Issues for the services sector as a whole

3.1 The services sector is made up of a diverse range of individual service industries. Each individual industry has its own challenges and issues, both in doing business domestically, and in providing services to export markets. Many of these industry-specific issues will feature in the ensuing chapters.

3.2 While some issues are only relevant to individual service industries, it has been evident throughout this inquiry that there are also a number of issues relevant to the services sector as a whole. The committee has identified five sector-wide issues which were prominent in evidence:

- Coordination of the services sector;
- Skills and labour shortages;
- Services trade liberalisation;
- Services export assistance; and
- Services export statistics.

3.3 Some of the identified issues are relevant to the whole services sector; others are related to the whole services export sector. Each issue will be discussed in detail below.

Coordination of the services sector

3.4 A number of groups were concerned that the services sector lacks coordination. It was therefore argued that issues facing the sector are not
effectively recognised or addressed. These sentiments were summarised by Lloyd Downey of Austrade, who stated:

The services sector is often like the elephant that is in front of you that nobody actually sees. It is all around us but, because we have not had that particular emphasis on services, it has been fragmented and dispersed.¹

3.5 Similarly, the Australian Services Roundtable asserted that ‘the services sector as a whole is simply not recognised as such on the public radar.’²

3.6 There was a view that the government does not engage in a coordinated approach to the services sector. The Services Roundtable advocated this position, stating:

Australia does not have a services industry policy. Australia does not have a services export strategy ... the only portfolio which coordinates an all-of-government position in relation to services is the Department of Foreign Affairs and Trade, which does so only in the context of international trade negotiation. There are many cabinet portfolios which carry certain services industry responsibilities but there is no apparent required sectoral coordination between them.³

3.7 Matt Hingerty of the Australian Tourism Export Council (ATEC) also argued that the sector itself could coordinate more effectively:

A number of us have come to the conclusion independently over the last few weeks, particularly in relation to the labour debate, that we need to consider combining effectively with the health sector, the financial sector and the education sector to get some of these issues on the national agenda.⁴

3.8 To improve government coordination the Services Roundtable advocated the introduction of a minister or parliamentary secretary responsible for the services sector, or the reintroduction of some responsibility for all services under the industry portfolio. The Roundtable argued:

The single most important step which could be taken to improve the status and performance of the Australian services sector is the

¹ Mr L Downey, Austrade, Transcript of evidence, 1 December 2007, p. 7.
² Australian Services Roundtable, Submission no. 44, p. 13.
³ Australian Services Roundtable, Submission no. 44, p. 13.
⁴ Mr M Hingerty, Australian Tourism Export Council, Transcript of evidence, 15 November 2007, p. 70.
Committee conclusions

3.9 There is little doubt that the services sector is largely overshadowed by Australia’s goods producing sectors—agriculture, manufacturing and mining. This is true in terms of government assistance and coordination, in terms of media attention, and also in terms of the way the sectors promote themselves to government and the media.

3.10 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.

3.11 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.

3.12 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

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

5 Australian Services Roundtable, Submission no. 44, p. 13.
Skills and labour shortages

3.14 A business survey in the Australian Industry Group’s recent report *World class skills for world class industries* showed that Australian businesses believe their biggest barrier to growth is the inability to secure skilled staff. It is therefore unsurprising that almost every submission to this inquiry discussed skills and labour shortages.

3.15 To give some indication as to the extent of the current conditions in the labour market, the Reserve Bank highlights three important statistics:

- Vacancy rates are at their highest levels since the 1970s;
- Unemployment is at a 30-year low; and
- Participation rates are around the highest level on record.

3.16 The services sector, unlike the mining sector and many manufacturing sectors, is not capital-intensive—that is, it is generally not reliant on expensive infrastructure and equipment, nor does it rely on automated production processes. Instead, the services sector can be described as labour-intensive and heavily reliant on human capital.

3.17 This assertion is supported by the following statistics:

- In accommodation, restaurants and cafes for each worker there is $95,000 of capital. In mining there is $1.4 million; and

- In accommodation, restaurants and cafes it takes 24 workers a year to produce $1 million output. In mining it takes just 2 workers.

3.18 Given this strong reliance on labour, it follows that the services sector would be hard hit by skills and labour shortages. Indeed, submissions to this inquiry report that this has been the case. In some service industries—tourism and hospitality, in particular—the committee has heard that shortages are acute.

3.19 While much of the public debate has focused on the ‘skills shortage’, there is also a more general labour shortage. As summarised by the Tourism and

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Transport Forum (TTF) ‘there is a human body shortage as much as there is a skills shortage.’

**Why are there shortages of skills and labour?**

3.20 There is not one single reason or cause for the current shortage of skills and labour in Australia. Confirming this assertion, a recent report authored by Sue Richardson and commissioned by the National Centre for Vocational Education Research (NCVER) stated that a skills shortage can have many causes. Among the causes highlighted in this report were:

- a rapid structural change combined with a low overall level of unemployment;
- a cyclical surge in employment in a part of the economy; and
- particular spots of weakness in the training sector.

3.21 This report concluded that Australia’s current shortages ‘are a consequence of all of these [factors].’

3.22 There is little doubt that Australia’s prolonged period of economic growth, and the consequent 30-year low unemployment rate, goes a long way to explain why there are widespread shortages of skills and labour. A low unemployment rate is an obvious indicator of a tight labour market.

3.23 Dr Perry Hobson from the Cooperative Research Centre (CRC) for Sustainable Tourism discussed the current shortages in terms of Australia’s structural move away from dominant agriculture and manufacturing sectors:

> Australia is not the only country in the world that is suffering with these sorts of challenges. As an economy changes from being either primary or in manufacturing to being a service economy, those sorts of changes happen. Other countries are seeing these changes and shifts occurring.

3.24 As an economy evolves it requires different skills and more people with certain types of skills. Therefore, some degree of skills shortage is almost inevitable, as explained in the NCVER report:

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Many skills take years to acquire and are quite specific to a particular type of work. For example, a music teacher cannot readily become an accountant; a chef cannot readily become an electrical linesperson. It is inconceivable in such an environment that there will be a continuous and precise match between the types of skills required and the types of skills the workforce has to offer.\(^{13}\)

3.25 While factors such as skills training, structural changes in the economy, and the level of unemployment are undoubtedly important in explaining why there is shortage of skills and labour, evidence to this inquiry primarily focussed on one particular cause—namely, ‘a cyclical surge in employment in part of the economy’ or, put simply, the impact of the current resources boom. This focus is not surprising given the inquiry’s terms of reference asked for submissions to address ‘the impact of the resources boom on the services sector.’

3.26 The inquiry regularly heard that the competition for skills and labour brought about by the resources boom is having a marked impact on the ability of services sector employers to find suitable staff. The Australian Services Roundtable, for example, stated that the mining boom is ‘dragging skills away from the rest of the country.’\(^{14}\) Similarly, ATEC argued ‘the exponential growth of the mining industry is diverting many skilled operators into the mining sector.’\(^{15}\)

3.27 The increase in mineral prices has resulted in the resource sector’s increased demand for mining-related skills, including engineers, surveyors, electricians, plumbers and boilermakers. This demand has been met, in part, by the mining sector attracting people previously employed in the services sector.

3.28 The boom has also had a less obvious impact on the labour market in the services sector, affecting industries such as tourism and hospitality. The committee was provided with some real life examples of these less obvious impacts. For example, Dr Perry Hobson of the CRC for Sustainable tourism commented:

I was meeting with the general manager of the Parmelia Hilton in Perth. He had just lost his pot washer. That is not a senior, highly skilled position. He paid his pot washer $38,000 a year. The pot

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15 Australian Tourism Export Council, *Submission no. 3*, p. 16.
washer was walking through the kitchen and said, ‘Sorry, mate; I’m out of here.’ So the manager thought, ‘Oh, okay; I’ve got to pay him a few more dollars. What’s the story here?’ He had a bit of a chat with him, and he asked, ‘Where are you going?’ And the pot washer said, ‘I’ve got a job in a mine.’ So the manager said, ‘All right, how much more?’ Basically, he was getting paid twice what he could get paid in the hotel.16

3.29 Steven Holle of Gold Coast Tourism told the committee that tour bus drivers are also being attracted to the resources sector:

Individuals who are driving buses are being attracted to the mines because they have a heavy vehicle licence and can go off and drive a bus or, with a continuation of their sort of driving program, can upgrade their licence to drive a heavy vehicle.17

3.30 Similarly, Anthea Kilminster of the Western Australian Hospitality and Tourism Industry Training Council argued that the mining boom is drawing chefs away from the services sector:

The resources sector takes many of our chefs. That is one issue: they go and work on mines … if they were an ordinary breakfast cook here in the city they would earn probably around $40,000. Their starting wage on a mine site is $52,000.18

3.31 Finally, Matt Hingerty of ATEC reported that tradespeople are being lured from tourism businesses:

I would say that a tourist resort needs tradespeople as well. They need refrigeration mechanics, carpenters, sparkies and whatever, and they are the people we are losing to the mines.19

3.32 While it is good for the economy as a whole that workers are moving to the most productive sector of the economy at present—the mining sector—this clearly poses challenges for the sectors from which the workers are being drawn, including the services sector. These staff movements are particularly hurting non-mining sectors in regional areas.

16 Dr P Hobson, CRC for Sustainable Tourism, Transcript of evidence, 21 November 2007, p. 32.
17 Mr S Holle, Gold Coast Tourism, Transcript of evidence, 21 November 2007, p 32.
19 Mr M Hingerty, Australian Tourism Export Council, Transcript of evidence, 15 November 2007, p. 45.
How can the shortages be addressed?

3.33 Having discussed why skills and labour shortages are present, it is then possible to consider how the shortages might be addressed.

3.34 The NCVER report asserts that employing a suitably skilled workforce is one of the fundamental tasks of doing business:

The starting position should be that finding the skills considered necessary is one of the core tasks of a business, akin to finding the capital and the customers. Firms that do this well (and are able to retain and motivate their skilled workers) will prosper, and those who cannot will languish.\(^{20}\)

3.35 Is it therefore the responsibility of businesses to solve their own skills shortages? To a certain extent the answer is yes. Businesses coping well within the current climate do so by investing in their staff.

3.36 Having said this, there is clearly also an important role for governments as the major financer, and also a provider, of education and training. There is a considerable public benefit in governments investing in an appropriately skilled workforce—both for individuals and the economy as a whole.

3.37 Recognising this important role, the Council of Australian Governments (COAG) agreed on a package of measures to address the skills shortage at its February 2006 meeting. The measures include:

- mutual recognition of licensed trades between states and territories;
- shortening the duration of apprenticeships once competence has been demonstrated;
- removing barriers to school-based apprenticeships;
- improving recognition of prior learning for existing workers;
- streamlining recognition, assessment and licensing for those with overseas qualifications;
- establishing a new Commonwealth regional programme to address the supply of skilled labour to the regions and industry;
- a report examining directions for the next stages of VET reform.\(^{21}\)

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Evidence to this inquiry has provided an array of strategies for addressing Australia’s current shortage of skills and labour, including a number of COAG measures listed above. For ease of discussion, the most prominent strategies from the evidence have been categorised under three broad headings:

- More flexible and relevant training;
- Migration; and
- Improving the status of services’ careers.

**More flexible and relevant training**

Learning new skills is often a lengthy process. In a time where skills are at a premium, it stands to reason that the longer training takes, the longer skills shortages will persist. It is also of fundamental importance that skills learned in training are relevant to skills needed in the workplace. Therefore, evidence to this inquiry argued that training must become more flexible and relevant.

Flexibility was discussed in a number of contexts. The first was the need to reduce the length of training—primarily apprenticeships. In recent times, governments, through COAG, have attempted to achieve this goal by agreeing to make apprenticeships competency based, not based on time served. As noted by the Department of Education, Science and Training (DEST) in their submission to this committee’s manufacturing inquiry: ‘In many cases this may result in traditional Australian apprenticeships being completed earlier than the nominal duration’.²²

Another strategy advocated in submissions to reduce the length of apprenticeships is school-based apprenticeships, in which students undergo on-the-job and vocational training, while also completing a year 12 certificate. Increasing school-based apprenticeships is an important feature of the COAG skills shortages strategy.²³

Training flexibility was also discussed in terms of the delivery of training—offering more courses outside business hours, or offering more courses via the internet. Services Skills Australia commented:

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The non-traditional hours experienced by a significant proportion of the industry workforce highlight the need for flexible delivery modes.\(^{24}\)

3.43 The final context in which training flexibility was raised was increased recognition of prior learning (RPL) with formal qualifications. As outlined by DEST:

Workers with existing skills but no formal recognition of those skills are often required to undertake unnecessary training to gain a qualification. Unnecessary training is inefficient for both industries and workers.\(^ {25}\)

3.44 Services Skills Australia argued that RPL is increasingly important, particularly given Australia’s ageing population:

The ageing workforce and the consequent increased competition for young workers by other industries is likely to see an increased focus on the recruitment of older, more mature workers. This is likely to require the increased use of recognition services as a means of assessing and recognising the skills of those workers as they enter the industry.\(^ {26}\)

3.45 DEST told the committee that ‘recognising the skills and experience of workers is an important priority of the Australian government ... In February 2006, COAG agreed to key initiatives to improve the practice and take up of RPL.’\(^ {27}\)

3.46 In terms of the relevance of training, the committee heard examples where training was not delivering appropriately skilled employees. Science Industry Australia, for example, commented on the lack of practical skills possessed by science graduates:

Of particular concern to the industry is that while science graduates possess good theoretical knowledge, they do not have sufficient practical skills, and require further practical training to be job-ready.\(^ {28}\)

\(^{24}\) Service Skills Australia, *Submission no. 7*, p. 9.


\(^{26}\) Service Skills Australia, *Submission no. 7*, p. 8.


\(^{28}\) Science Industry Australia, *Submission no. 6*, p. 8.
3.47 An obvious solution to this problem is better collaboration between training providers and industry on the essential practical skills needed by graduates.

3.48 Training relevance was also discussed in the context of the courses being offered by training providers. As described by Bill Galvin of Tourism Training Australia ‘we really do not have the luxury anymore of training large numbers of people in the wrong career destinations’.

3.49 The solution to this issue is, once again, better collaboration between industry and training providers. Bill Galvin elaborated on this point:

> We really cannot afford an incorrect training mix anymore ... that is not good enough anymore. It is the industry that really has to determine, in concert with the providers—especially the public providers—what that training mix will be.

**Migration**

3.50 Training and learning new skills does not provide employers with the employees they require immediately. It is therefore argued that training cannot be the only approach to addressing the skills and labour shortages.

3.51 This fact was recognised throughout the committee’s evidence. Accordingly, various additional strategies were proposed to address the shortages. The most frequent and prominent was an increase in the level of skilled and unskilled migration.

3.52 At present, skilled migration occurs primarily through the mechanism of a 457 visa, which is an employer-sponsored long-term visa. The federal government has outlined the importance of skilled migration in the following terms:

> Given the unemployment rate of skilled Australians is now less than two per cent, and we face the prospect of a declining rate of growth in our workforce age population, a mechanism that provides rapid access to global skills is central to Australia’s prosperity.

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Evidence to this inquiry strongly supported the existence of a skilled migration program. There were, however, a number of improvements suggested to the operation of the current program.

One of the primary concerns was that customer service-type roles are not on the Migration Occupations in Demand List (MODL). In the hospitality industry, for example, restaurant and catering managers and staff are not on the MODL. Restaurant and Catering Australia argued this exclusion should be changed: ‘Skilled front of house (hospitality) occupations should be added to the migration occupation in demand listing.’

This position was supported by the Tourism and Transport Forum, who asserted:

There needs to be an unskilled—almost a new skill—category of customer service, which does not at the moment get a measurement in the visa category.

Another concern was that the process of applying to bring in skilled migrants is too onerous for small businesses. This issue was outlined in the context of the tourism industry by Peter Olah from the Hotel, Motel and Accommodation Association (HMAA):

The problem is that the ability of a lot of the tourism industry, which is made up of very small employers, to access anything that involves paperwork or any level of complexity is very low.

There are two prominent groups inquiring into skilled migration at present, which will consider the issues outlined above. The Parliament’s Joint Standing Committee on Migration is conducting an inquiry to examine the adequacy of temporary business visas—the 457 visa, in particular. The COAG Ministerial Council on Immigration and Multicultural Affairs is also examining ‘cooperative measures to ensure the effectiveness, fairness and integrity of the temporary skilled migration arrangements’.

Restaurant and Catering Australia, Submission no. 23, p. 17.
Mr O Johnstone-Donnet, Tourism and Transport Forum, Transcript of evidence, 15 November 2007, p. 45.
Mr P Olah, Hotel, Motel and Accommodation Association, Transcript of evidence, 15 November 2007, p. 50.
In addition to evidence about 457 visas, there were also calls to introduce a program of unskilled migration to address more general labour shortages. John Hart of Restaurant and Catering Australia argued that unskilled migration is a must:

It is inevitable that we are going to have unskilled migration. It has to happen. We simply do not have the supply of labour in this country that we need.\(^{36}\)

This view was supported by the HMAA who advocated a guest worker program as a source of unskilled labour. A guest worker program, in the view of the HMAA, has the potential to provide benefits for all parties concerned:

We certainly support something like a guest worker program. We would see it more broadly as not only imparting basic semiskilled jobs to people but offering them the opportunity to skill right up, accrue significant capital and take those skills and that capital back to their home country, hopefully in our region, after some time.\(^{37}\)

A recent Parliamentary Library paper on the pros and cons of a short-term guest worker program reported that the concept has received widespread support over the years:

A series of parliamentary and government appointed inquiries over the last 20 years, and a number of academics and journalists, have responded sympathetically to the calls [for a guest worker program]

... The bulk of inquiries and commentators have supported a guest-worker program.\(^{38}\)

Past discussions on a guest worker program have primarily centred on the agriculture sector, not the services sector. But the argument for guest workers may apply to sectors like tourism as well, because it, like agriculture, is highly seasonal—particularly in northern parts of the country.

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\(^{36}\) Mr J Hart, Restaurant and Catering Australia, *Transcript of evidence*, 15 November 2007, p. 44.  
3.62 Another source of labour—both skilled and unskilled—is working holiday makers. As of 1 July 2006 those on a working holiday could remain with an employer for 6 months, rather than 3 months as previously allowed, which was viewed positively by the services sector.

3.63 International students also provide a source of skilled and unskilled labour. At present, they are permitted to do 20 hours work per week. It was argued by Restaurant and Catering Australia that this should be extended to 30 hours.  

**Improving status of services’ careers**

3.64 The committee heard that the status of services’ careers is a factor contributing to skills and labour shortages—even though for only part of the sector. There is clearly not a problem with the status of services careers in, for example, the legal and commerce professions. There is, however, a problem in the status of careers in customer service roles, such as retail, tourism and hospitality. These roles are often seen ‘as a job you did until you decide on your proper career, or job or to help students with their living expenses as they make their way through university.’

Dr Perry Hobson explicated some of the problems for this segment of the services sector:

> Among the challenges for the industry are that it has been a relatively low-paid industry and that, particularly at the lower ends, it has had fairly minimal career path planning, and it has experienced high turnover as a result.

3.65 Despite these perceptions, it is clear that good career paths do exist in the alleged ‘lesser’ services sectors: ‘What about the interior designers, controllers, destination marketing agents, event planners, museum curators, guides, chefs and landscapers?’

3.66 The key for this segment of the services sector is to improve the status and perception of services careers. The committee heard that in some countries careers in services are held in much higher regard:

> The example I always like to quote is that of Hawaii, where from the age of about four every child has a colouring-in book and every

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39 Restaurant and Catering Australia, Submission no. 23, p. 17.
40 WA Hospitality and Tourism Industry Training Council, Submission no. 10, p. 3.
41 Dr P Hobson, CRC for Sustainable Tourism, Transcript of evidence, 21 November 2007, p. 32.
42 WA Hospitality and Tourism Industry Training Council, Submission no. 54, p. 2.
job they colour in is related to the tourism industry: ‘My dad is a taxi driver in the tourism industry; my mum is a nurse and she is in the tourism industry.’ We do not have that focus in Australia, and I think it is important that we start to look at that.33

3.68 One of the key factors in improving the status and perception of services careers is changing the attitude of parents and career advisers. The committee heard that many parents and advisers view some service industries as second-rate and discourage their children and students from pursuing careers in those industries. As a result, many young people share these negative perceptions.

3.69 The key to addressing this issue is to promote and market services career pathways to ensure they are apparent to parents, career advisers and students.

Committee conclusions

3.70 While this inquiry did not have a specific focus on skills and labour shortages, it was unquestionably one of the most dominant themes throughout the evidence. This was perhaps unsurprising given that recent business surveys have reported shortages as one of the top issues confronting business.

3.71 The services sector is not alone in facing these issues. It is, however, somewhat different from other sectors in the sense that it is more labour intensive than, for example, mining or manufacturing, and is therefore more acutely influenced by shortages. 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.

3.72 The shortages that are currently being experienced are a combination of a number of factors: an extended period of economic growth; the consequent 30 year low in unemployment; a change in the skills required in the economy; and, the labour demand created by the resources boom. As was noted in evidence, Australia is not the only country facing shortages of this kind.

3.73 The solution to the shortages faced by the services sector appears to involve a number of strategies. The first, and the most important, is

43 Ms A Kilminster, WA Hospitality and Tourism Industry Training Council, Transcript of evidence, 20 February 2007, p. 3.
flexible and relevant training. Flexible training involves competency-based training, school-based apprenticeships, new and flexible delivery methods, and recognition of prior learning—all strategies which have been advocated by COAG.

3.74 In terms of relevant training, the key is collaboration between industry and training providers to ensure the skills learned in training are the skills required by industry. Further, it is important that training providers are offering courses in areas of need, not, as one witness described, training large numbers of people in the wrong career destinations. This again involves industry and provider collaboration.

3.75 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.

3.76 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 ‘lower skill’ shortages is essential to ensure the continued growth of these industries. As such, the committee believes there is scope to introduce a new program of lower skill migration.

3.77 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.

3.78 Improving the status of the ‘lesser’ services careers is an important services-specific strategy. It is imperative to the sector that parents, career advisers and young people understand the excellent career options available in all of the service industries, not just in the professional services.
Recommendation 3

3.79 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.

3.80 In addition to this recommendation, the committee also notes that two other parliamentary committees are currently conducting specific inquiries relevant to service sector skills and labour shortages:

- The House Employment Committee is looking at workforce challenges in the tourism and hospitality sector; and
- The Joint Committee on Migration is looking at the temporary business visas.

3.81 This committee will closely monitor the findings and recommendations of those inquiries.

Services trade liberalisation

3.82 This inquiry, as indicated in the terms of reference, had a primary focus on service exports. Services are a significant and expanding component of Australia’s total exports. One of the major themes of the evidence to this inquiry was further expanding service exports through trade liberalisation.

3.83 A range of specific non-tariff trade barriers were highlighted in various individual service industries. Some of the issues raised by individual industries will be discussed in later chapters. This section will instead discuss services trade liberalisation at a broad, sector-wide level.

Services trade barriers

3.84 Trade barriers faced by services exporters are quite different to the barriers faced by goods exporters, as described by the Australian Services Roundtable:
The barriers have nothing to do with tariffs or quotas at the border. The barriers have to do instead with a myriad of often opaque government and industry regulations deep inside the export destination economy—regulations which limit who can do business in the sector and how.\textsuperscript{44}

3.85 The Services Roundtable went on to explain why services trade barriers are different and what services trade liberalisation is about:

This significant difference results from the fact that given the intangible nature of services, trade in services is about people movement and establishment/investment inside the export market. It is also because “crossborder” trade, where it is technically feasible, generally takes place via telecommunications links.

... Services trade liberalisation is not therefore about removing tariffs and other border measures. It is about achieving more transparent, less discriminatory and less trade restrictive regulation; about easier movement of personnel and easier offshore establishment, and about opening up to foreign investment.\textsuperscript{45}

3.86 Services trade negotiations are therefore often more complex than those for goods, because they involve more than just reducing tariffs and quotas. As described by Robert Milliner of Mallesons Stephen Jaques ‘you need to go down to a degree of granularity.’\textsuperscript{46}

3.87 According to the Victorian Government, services trade barriers exist in a number of important areas, including:

- cross-border supply and movement of professionals;
- recognition of academic and professional qualifications;
- restrictions on foreign equity ownership and other investment regulations, including joint venture requirements with local companies;
- standards and technical regulations, including licensing systems and pricing regulations, import licenses, labelling requirements, capital and prudential requirements for financial services;

\textsuperscript{44} Australian Services Roundtable, \textit{Submission no. 44}, p. 10.
\textsuperscript{45} Australian Services Roundtable, \textit{Submission no. 44}, pp. 10-11
\textsuperscript{46} Mr R Milliner, Mallesons Stephen Jaques, \textit{Transcript of evidence}, 14 November 2007, p. 5.
- enforcement of intellectual property rights; and
- for the education sector, commercial presence, including restrictions on the number of foreign education service providers, accreditation process for curriculum, and restrictions on land ownership.\(^{47}\)

3.88 The Department of Foreign Affairs and Trade (DFAT) agreed that there are significant barriers faced by services exporters: ‘in many markets, services sectors are heavily protected and regulated … issues such as commercial presence and entry of foreign personnel are often sensitive.’\(^{48}\) Therefore, DFAT stated that one of the keys to Australia realising its services export potential is ‘negotiating improved access in key markets.’\(^{49}\) The vehicle for such negotiations is bilateral and multilateral trade agreements.

### WTO negotiations

3.89 Trade in services has been an important part of World Trade Organisation (WTO) responsibilities since the inception of the General Agreement on Trade in Services (GATS) in 1995. The GATS ensures ‘that services [are] a key part of any future multilateral trade negotiations.’\(^{50}\)

3.90 While most agree that the GATS was a good starting point, there is significantly more to do, as recognised by DFAT:

> Although the GATS has provided a basic framework for services liberalisation … there remains a substantial agenda for further liberalisation.\(^{51}\)

3.91 DFAT also discussed the recent lack of progress with WTO negotiations:

> New negotiations mandated by the GATS commenced in 2000 and have since been incorporated in the broader Doha Round. As with the parallel negotiations on industrial goods, progress has been hampered by the continuing deadlock on agriculture and negotiations are now on hold until the round resumes.\(^{52}\)

3.92 The Services Roundtable commented on the deadlocked Doha round stating ‘progress on services internationally currently seems to be

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\(^{48}\) Department of Foreign Affairs and Trade, *Submission no. 34*, p. 14.

\(^{49}\) Department of Foreign Affairs and Trade, *Submission no. 34*, p. 14.

\(^{50}\) Department of Foreign Affairs and Trade, *Submission no. 34*, p. 14.

\(^{51}\) Department of Foreign Affairs and Trade, *Submission no. 34*, p. 15.

\(^{52}\) Department of Foreign Affairs and Trade, *Submission no. 34*, p. 15.
Robert Milliner of Mallesons Stephen Jaques shared similar concerns about the priorities in the WTO:

> In the WTO process it is again in order of magnitude, so the focus tends to be on agriculture and then on manufactured goods and then it goes down.

### Bilateral trade agreements

3.93 In terms of bilateral free trade agreements (FTAs), Austrade were of the view that the agreements negotiated with the United States, Singapore and Thailand have been very beneficial for Australian services exporters:

> FTAs have made a significant contribution to the removal of impediments to services trade. Such obstacles included foreign equity limitations, non-recognition of professional qualifications, licensing restrictions, and various restrictions on commercial presence. Trade statistics suggest that Australian service exporters appear to have benefited from FTA outcomes.

3.94 While evidence from participants in the services sector reported some benefits from the FTAs, many also stated that services trade issues need to be accorded higher priority in the negotiation of agreements. These concerns were summarised by Robert Milliner of Mallesons Stephen Jaques, who asserted:

> The issue is that services are always left to the back end of a free trade agreement, and particular services are even less of a priority. Therefore, whatever concessions you get are at such a high level that they do not really help you.

3.95 Looking forward, the China free trade agreement looms as an important opportunity for the services sector because, as one witness described, ‘the China market is probably the biggest market opportunity we have.’ While being strongly supportive of these negotiations, the Services

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53 Australian Services Roundtable, Submission no. 44, p. 18.
54 Mr R Milliner, Mallesons Stephen Jaques, Transcript of evidence, 14 November 2007, p. 5
55 Austrade, Submission no. 26, p. 12
56 Mr R Milliner, Mallesons Stephen Jaques, Transcript of evidence, 14 November 2007, p. 5.
57 Mr R Milliner, Mallesons Stephen Jaques, Transcript of evidence, 14 November 2007, p. 5.
Roundtable described the outlook for significant service sector gains in the China FTA as ‘increasingly bleak’.  

3.96 Other key agreements looking forward include Japan, Malaysia, ASEAN and the Gulf Cooperation Council. The Services Roundtable, while again supportive of these negotiations, holds concerns:

In every FTA negotiation in which Australia is currently engaged, services and investment aspects are lagging badly behind progress or potential progress on goods.

A new approach to trade negotiations

3.97 At present, formal trade negotiations, both at the WTO and in FTAs, occur in a holistic manner—that is, all sectors are negotiated in one agreement and often concessions in opposing sectors are traded off against one another.

3.98 DFAT, among others, have acknowledged that the current Doha round is deadlocked as a result of agricultural issues. Similar concerns exist in the negotiation of China FTA, with the Services Roundtable stating:

Members are most concerned to ensure that Australia’s significant offensive interests in services and investment are not held hostage to more defensive manufacturing interests.

3.99 Given the different priorities of different sectors, and the fact that disagreement on one sector can hold up negotiations for all, the Services Roundtable reported ‘that a view is emerging that it might be more productive, or at least just as productive, to attempt a WTO sectoral deal on services alone.’

Committee conclusions

3.100 Services trade liberalisation is fundamentally important to the future of the Australian economy. As described in chapter 2, services are by the far the largest contributor to Australian GDP, yet they are a comparatively small—albeit increasing—component of exports. There is clearly scope for

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58 Australian Services Roundtable, Submission no. 44, p. 21.
59 Australian Services Roundtable, Submission no. 44, p. 21.
60 Australian Services Roundtable, Submission no. 44, p. 21.
61 Australian Services Roundtable, Submission no. 44, p. 20.
the level of service exports to increase significantly, and one of the key factors in achieving this goal is services trade liberalisation.

3.101 Generally speaking, trade negotiations are complex, and this is certainly true of services trade negotiations. Services trade barriers are not the traditional, transparent, tariff-type barriers. Instead, the barriers lie deep within a country’s regulatory framework, and differ for each individual service industry. Further complication arises from the fact that many services were, or remain, government-owned, and therefore willingness to liberalise trade in such industries is often non-existent.

3.102 Multilateral negotiations at the WTO level have been slow, frustrated by deadlocks on agricultural issues.

3.103 Australia has managed to negotiate several bilateral free trade agreements in recent years, and there are more in negotiation. Evidence to this committee suggested that the services component of existing FTAs have been useful, but could be better.

3.104 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 services are tradable is still relatively recent.

3.105 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.

3.106 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

3.107 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.

Services export assistance

3.108 Another important issue for this inquiry, given its export focus, has been the need for the government to provide assistance to service exporters. This assistance is multifaceted and includes encouraging service providers to start exporting, identifying markets and opportunities, providing intelligence on how to access markets, and promoting Australian exporters. As recognised by the Northern Territory government:

There is a role for the Australian Government in coordinating and assisting in the development of the services sectors across the country to realise their export potential.\textsuperscript{52}

3.109 Austrade, the agency charged with assisting Australian exporters, explained its objectives as follows:

Austrade is the Australian Government’s export and international business facilitation agency. It provides access to overseas markets, financial support through export market development grants and international opportunities through offices and partners throughout Australia and across the world. This is enabled by Austrade’s international presence in over 140 locations in more than 60 countries and a technical platform that facilitates global access for Australian businesses to international business opportunities. While maintaining its support to major exporters, Austrade is specifically focused on further developing a culture of export, particularly for small and medium sized enterprises.\textsuperscript{63}

\textsuperscript{52} Northern Territory Government, Submission no. 31, p. 4.

\textsuperscript{63} Austrade, Submission no. 26, p. 3.
Austrade primarily assists exporters through two programs: the Export Market Development Grant Scheme (EMDGS); and the New Exporter Development Program (NEDP):

The EMDG scheme is the Australian Government’s principal financial assistance program for small and emerging exporters. Under the scheme, eligible applicants may qualify for up to 50 per cent reimbursement of eligible export marketing expenses above a threshold of $15,000 to a maximum of seven grants.

... 

The New Exporter Development Program (NEDP) is also important in assisting Australian businesses to export, including small and medium sized Australian companies, by providing a wide range of free services to new exporters. Such support encompasses advice and information about commencing exporting, export coaching and on-the-ground assistance in overseas markets.64

3.111 Both schemes have been strongly utilised by service exporters:

Of the 2004-05 grant year recipients paid in financial year 2005-06, 1,998 were in service industries. These businesses received a total of $78.0 million in EMDG grants, which represented 58.4 per cent of total grant payments, and generated exports worth $1.9 billion.

...

In 2005-06, 433 businesses in the service sector (17.4 per cent of all service sector clients) received assistance under NEDP.65

3.112 Generally speaking, the services sector was complimentary of the work done by Austrade. Summarising this view, Pavan Bhatia of Gold Coast Tourism commented: ‘Has Austrade done a good job? Of course.’66 Similarly, the Services Roundtable stated:

Austrade is very active in the promotion and facilitation of Australian services export. Importantly Austrade gives appropriate attention to the small and medium sized firms which dominate the services sector.67

64 Austrade, Submission no. 26, p. 11.
65 Austrade, Submission no. 26, p. 11.
66 Mr P Bhatia, Gold Coast Tourism, Transcript of evidence, 21 November 2007, p. 51
67 Australian Services Roundtable, Submission no. 44, p. 22.
3.113 Despite these positive reflections, there was a view that the current work of Austrade could be extended and improved upon. There were three primary areas in which it was thought export assistance could be enhanced:

- Improving the EMDGS;
- Improving Australia’s brand; and
- Networking events for service exporters.

**Improving the EMDGS**

3.114 The EMDGS is well utilised and supported by the services sector. Nonetheless, there was a view that the scheme could be improved.

3.115 ATEC, for example, argued that the EMDGS should include a ‘start again’ provision to allow businesses to reapply for grants when they are entering new markets:

ATEC believes that a “start again” provision for emerging markets would encourage smaller tourism businesses to diversify into riskier but potentially lucrative new markets.  

3.116 ATEC also argued that the EMDGS should be amended ‘to allow access for promoters of strata-title developments containing mixed tourism and residential accommodation.’

3.117 The Queensland Tourism Industry Council shared ATEC’s two concerns and detailed two others:

- We are concerned that the gradual reduction of the maximum grant threshold to $150,000 has eroded opportunities for export growth in a period when tourism exports were under considerable stress … We support lifting the threshold to at least $200,000.
- Concerns have been raised with us that the administrative/compliance burden has increased for applicants and recipients of EMDG funds. This is also the case for the auditing process of individual grants. We strongly urge a strong focus be maintained on eliminating any unnecessary administrative costs to both government and industry.

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68 Australian Tourism Export Council, *Submission no. 3*, p. 18.
69 Australian Tourism Export Council, *Submission no. 3*, p. 18.
Improving Australia’s brand

3.118 Australia’s international reputation or ‘brand’ is a fundamentally important factor in increasing service exports. There was concern among some witnesses that our current brand is focussed too heavily on some exports, to the detriment of others. This view was expressed by Gary Johnston of Axiss Australia in relation to the finance industry:

People think of Australia and they think it is mining and agriculture and tourism. They do not know that the financial services sector now accounts for over 8 per cent of gross domestic product, GDP, and that it is larger than agriculture and mining combined. They simply do not know that.71

3.119 Similar evidence was given about Australia’s brand by Austrade, who noted that while Australia is well regarded as a holiday destination, there is more work to do on our cultural and business brand.72

3.120 Overall, it is important that we extend our brand internationally if we are to take full advantage of export opportunities—particularly in the area of business related services, where our current standing appears to be less than ideal.

Networking events for service exporters

3.121 This particular issue was raised by Austrade itself. The manager of the services area, Lloyd Downey, reported that the services export sector could benefit from Austrade hosted network marketing-type events:

Rather than trying to pick winners and throwing marketing money at services, we could really use some help with better techniques for marketing of services. We really struggle, I think, in marketing some kinds of services which are based particularly on network marketing.73

3.122 Mr Downey explained the operation of the concept as follows:

I was thinking about something much more targeted, and I have talked with the senior trade commissioner in Singapore about this. It could be something like: we name a date, say the third Thursday in the month, as being the date that we are going to have an event

71 Mr G Johnston, Axiss Australia, Transcript of evidence, pp. 35-36.
72 Mr L Downey, Austrade, Transcript of evidence, 15 November 2007, p. 60.
73 Mr L Downey, Austrade, Transcript of evidence, 1 December 2007, p. 8.
on engineering services in Singapore and we invite relevant people along to that; we publicise it in Australia; we set up some form of informal speed dating or something like that so that people meet a lot of relevant people at that meeting; we invite the Singapore-Australia business association people along so that they can network with the other people that we might invite. It is that sort of thing.\textsuperscript{74}

**Committee conclusions**

3.123 The Australian government’s export assistance is generally well regarded by the services sector. Nonetheless, the sector has advocated a few areas where policy could be improved or refined.

3.124 The services sector—tourism, in particular—have proposed changes to the government’s major export assistance program, the EMDGS. The committee supports calls to review the administrative burdens of applying for the scheme, and to ensure that businesses are not excluded from the scheme because of their structure (such as strata-title apartments). The tourism industry’s call to allow a ‘start again’ provision for new markets appears worthy of further government consideration, as does the proposal for increasing the EMDGS grant limit to $200,000 or above.

3.125 The committee is supportive of the Austrade concept of holding networking events for services exporters.

3.126 Australia’s branding is very important to the future of service exports, but also of exports generally. As outlined above, 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.

3.127 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.

\textsuperscript{74} Mr L Downey, Austrade, *Transcript of evidence*, 1 December 2007, p. 9.
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

A recurring theme of this inquiry was a criticism of the services export statistics collected by the Australian Bureau of Statistics (ABS). Trade in services is, as acknowledged by the Services Roundtable, ‘notoriously difficult to measure’. Nevertheless, a number of groups were critical of the current arrangements, arguing they understate services exports.

The Services Roundtable elaborated on three areas of concern relating to the apparent underestimation of services exports:

- Australia’s services sector makes a much larger contribution to exports than its direct share, as services are often integrated with other goods;
- The BoP underestimates trade in services by omitting sales of services through Modes 3 and 4; and
A number of types of services exports are not picked up in the statistics at all.\textsuperscript{75}

3.132 Other submissions and witnesses expressed similar sentiments. For example, Austrade argued:

Statistics generally underestimate international trade in services by omitting the services supporting the establishment of a commercial presence in a foreign market or individuals temporarily travelling abroad to provide a service. These forms of service trade are increasingly important, particularly in retailing, banking, business services and telecommunications.\textsuperscript{76}

3.133 Similarly, ATEC asserted:

We at ATEC are coming to the view that there has been a significant underestimation of the spend from foreign tourists in Australia. The reason I raise that is that we do a lot of work with Visa International, as some of my colleagues in the room would as well. They have compared data on the spend on their card by foreign tourists when in Australia to the official data. They are coming up with 70 per cent or 80 per cent from given markets. As much as they would like to think that was the case, they do not think it is. They think there is some statistical error. So the $19 billion export industry we talk about could in fact be a lot larger.\textsuperscript{77}

3.134 There were also concerns raised about the coverage and comprehensiveness of services export statistics. Engineers Australia, for example, argued that ‘data on trade in services are not as comprehensive, detailed, timely or internationally comparable as data on trade in goods.’\textsuperscript{78}

3.135 DFAT also argued for more comprehensive data:

The Department of Foreign Affairs and Trade … advocate[s] efforts to improve statistics on trade in services. It has, among other things, sought more timely and comprehensive balance of payments statistics on services, as well as additional data on services delivered through commercial presence.\textsuperscript{79}

\textsuperscript{75} Australian Services Roundtable, Submission no. 44, p. 8.
\textsuperscript{76} Austrade, Submission no. 26, p. 4.
\textsuperscript{77} Mr M Hingerty, Australian Tourism Export Council, Transcript of evidence, 15 November 2006, p. 62.
\textsuperscript{78} Engineers Australia, Submission no. 48, p. 8.
\textsuperscript{79} Department of Foreign Affairs and Trade, Submission no. 34, p. 7.
3.136 The submission of the ABS noted many of the concerns cited above. The submission also detailed areas in which government departments have asked for better information:

- more detailed trading partner information (for 50 countries);
- more detailed dissections of 'other business services' and 'personal, cultural and recreation services';
- more detailed cross-classification of service type by trading partner;
- more detailed service type information by state/territory;
- fewer exclusions because of confidentiality or data quality reasons; and
- detailed mode of supply and General Agreement on Trade in Services sector statistics.\(^{80}\)

3.137 While noting that it had ‘identified a number of development possibilities to address these requirements’, the ABS cautioned that it:

Has limited capacity to expand or hasten its work program within the resources available to it. Should the Committee recommend particular courses of action requiring statistical development, monitoring or reporting, additional resource commitments may be required.\(^{81}\)

**Committee conclusions**

3.138 There was a consensus view that services export statistics need to be improved; this consensus came not only from the private sector, but from government departments and the ABS itself.

3.139 While there is certainly room for improvement, some of the claims made about the underestimation of services exports are challengeable. It is true that services are often integrated with goods; however, it is equally true that goods are integrated in services. There are commodities ‘embedded’ in services, such as food served as meals for tourists and oil used to transport them. It is therefore not obvious that this statistical treatment, which is consistent with international practice, is understating the role of services.

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81 Australian Bureau of Statistics, *Submission no. 8*, p. 4-5.
 Furthermore, for the ABS to count services delivered by mode 3 and 4 as ‘exports’ in the national accounts would be inconsistent with international practice.

Overall, 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.