



MILKING THE CASH COW

THE SERVICES SECTOR DOMINATES THE AUSTRALIAN ECONOMY AND EXPORTS OF SERVICES GENERATE \$44 BILLION A YEAR FOR THE NATION. BUT WHAT DOES THE FUTURE HOLD FOR THIS VITAL SECTOR?

Geoffrey Maslen reports.

“Services,” according to *The Economist* magazine, “are things you cannot drop on your foot.” That is, services tend to be defined more by what they are not rather than by what they are. Similarly, statisticians describe them as those parts of the economy that are not agriculture, forestry and fishing; or mining and manufacturing.

That leaves a rather large range of activities such as education, tourism, hospitality, transport, health and community services, not to mention cultural and recreational matters, communication, accommodation, electricity, gas and water ... the list goes on and on.

Despite the intangible nature of ‘services’—they don’t, after all, generate products as such—the sector still accounts for a staggering three-quarters of Australia’s Gross Domestic Product. And an even larger slice of employment with nearly 9 million Australians or 85 per cent of the working population involved.

Mining might currently loom over the nation’s exports yet the ‘invisible’ services sector is worth a tidy \$44 billion a year. That is more than a fifth of everything Australians sell overseas and a far bigger slice than any agricultural product, or sheep or wool.

To give some startling examples: tourists last year contributed \$20 billion to Australia’s bank balance; education exports added another \$10.5 billion, passenger transport \$8 billion, services to

business travellers \$2.5 billion, and financial and insurance services \$1.5 billion.

It was the sheer size of the sector and its importance to Australia’s future that led federal Treasurer Peter Costello in May 2006 to refer the matter to the House of Representatives Economics Committee. The year-long inquiry into the current and future directions of services exports, and the challenges posed by the resources boom, resulted in a 150-page report and 14 recommendations.

The 10-member committee received 55 submissions from a broad cross-section of interested groups and held 10 public hearings in five of the capital cities. The report’s six main chapters cover a range of issues that not only focus on the main services industries but also on topics such as innovation and productivity, coordination of the sector, skills and labour shortages, trade liberalisation, export assistance and export statistics.

The Services Roundtable—the peak business body for the services industries—told the committee Australia did not have a policy for the sector, did not have a services export strategy, and the only department coordinating an all-of-government position was Foreign Affairs and Trade, which in any case only acted within the confines of international trade negotiations.

Other groups said much the same and the committee concluded there was little

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doubt the sector was largely overshadowed by Australia's goods-producing industries—agriculture, manufacturing and mining. The committee's report argues one way to achieve enhanced federal coordination would be to create a Minister for Services who would be primarily responsible for those in the private sector.

On the second issue of the severe labour shortages in lower-skill positions in industries such as hospitality and tourism, the committee called for a program of permanent migration, as well as incentives for Australian and overseas workers to move to rural and regional areas where the situation is much worse.

A theme running through the report is the way the services industry tends to be overlooked because of the present dominance of the resources sector. The committee said in all future bilateral and multilateral trade negotiations the government should give greater priority to the services industries.

Tourism and education, however, were the committee's prime targets and two topics stand out in each: the danger of 'rogue operators' affecting Australia's reputation and the impact China in particular is already having, and is likely to continue to have, on the future of these two increasingly important export industries.

In a chapter on the inbound tourism industry, the report records the fact that this field alone employs more than 460,000 people, contributes close on \$40 billion, or nearly 4 per cent of GDP, generates \$80 billion in consumption and, in export terms, is worth more than \$20 billion.

Australia's biggest markets by visitor numbers are New Zealand, Britain, Japan and America. But the report says the largest increase has occurred with tourists from China whose numbers have jumped 280 per cent since 2000. China and India are expected to be the main drivers

of growth over the next seven years, with China to become the most significant source of tourists within a decade.

But the sheer size of the industry and its huge potential to become even bigger needs more attention than the committee believed it could provide. So it has proposed the government commission an independent inquiry, either by an independent consulting firm or by a leading business figure supported by a secretariat from a government agency such as Treasury.

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Expanding tourism numbers is one thing, but rogue operators—tourism types who mistreat or take advantage of foreign tourists—are another issue entirely. The committee learned these miscreants have long been a serious problem for the industry and remain a troublesome issue.

The Australian Tourism Export Council listed specific examples that included operators promising four and five-star CBD accommodation while actually providing three-star motel rooms of poor value outside city centres, with repetitive meals and long travel times in sub-standard mini-buses.

"Anecdotal evidence exists of tourists being charged to walk on a beach or to take photographs of landmarks," the council said. Such treatment resulted in high levels of dissatisfaction when the tourists were surveyed.

Although state and federal laws exist that would theoretically protect international tourists, the committee found few investigations had been

conducted into the behaviour of rogue operators. The Queensland government, however, did respond to widespread concerns within the industry and introduced legislation that requires tour operators to be registered and to comply with an enforceable code of conduct.

The federal government's response was an Approved Destination Scheme regulating tourist travel to Australia. But the scheme only applies to China and ATEC told the committee some operators were acting illegally outside the scheme, while many Chinese citizens were on non-ADS visas so it accounted for only 30 per cent of the Chinese market.

The committee concluded that solving the issue of rogue operators was a matter of urgency, given that misconduct was of fundamental importance to the industry. Its report calls on state and federal governments to take action to eradicate crooked operators, including providing the Australian Competition and Consumer Commission with extra resources to deal with them, as well as the Inbound Tourism Compliance Taskforce to enable more effective national coordination.

Rogue providers also loomed large in the committee's deliberations on Australia's education export industry—now the nation's fourth largest exporter behind coal, tourism and iron ore. Here, too, China's students alone are worth more in export earnings than all of Australia's wheat exports to our giant Asian trading partner.

In 1991-92, the report notes, education exports generated little more than \$1 billion for the Australian economy. In 2005-06, earnings had rocketed to \$10 billion with a doubling in foreign enrolments in the past five years.

Almost 385,000 foreign students were enrolled with Australian



education institutions in 2006: more than 172,000 in higher education, some 84,000 in vocational and technical education, 25,000 in schools and 77,500 in English language courses.

As with tourism, the Chinese market is a key source of students and enrolments have nearly doubled in four years while those from India have almost quadrupled although from a much smaller base. At the same time, though, five of Australia's top 10 markets—Hong Kong, Malaysia, Japan, Indonesia and America—have all declined.

A critical factor in this fall, and one which could eventually affect the expansion of the Chinese and Indian markets, is the strong and increasing global competition for international students. Australia's competitors are no longer the traditional countries of Britain and America but the big Asian economies themselves.

As the federal Education Department warned: "The governments of Singapore, Malaysia and China have announced initiatives to increase their international education enrolments and are seeking a greater share of the market."

The committee concluded that education institutions, with government help, would have to develop new strategies to maintain their current market share. One approach would be to diversify the source countries and the fields of study undertaken by foreign students who tend to mostly enrol in business administration and management-type courses.

Faced with increasing competition, the reputation of Australia's institutions in providing high-quality education is crucial. The committee's report says here, too, rogue operators could cause untold damage to the nation's image abroad.

Two concerns in particular were raised about crooked colleges in submissions to the committee: 'student trafficking' and the failure of the Education Department to take appropriate and immediate action against colleges that were ripping off students.

Jeanette Allen of Services Skills Australia—the industry skills council—described how some colleges operated: "What they do is they group two, three and four diplomas and advanced diplomas into a two-year program so that they meet all the [government's] requirements, deliver the qualification in an institutional setting, and then the people get recognition or points to get into the country."

Ms Allen said such practices harmed the industry's reputation and did nothing to enhance its capacity to provide qualifications that carried some status.

Tim Smith, chief executive of the Australian Council for Private Education and Training, said government authorities did not deal with rogue providers effectively. "What particularly concerns my organisation is that the [Education Department] will not act to deal with individual providers who are embarrassing the system," Mr Smith said.

In its response, the department said there was no evidence to support claims it was reluctant to investigate or take action against colleges behaving improperly. But it acknowledged there was an industry perception it was reluctant "to use its powers against rogue operators".

The committee said it was not its role to play arbiter in the dispute but believed there was scope for an external review of the department's performance. It recommended the department should be investigated by the Auditor-General over the way it tackled rogue colleges and the Auditor-General should conduct a

performance audit of the department's actions regarding alleged breaches of the overseas students act and its national code.

Overall, the committee's report has been welcomed by the various services industries. Australian Tourism Export Council managing director Matthew Hingerty said the report contained "far-reaching, insightful and, in some cases, controversial recommendations".

"The report correctly identifies threats to the sector such as a lack of workers in lower skilled areas, the risk of rogue operators dragging down the reputation of the industry with poor services, and the growing international 'anti-response' to climate change," Mr Hingerty said.

Similarly, the Investment and Financial Services Association said the report went a long way in identifying the areas where Australia needed to improve if it was to fully capitalise on the enormous potential to increase exports.

Association chief executive Richard Gilbert endorsed the committee's call for the creation of a Minister for Services, for more resources for the Bureau of Statistics to improve services export data, and for greater priority to be given to the services export sector in bilateral and multilateral trade negotiations.

ACPET chief executive Tim Smith described the *Servicing our future* report as a great contribution to understanding and appreciating the vital contribution export services make to the Australian economy.

"The findings put on the table some important issues and foremost among these is the crucial need for a quality product to be delivered to overseas students," Mr Smith said. ■

The Servicing our future report by the House Economics Committee is available at www.aph.gov.au/house/committee/efpa/services/report.htm or email efpa.reps@aph.gov.au or phone (02) 6277 4587.

