The Parliament of the Commonwealth of Australia

Servicing our future

Inquiry into the current and future directions of Australia's services export sector

House of Representatives Standing Committee on Economics, Finance and Public Administration

May 2007
Canberra

ISBN 978-0-642-78942-6 (printed version)

ISBN 978-0-642-78943-3 (HTML version)

Front cover images

Images of students and scientists supplied by Australian Education International – images are part of the *Study in Australia* brand.

Image of tourists taken by House of Representatives Media Liaison Officer.

Chair's foreword

When people think about the Australian economy thoughts usually centre on the agriculture and mining sectors. But it is, in fact, the services sector which dominates Australia's economy, accounting for around 75 per cent of output and 85 per cent of employment. Exports of services account for more than 20 per cent of total exports—much more than rural exports, and of a similar size to manufacturing exports. This would again surprise many people, who would immediately think of coal or wheat when they think of Australian exports.

The inquiry into the current and future directions of the services export sector was referred to the committee by the Treasurer, the Hon Peter Costello MP, in May 2006. The committee was tasked with identifying the challenges posed to the sector by the resources boom, as well as highlighting issues and opportunities for the sector into the future. The title of this report, *Servicing our future,* is indicative of the committee's view that services exports are likely to be increasingly important to the Australian economy in the coming years.

The resources sector is currently experiencing a well publicised 'boom'. A boom is by definition a temporary occurrence, but predicting how long a boom will last is a very difficult task. Indeed, most of Australia's leading economists have made incorrect forecasts about the length of the boom in the past few years. Commodity prices have stabilised over the past year but remain at, or very near to, their peaks. It is unlikely that demand from China and other emerging economies will subside any time soon; however, a huge amount of mining investment continues to occur around the world, indicating that the world's mining capacity will increase markedly in the coming years. As capacity increases some fall in commodity prices is likely. If, as a result, the Australian dollar depreciates, there will be increased opportunity for Australia's other export sectors, including services.

It was evident throughout the inquiry that there are a number of issues which are relevant to the services sector as a whole. This degree of commonality gives cause for the committee's recommendation for a minister for the services sector. The committee believes the sector would benefit from enhanced government recognition and coordination.

An issue common across the services sector is the shortage of skills and labour. Strategies to improve training, such as making training more flexible and relevant, are undoubtedly the most important solution to the shortages. However, because of the time it takes for someone to learn new skills, training cannot provide solutions to the shortages that exist *now.* Current migration programs give employers access to the global skilled labour market, which the committee fully supports. The committee also believes there is a need to introduce a program of lower skill migration to fill positions in industries such as tourism and hospitality.

The inbound tourism industry is Australia's biggest services export, and among the top export earners across all industries. The industry set new records in terms of arrivals and exports in 2005-06, but in real terms has performed modestly since the Olympics. The committee believes that, given the importance of the industry and its recent variable performance, there is scope for an independent examination of the future of inbound tourism.

Tourism operators that mistreat international tourists—so called rogue operators—remain an issue for the tourism industry. The committee believes that this issue must be addressed as a matter of urgency. The industry cannot afford to continue to have its reputation compromised, and, as importantly, international tourists should not be subjected to illegal practices. The committee is concerned by the ACCC's inaction on this matter, and recommends that more federal and state resources be committed to eradicating rogue operators.

Education services provided to international students are the second largest services export—a $10 billion dollar industry in 2005-06. The industry is expected to continue good growth in the near term, but there are significant competitive challenges on the horizon. Most notably, as Asian nations in our region develop or improve their own educational institutions, the Australian industry will face increasing competition for students. Important factors in preparing the industry for this challenge include implementing new methods of education delivery and ensuring that student visa requirements are internationally competitive.

The committee received evidence on a range of other service industries during this inquiry. In general, these industries are important domestically but underdeveloped in terms of exports. There appears to be scope for each industry to significantly increase its level of exports. The common growth-constraining issue across these industries is non-tariff trade barriers. The committee recommends that the government give greater priority to services trade issues in future trade negotiations.

On behalf of the committee I would like to thank all of the organisations and individuals that participated in this inquiry.

The Hon Bruce Baird MP
Chair

Contents

APPENDICES

TABLES

FIGURES

Membership of the committee

Chair	Hon Bruce Baird MP	
Deputy Chair	Ms Sharon Bird MP *(member of committee from 7/2/07 & Deputy Chair from 1/3/07)*	
Members	Mr Steven Ciobo MP	Mr Joel Fitzgibbon MP *(member of the committee to 7/2/07)*
	Dr Craig Emerson MP *(Deputy Chair to 1/3/07)*	
	Ms Sharon Grierson MP	
	Mr Michael Keenan MP	
	Mr Stewart McArthur MP	
	Mr Patrick Secker MP	
	Hon Alex Somlyay MP	
	Mr Lindsay Tanner MP	

Committee secretariat

Secretary	Mr Stephen Boyd
Inquiry Secretary	Mr Andrew McGowan
Adviser	Mr John Hawkins
Researcher	Ms Amelia Johnston
Administrative Officer	Ms Natasha Petrovic

Terms of reference

On 3 May 2006 the Treasurer, the Hon Peter Costello MP, asked the committee to inquire into and report on where the services sector now sits in Australia's export (and import competing) environment, focusing on, but not limited to:

- the tourism and education services sectors;
- the impact of the resources boom on the services sector;
- future global opportunities for Australian services exports; and
- policies for realising these opportunities.

List of abbreviations

ADS	Approved Destination Status
ASEAN	Association of South East Asian Nations
AEI	Australia Education International
AACB	Australian Association of Convention Bureaux
ABARE	Australian Bureau of Agriculture and Resource Economics
ABS	Australian Bureau of Statistics
ACCC	Australian Competition and Consumer Commission
ACPET	Australian Council for Private Education and Training
AEI	Australian Education International
AHEIC	Australian Health Export Industry Council
ATEC	Australian Tourism Export Council
AVCC	Australian Vice-Chancellors' Committee
CRC	Cooperative Research Centres
COAG	Council of Australian Governments
DCITA	Department of Communications, Information Technology and the Arts
DEST	Department of Education, Science and Training

DFAT	Department of Foreign Affairs and Trade
DIMIA	Department of Immigration, Multicultural and Indigenous Affairs
DITR	Department of Industry, Tourism and Resources
EA	English Australia
ELICOS	English Language Intensive Courses for Overseas Students
EMDGS	Export Market Development Grant Scheme
ESOS	Education Services for Overseas Students
FTAs	Free Trade Agreements
GATS	General Agreement on Trade in Services
GDP	Gross Domestic Product
GVA	Gross Value Added
GOA	Guiding Organisations Australia
HECS	Higher Education Contribution Scheme
HMAA	Hotel, Motel and Accommodation Association
ICT	Information and Communications Technology
ICAO	International Civil Aviation Organisation
IFSA	Investment and Financial Services Association
MODL	Migration Occupations in Demand List
NCVER	National Centre for Vocational Education Research
NEDP	New Exporter Development Program
OECD	Organisation for Economic Cooperation and Development
QETI	Queensland Education and Training International
QTIC	Queensland Tourism Industry Council

RPL	Recognition of Prior Learning
R&D	Research and Development
SIA	Science Industry Australia
SIRC	Service Industry Research Centre
TTF	Tourism and Transport Forum
TA	Tourism Australia
TEA	Tourism Events Australia
VTE	Vocational and Technical Education
WTO	World Trade Organisation

List of recommendations

2 Overview of Australia's services sector

Innovation in the services sector

Innovation, particularly in the use of information technology, has lifted productivity in the services sector, though there has been a more recent slowdown in services sector productivity growth. It would seem that the nature of many services limits the scope for productivity improvements. But there has been much less study of the role of research and innovation in lifting productivity in the services sector than in the goods sector. It seems more could be done in this area.

Recommendation 1

The committee recommends that the government commission research into innovation in the services sector and its implications for productivity.

3 Issues for the services sector as a whole

Coordination of the services sector

The committee believes that the services sector would benefit from enhanced federal government coordination. One way to achieve this goal would be for the government to create a minister for services. This would provide a focal point for the services sector, recognising its increasing importance—particularly in terms of exports.

This position could assume a generic responsibility for the sector, informing government policy on issues which affect all services industries, such as those discussed later in this chapter. This position could also be responsible for coordinating research into the services sector, and formulating a government strategy to ensure the continued expansion of service exports.

In the committee's view, the services minister could assume responsibility for service industries that are primarily private sector. However, the new minister would not assume responsibility for every service industry. It is clearly very important to have separate ministers responsible for areas of public service, such as health, transport and education.

Recommendation 2

The committee recommends that the government create a minister for the services sector.

Migration of lower skill workers

Improving training is of fundamental importance; however, because of the time it takes for someone to learn new skills, training cannot provide solutions to all of the shortages that exist now. With skilled unemployment below 2 per cent, skilled migration is clearly an important short term strategy. It is important that industry can have ready access to the global skilled labour market where it is simply not possible to find suitable employees onshore.

It was evident that there is also a significant shortage of workers at a skill level below that which is covered by current skilled migration programs. For example, shortages exist in the tourism and hospitality industry in customer service-type roles (restaurant managers and waiters etc.). Addressing these 'lower skill' shortages is essential to ensure the continued growth of the affected industries. As such, the committee believes there is scope to introduce a new program of lower skill migration.

As Australia's population ages there is an increasing need to permanently boost the supply of labour in the economy. There is little sense in attracting migrants, settling them into the Australian community and way of life, and then requiring them to go home after a set period. The committee is therefore in favour of permanent rather than temporary migration of lower skill workers. The focus must be on younger migrants so as to avoid exacerbating the problem of the ageing population.

Services employers in rural and regional areas are even harder hit by the current shortages because of the comparatively more attractive pay and conditions on offer in metropolitan areas.

Recommendation 3

The committee recommends that the government consider:

- *Establishing a program of permanent migration to address shortages in lower skill positions in industries such as hospitality and tourism; and*
- *Providing incentives for Australian and overseas workers to move to rural and regional areas where skills and labour shortages are severe.*

Services trade liberalisation

One of the major concerns was that services trade negotiations are seen as being less important than negotiations on manufactures and agriculture. It is unsurprising that goods producing sectors are seen as more important, because, historically, international trade negotiation has focussed primarily on goods. After all, the concept that some services are tradable is still relatively recent.

While it is unsurprising that, given the comparative infancy of trade in services, goods sector negotiations receive more attention, it is of great importance to Australia that this focus shifts toward services. As a predominantly service-based economy Australia has much to gain from further liberalisation of services trade barriers. The government should attempt to prioritise services trade negotiations wherever possible.

The committee also believes it is important that progress on services trade liberalisation is not dependant on progress in other sectors. While holistic agreements, with liberalisation across all sectors, are undoubtedly the best and most efficient approach, it is apparent that this is not always possible. In such situations, it appears pragmatic to consider negotiations and agreements on individual sectors.

Recommendation 4

The committee recommends that in all future bilateral and multilateral trade negotiations the government gives greater priority to services trade issues. Where negotiations are stalled because of issues in one particular sector (agriculture, for example), the government should consider negotiating agreements for individual sectors.

Improving Australia's brand

Australia's branding is very important to the future of service exports, but also of exports generally. Australia's international brand recognition is quite narrow at present, with a focus on leisure tourism, mining and agriculture. Our ability as an exporter of business services, for example, is not well recognised. To ensure the success of all our export sectors into the future it is important that we broaden our international brand.

The government currently has a range of bodies which promote Australia to the world. Austrade is charged with promoting and assisting exporters from all industries; Invest Australia promotes Australia as a possible home for international businesses; and Tourism Australia promotes Australia as a tourism destination. Additional organisations like Axiss Australia, Ausfilm and Australian Education International have a role in promoting exports in their own industries.

The committee believes that a new structure could be formed linking all government agencies that promote Australia—the 'Brand Australia Council'. It is not proposed that this council would take over the operations of every promotion agency. Instead, it would provide an opportunity for these agencies to communicate; to work together on promotion where possible; to investigate how our brand is perceived internationally and where it needs to be improved; and to rationalise their operations avoiding duplication. The Council could be chaired by an organisation with detailed branding and marketing expertise, such as Tourism Australia.

Recommendation 5

The committee recommends that the government initiate a 'Brand Australia Council' involving all of the government's promotion agencies. The goal of this council would be to provide for communication and coordination between the various agencies responsible for promoting Australian exports internationally. The Council would not amalgamate or replace existing promotion agencies.

Services export statistics

It appears the ABS is measuring services exports in a conceptually correct manner, consistent with international practice. However, given the growth in the relative size and importance of the services sector, more resources should be devoted to producing more detailed and accurate data. The ABS has already identified the areas in which improvements are needed.

Recommendation 6

The committee recommends that more resources be made available to the Australian Bureau of Statistics for improving its collection of data on international trade in services.

4 The inbound tourism industry

The future of the inbound tourism industry

To support growth in the inbound tourism industry, the government, with the assistance of industry, has produced a range of reports in recent years on the future of inbound tourism. These reports include: a national tourism investment strategy; a strategy for the emerging Chinese and Indian markets; an action plan for the declining Japanese market; and the biannual reports of the Tourism Forecasting Committee.

One of the strengths of this research is that it is produced in collaboration between government and industry, and therefore encompasses a range of stakeholder views. However, this strength may also be a weakness, as industry participants are likely to retain an overly optimistic outlook for the industry.

The committee therefore believes there is scope for an independent inquiry to examine and recommend initiatives for the future of the inbound tourism industry. The inquiry could be undertaken by an independent consulting firm, or could be headed by a leading business figure and supported by a secretariat from a government agency such as Treasury.

The committee is of the view that the inbound industry would benefit from this kind of objective analysis to complement the research it has undertaken with the government.

Recommendation 7

The committee recommends that the government commission an independent inquiry on the future of the inbound tourism industry.

Rogue tourism operators

There is disagreement on how action against rogue tourism operators should proceed. The federal government argues that stronger enforcement of existing state and federal legislation is the answer. Conversely, the industry advocates a new federal regulatory regime for tour operators, requiring all operators to be licensed and comply with a mandatory code.

The committee is of the view that there is little sense in adding an extra level of regulation when sufficient regulatory powers already exist. Doing so would come at significant cost to both tourism operators and the government. The industry has agued for a new regulatory regime, not because existing powers are insufficient, but because existing powers have not been enforced by federal and state bodies.

The committee was concerned by the attitude of the ACCC in relation to this matter. It acknowledged that its powers are in most cases sufficient to act against rogue operators, but argued that it has not received sufficient evidence to do so. Of course, it very difficult for international tourists to provide evidence, particularly for those who cannot speak English, and there are also very few tourists that would go to the effort to make a complaint. The ACCC appears to have shown no initiative in attempting to stamp out the practices of rogue operators.

The ACCC is, of course, not the only government agency with responsibility for trade practices and consumer protection; the various state and territory fair trading bodies also have a role. The Trade Practices Act gives the ACCC responsibility for trade practices (such as unconscionable behaviour) and consumer protection (such as misleading and deceptive conduct), but only in relation to corporations. As such, sole traders and partnerships, which many rogue operators may be, are not covered by the Act. They are instead covered under state and territory fair trading legislation. These shared responsibilities mean that there must be a cooperative national approach to eradicating rogue operators.

The establishment of the combined state and federal Inbound Tourism Compliance Taskforce is a positive step toward better national coordination on this issue. However, the taskforce meets irregularly and appears to have had little impact to date. The taskforce, led by DITR and the ACCC, must do more.

Recommendation 8

The committee recommends that governments, both state and federal, take proactive steps to eradicate rogue tourism operators. This process should include:

- *Increased federal resources for the Australian Competition and Consumer Commission to actively seek out and prosecute alleged rogue operators; and*
- *Increased state and federal funding for the Inbound Tourism Compliance Taskforce to enable more effective national coordination on this issue.*

Climate change, tourism and air freight

An emerging challenge for the inbound tourism industry is the increasing public interest in climate change. Air travel does contribute to global carbon emissions, but it is also very important to the operation of the world's economy. As global trade continues to increase, so too will the need to transport people and goods by air. Australia's relative distance from the rest of the world means that we are more reliant than most on international air travel and air freight.

In the coming years governments around the world may implement mechanisms to reduce carbon emissions by aircraft (such as carbon emissions trading or carbon taxes). If this occurs, the cost of air travel will increase. The Australian inbound tourism industry, because of Australia's distance from source markets, would be particularly hard hit by any price rises. The government has recently announced that it will develop a tourism action plan on climate change. The committee believes it is important that the action plan include consideration of the potential effects of global policies to reduce carbon emissions.

Though a little outside the scope of this inquiry, the committee also believes that it is important for the government to consider the potential impact on the agricultural and manufacturing sectors, both of which rely heavily on air freight.

In recent times there have been calls from within Europe for its citizens to avoid long-haul flights, and give preference to consumer products which have not been freighted long distances. The committee believes that these calls are based on Euro-centric protectionist motives, more so than a desire to address climate change. The government and industry must attempt to ensure that the increasing public interest in climate change is not exploited by groups with protectionist interests.

Recommendation 9

The committee recognises the challenge that the increasing public focus on climate change poses for the inbound tourism industry, as well as the manufacturing and agriculture sectors. The committee therefore recommends that:

- *The government's tourism action plan on climate change consider the potential impact of carbon emission reduction policies on the inbound tourism industry;*
- *The government separately consider the potential effects on sectors that rely on air freight; and*
- *The government be prepared to argue Australia's case against Euro-centric protectionist policies which exploit the increasing public interest in climate change.*

The declining Japanese market

It is encouraging that the government commissioned a committee to produce an action plan for Japanese tourism. The recommendations of that committee include improving marketing, aviation and product development.

Japan is one of the few countries for which the Tourism Forecasting Committee is forecasting a decline in economic value. It is therefore important that the government and industry implement the recommendations of the action plan committee.

Recommendation 10

The committee supports the findings of the Action Plan for Japanese Tourism Committee's report and urges the government and the inbound industry to implement the report's recommendations.

Targeting niche markets

Business tourism requires greater government attention. The organisation responsible for coordinating business events promotion, Tourism Events Australia, appears to be under-resourced. Another problem for the business tourism sector is that Australia's overseas brand is predominantly directed toward leisure tourism, to the detriment of our other capabilities. Recommendation 5 about broadening Australia's brand and introducing a 'Brand Australia Council' would certainly assist the business tourism sector.

The further development of Australia's medical tourism industry is an interesting concept. It is evident that there is significant international demand for medical services, as demonstrated by the burgeoning medical tourism industries which have developed in the Asian region—Thailand, Singapore and India, in particular. However, medical tourism may be controversial if additional international patients have the effect of extending current waiting lists in the public system. If the medical services offered by Australian providers were limited to cosmetic-type surgeries, as well as spa and retreat services, this concern would not materialise. Overall, the concept of extending medical tourism in Australia is worth further consideration.

Recommendation 11

The committee recommends that the government provide additional funding to Tourism Australia to:

- *Extend the international marketing of Australia's business events capabilities; and*
- *Conduct research into the issues and opportunities arising from the development of an extensive medical tourism industry.*

5 The international education industry

Student visa issues

Student visa requirements are a challenging issue for the government. There is need to strike a balance between being strict enough to ensure the system is not abused, and being lenient enough to ensure that as many legitimate international students can study here as possible. There is also a need to have requirements which are competitive internationally. Evidence to this inquiry suggests that at present the balance is not quite right—that Australian visa requirements are too harsh in some areas.

The committee understands the need to have more stringent visa requirements placed on people from countries considered to be at high risk of overstay—a so-called 'level 4' assessment level. In particular, it is important that people from these countries demonstrate their financial capacity, health and immigration history. These measures undoubtedly assist in reducing overstays. However, it is doubtful whether requiring a person to be vocationally fluent in English has any effect on the rate of overstays. In fact, it may be more likely that someone fluent in English would overstay as it is easier for them to find work and adapt to the Australian society.

The stringent English language visa requirement greatly restricts the number of Chinese students who can study English in Australia. The Chinese market could be huge for the ELICOS industry—as it is for the rest of the international education industry. The committee believes that the English language requirement should be removed from level 4 ELICOS visas. The committee is, of course, of the view that the other stringent visa requirements (financial capacity assessment and other background checks) should remain in place. Removing the English language requirement would be of great benefit to the ELICOS industry and the Australian economy.

The cost of study visas is certainly not the definitive issue for the international education industry. It is, however, an issue that may have some effect on Australia's competitiveness as a study destination. As was noted in evidence, some of our source markets, particularly in the Asian region, can be put off by higher upfront costs. It is therefore possible that Australia's higher visa costs may result in some potential students studying in other countries.

Given the increasing competitiveness of the international education industry, the fact that visa costs may impact on a student's decision to come to Australia is of some concern. The committee therefore believes the government should consider lowering its student visa costs.

Recommendation 12

The committee recommends that the government assess the overall competitiveness of its student visa requirements (ease of application, assessment criteria etc) against our major international competitors, the United Kingdom, the United States and New Zealand.

In addition to this generic review, the committee has identified two specific visa issues which should be addressed:

- *The government should consider lowering student visa fees; and*
- *The government should consider removing the English language competency test requirement from all English language study visas.*

Rogue education providers

Private providers are an important contributor to Australia's exports of education services. The export success of all education providers, not just private providers, is dependent on an international reputation for quality. Plainly, 'rogue' providers who treat international students poorly, or set up institutions with the sole aim of providing a pathway to migration, damage this reputation.

The industry voiced complaints about DEST's reluctance to act against rogue providers. DEST strongly refuted these claims but acknowledged that this perception does exist. It is not the committee's role to play arbiter in this dispute. Instead, the committee believes there is scope for an external review of DEST's performance in relation to this matter.

Recommendation 13

The committee recommends that the Auditor-General conduct a performance audit of the Department of Education, Science and Training's compliance and enforcement action in relation to alleged breaches of the Education Services for Overseas Students Act and its National Code.

International education and tourism

The combination of our two biggest service exports, tourism and education, is important for the future of both industries. The most notable form of study tourism involves combining short-term education courses with leisure tourism experiences. Other areas with education and tourism interplay include holidays taken by long-term students, visits by the friends and family of long-term students, and schools from other nations visiting Australia.

The government, through Tourism Australia, plays a role in promoting study tourism. However, evidence to this inquiry argued that the government's role needs to be extended. It was also argued that there could be better coordination between the key tourism and education agencies—Tourism Australia and Australian Education International. DEST (of which AEI is a component) cautioned against too strong a link between tourism and education, arguing that it might adversely affect the quality of Australia's education.

Provided that Australia's education industry continues to be supported by the current stringent quality assurance framework, there is no reason to think promoting education and tourism together would affect the quality of education provided to international students. As such, there appears to be scope for a more coordinated government effort to promote, grow and understand the link between study and tourism.

Recommendation 14

The committee recommends that the government, through Tourism Australia and Australian Education International, engages in a coordinated effort to promote, target growth in, and understand the importance of, the interplay between international education and tourism.