per issuer per 12-month period and \$10,000 in total CSEF investment per 12-month period.	Voluntary investor caps, with the level of disclosure dependent upon the level of any voluntary caps and the amount of funds the issuer is seeking to raise.	Capped funding to \$2,500 per investor will potentially result in issuers needing to reach a very large audience to meet funding targets. QTIC strongly recommends Treasury reassess this requirement in conjunction with disclosure requirements for issuers and due diligence of intermediaries. Option 2
Risk acknowledgement	Signature of risk acknowledgement statements prior to investment.	Signature of risk acknowledgement	QTIC supports both models

FURTHER ENQUIRIES

We welcome the opportunity for further discussion regarding the points raised in this submission. For all enquiries, please contact QTIC Policy Team on (07) 3236 1445 or email policy@qtic.com.au