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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

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

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

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## 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



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## Membership of the committee

Chair	Hon Bruce Baird MP	
Deputy Chair	Ms Sharon Bird MP <i>(member of committee from 7/2/07 &amp; Deputy Chair from 1/3/07)</i>	
Members	Mr Steven Ciobo MP	Mr Joel Fitzgibbon MP <i>(member of the committee to 7/2/07)</i>
	Dr Craig Emerson MP <i>(Deputy Chair to 1/3/07)</i>	
	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.

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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 argued 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 is 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.*

## Introduction

### **Scope of the inquiry**

- 1.1 Australia's mining sector is currently experiencing a well publicised 'boom', driven primarily by demand for raw materials from the rapidly expanding Chinese economy. This boom has seen Australia's terms of trade rise to the highest level since the 1950s wool boom, and has also seen remarkable economic growth in the mineral rich states of Western Australia and Queensland.
- 1.2 With this background in mind, on 3 May 2006 the Treasurer, the Hon Peter Costello MP, asked the committee to conduct two inquiries looking 'beyond the resources boom' – one focussing on the future of the services export sector, and the other on the future of the manufacturing sector.
- 1.3 The inquiry into 'the current and future directions of Australia's services export sector' had two primary objectives. The first was to investigate the services sector – particularly, but not exclusively, the export sector – from a macroeconomic perspective, looking at the current state of the services sector, the impact of the resources boom on the sector, and any issues facing the sector as a whole.
- 1.4 The second objective, at more of a microeconomic level, was to examine individual services industries and uncover issues and opportunities for these industries. The inquiry principally looked at Australia's two biggest services export industries, tourism and education, but also received evidence on a range of other industries.

## Conduct of the inquiry

- 1.5 The inquiry was advertised nationally on 31 May 2006 and subsequently received 56 submissions from a broad cross section of interested parties.
- 1.6 During the latter part of 2006 and early 2007 the committee conducted 10 public hearings held in Canberra, Sydney, Melbourne, Brisbane and Perth. These hearings included two very successful tourism roundtables which involved a large number of key industry stakeholders.
- 1.7 The committee was disappointed by some of the service sector contributions to this inquiry, which did not contain a great number of groundbreaking ideas. It was also disappointing that some industry organisations did not make submissions.
- 1.8 There were, however, groups that particularly impressed the committee. Engineers Australia, for example, had conducted a comprehensive survey of its membership, which enabled them to provide the committee with a range of useful insights.
- 1.9 Submissions received and transcripts of hearings can be found on the committee's website:  
<http://www.aph.gov.au/house/committee/efpa/services/index.htm>
- 1.10 A list of submissions, exhibits and public hearing witnesses can be found at appendices A, B and C respectively.

## Readers' guide and structure of report

- 1.11 This report has been structured in an easy-to-read format. In discussing each issue, a summary of the evidence is provided, followed by the committee's conclusions, and then, in some cases, a recommendation. When discussing individual service industries the report also highlights future opportunities for the industry and, where relevant, makes recommendations.
- 1.12 Readers who do not have the time to read the report in full can read the conclusions separately. The conclusions have been prepared in a 'stand alone' format so that readers can quickly understand the key issues together with the committee's conclusions and reasons for any recommendations.
- 1.13 Chapter 2 provides an overview of the services sector. The focus of this chapter includes: a definition of services; the importance of services in the



Australian economy; the recent trends in services exports; and the impact of the resources boom on the services sector.

- 1.14 Chapter 3 discusses issues relevant to the services sector as a whole. While it is clear that the services sector is not necessarily homogenous, there were a number of recurring issues throughout the committee's evidence relevant to the entire sector.
- 1.15 As directed by the terms of reference, the inquiry had a particular focus on Australia's two major services export industries—tourism and education. Chapter 4 focuses on the current and future directions of tourism—inbound tourism, in particular. Chapter 5 focuses on exports of education to international students.
- 1.16 Chapter 6 examines the other services industries highlighted in the committee's submissions. These include: financial services; legal services; engineering services; ICT services; science services; and construction services. The report does not discuss the services sectors about which detailed evidence was not received.



## Overview of Australia's services sector

### What are services?

- 2.1 Services are often defined by what they are not (to the annoyance of those representing services industries<sup>1</sup>). In statistics, the 'services' or 'tertiary' sector is usually defined as those parts of the economy that are not agriculture, forestry and fishing; mining; or manufacturing. *The Economist* magazine has defined services as 'things you can not drop on your foot'.
- 2.2 The Australian Services Roundtable defined 'services' as follows:
- Services deliver help, utility or care, an experience, information or other intellectual content. The majority of the value of that activity is intangible rather than residing in any physical product.<sup>2</sup>
- 2.3 In the national accounts and employment statistics, the Australian Bureau of Statistics (ABS) identifies a number of industries based on the Australian and New Zealand Standard Industrial Classification. Those regarded as services in this report are listed in Table 2.1.
- 2.4 'Tourism' is not separately identified in table 2.1, as 'industries' are distinguished by characteristics of the producers, not by characteristics of the consumers. A sandwich eaten by a tourist is regarded as more like a sandwich eaten by a local than it is like a bus trip taken by a tourist, so these two tourist activities are divided between industries H (cafes and restaurants) and I (transport). However, tourism is the subject of a 'satellite

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1 Australian Services Roundtable, *Submission no. 44*, p. 4.

2 Australian Services Roundtable, *Submission no. 44*, p. 5.

account'.<sup>3</sup> This shows tourism contributed \$37.6 billion (or 3.9 per cent) to Gross Domestic Product (GDP) in 2005-06.

## Services and the Australian economy

2.5 Services industries, as the table below demonstrates, account for the majority of the Australian economy. Gross value added (GVA<sup>4</sup>; a concept like GDP) by the services sector is likely to amount to around \$800 billion of Australia's trillion dollar economy in 2006-07.

Table 2.1 Services industries: shares of gross value added and employment

ANZSIC category	Industry	GVA as % of total (2005-06)	Employment as % of total (Feb 2007; seas. adj.)
D	Electricity, gas and water	3	1
E	Construction	8	9
F	Wholesale trade	6	4
G	Retail trade	7	14
H	Accommodation, cafes and restaurants	2	5
I	Transport and storage	5	5
J	Communication services	3	2
K	Finance and insurance	8	4
L	Property and business services	14	12
M	Government administration and defence	5	5
N	Education	5	7
O	Health and community services	7	10
P	Cultural and recreational services	2	3
Q	Personal and other services	2	4
D to Q	Total of above	76	85

Sources Australian Bureau of Statistics, *Australian system of national accounts 2005-06*, cat. no. 5204.0, ABS, Canberra, 2007; Australian Bureau of Statistics, *Labour force Australia (detailed)*, cat. no. 6291.0.55.003, ABS, Canberra, February 2007.

- 3 Australian Bureau of Statistics, *Tourism satellite account 2005-06*, cat. no. 5249.0, ABS, Canberra, May 2007. The satellite account is funded by the Department of Industry, Tourism and Resources. The main components are air and water transport (\$4½ billion in 2005-06), accommodation (\$4 billion), cafes and restaurants (\$3 billion), and education (\$2 billion).
- 4 The GVA of the industries shown in the table, added to industries A (agriculture, fishing and forestry), B (mining) and C (manufacturing), gives the denominator of the ratios shown, but does not equal GDP. Another 'industry', 'ownership of dwellings', must be added to obtain 'gross value added at basic prices'. Adding 'taxes less subsidies' in turn gives gross domestic product.

2.6 The services sector accounts for about three-quarters of Australia's GDP and an even larger share of employment. Around 8.8 million (85 per cent) of employed Australians work in the services sector (as at February 2007).<sup>5</sup>

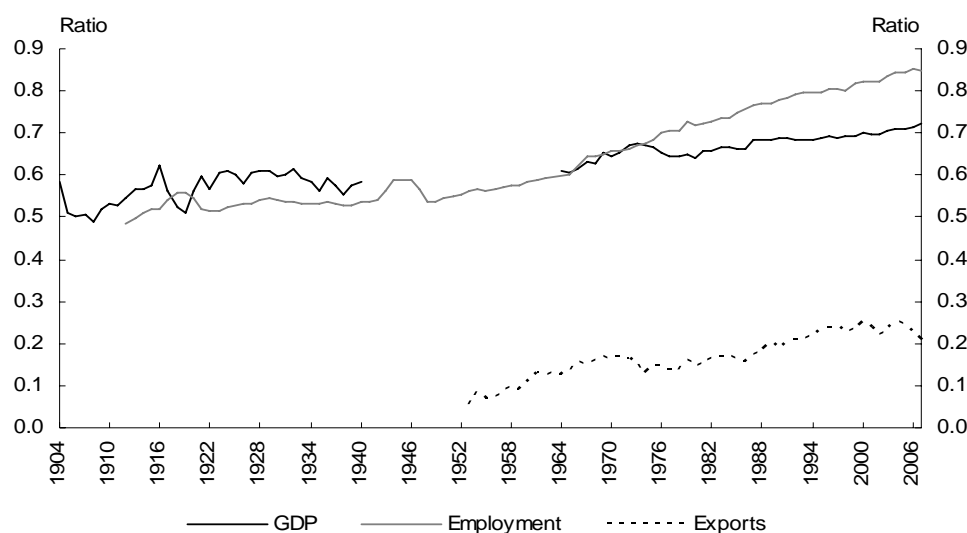
2.7 As in most economies, the share of the services sector in Australia has steadily increased over time (Table 2.2 and Figure 2.1). Subsistence economies devote most of their workers to producing food, but as economies become wealthier, there is more specialisation and scope to consume luxuries, which leads to increases in the services sector.

Table 2.2 Proportion of employment in services (excluding construction and utilities) (percentage)

	Australia	Canada	France	Netherlands	United Kingdom	United States
1700	n.a.	n.a.	n.a.	27	22	n.a.
1870	37	19	23	34	35	26
1913	41	n.a.	27	40	44	43
1950	49	42	37	46	50	54
1973	58	63	51	58	55	64
2005	75	75	74	77	76	79

Sources A Maddison, *Monitoring the world economy, 1820-1992*, OECD, p.39 and *Dynamic forces in capitalist development; a long-run comparative view, 1991*; G Withers, A Endres & L Perry 'Labour' in W Vamplew (ed) *Australians: Historical statistics*, Fairfax, Syme & Weldon, p. 149; OECD, *Labour force statistics 1985-2005*.

Figure 2.1 Australia's services sector (proportion of total)



Source Updated from *The Treasury, Submission no. 30, p. 2*.

5 The ABS does not classify 'electricity, gas and water' or 'construction' in services. Their submission therefore has lower numbers for the size of the services sector; 67 per cent of GVA and 75 per cent of employment; Australian Bureau of Statistics, *Submission no. 8, p.2*. Note also that about a tenth of 'mining' GVA comprises 'services to mining'.

## Innovation and productivity in the services sector

2.8 It can also be seen from Figure 2.1 that the services sector's share of total employment has grown more than its share of GDP.<sup>6</sup> This is consistent with the common global pattern of slower growth of productivity in the services sector than in the rest of the economy.<sup>7</sup> For example, over the period 1993-94 to 2003-04, labour productivity rose by more in Australia's manufacturing and agriculture industries than in all but two service industries (Table 2.3). While productivity grows more slowly in the services sector than the goods sector, as the services sector is so much larger than the goods sector, the services sector contributes more to total productivity growth in the economy than does the goods sector.<sup>8</sup>

Table 2.3 Services industries: labour productivity (annual average percentage change)

ANZSIC category	Industry	1993-94 to 2003-04	2003-04 to 2005-06
D	Electricity, gas and water	2.1	-5.1
E	Construction	1.6	1.4
F	Wholesale trade	5.1	4.4
G	Retail trade	2.2	1.0
H	Accommodation, cafes and restaurants	1.8	3.3
I	Transport and storage	2.7	1.9
J	Communication services	5.1	1.8
K	Finance and insurance	3.1	0.1
P	Culture and recreational services	1.0	-2.0
Memo			
A	Agriculture, forestry and fishing	4.7	5.9
C	Manufacturing	3.1	-0.0

Source Derived from data on Productivity Commission website ([www.pc.gov.au](http://www.pc.gov.au)).

- 6 Notwithstanding the tendency for the price of services to rise relative to goods, which inflates the share of services in the value of output.
- 7 The classic paper on the slower growth in productivity in the services sector is W Baumol, 'Macroeconomics of unbalanced growth', *American Economic Review*, June 1967. A recent study by the Department of Communications, Information Technology and the Arts concluded 'in recent years productivity improvement in the goods producing sectors (agriculture, mining and manufacturing) tended to exceed productivity improvements in most services'; *Productivity growth in service industries*, DIMIA occasional economic paper, April 2005, p. 11. This pattern is also observed across the G7 economies in D Pilat et al, 'The changing nature of manufacturing in OECD economies', *OECD STI working paper*, 2006/9, p. 10. It is shown to hold in almost all OECD economies in A Wölfel, 'Productivity growth in service industries', *OECD science, technology and industry working paper*, 2003/7.
- 8 This point is made by the Australian Services Roundtable, *Submission no. 44*, p. 7.

- 2.9 The slower growth in services productivity is not a reflection on the managers or workers in the sector. It reflects the inherent difficulty of increasing measured productivity in some aspects of service industries.<sup>9</sup> Productivity has slowed in most service industries recently, although there is no consensus about the cause.
- 2.10 There are many areas where innovation has improved productivity in service industries. For example, information technology has improved efficiency in areas such as cutting inventories for retailers and wholesalers and reducing vacant seats on planes and vacant rooms in hotels. There have been large improvements in communications technology.
- 2.11 But there are some areas where there has been almost no improvement. For example, the 'technology' used by hairdressers has barely changed in decades. There is limited scope for productivity improvements in child care or aged care. While vast economies of scale and efficiency improvements have been achieved in producing basic clothing, seamstresses or tailors doing alterations operate in much the same way as they have for decades.
- 2.12 As there is less scope for innovation in many areas of services, the services sector accounts for a lot smaller proportion of research and development (R&D) activity than it does of output and employment. The majority of business R&D is undertaken by the mining and manufacturing sectors.<sup>10</sup> The finance industry accounts for 10 per cent of business R&D and 'property and business services' almost 20 per cent. The remainder of the services sector accounts for around 15 per cent.<sup>11</sup>
- 2.13 It is notable that the submissions to the services inquiry had much less discussion of productivity and innovation than did those to the parallel inquiry into manufacturing. The academic literature and statistical publications also have less discussion. For example, in tables on labour productivity by industry, the ABS does not present estimates for the

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9 In some 'industries' where output is not sold in the marketplace, such as government administration, statisticians may assume no increase in productivity, valuing output as the value of inputs.

10 The services sector as a whole accounts for more R&D than any individual industry within the goods sector, which may be the basis for the claim that 'services industries are the most important source of ... innovation in Australia' in the Services Roundtable, *Submission no. 44*, p. 7. Alternatively they may be arguing that R&D (or on-the-job improvements) is more successful in generating innovation in the services sector than the goods sector, which would be hard to prove, or just that innovation is more important in services because services are a larger proportion of the economy.

11 These numbers refer to 2004-05 and are taken from Australian Bureau of Statistics, *Research and experimental development, Businesses, Australia, 2004-05*, cat. no. 8104.0, ABS, Canberra.

'education' or 'property and business services' industries because they are hard to measure.<sup>12</sup>

- 2.14 The limited role of R&D in some service industries was acknowledged by David Etherton of Tourism Western Australia:

What was the last hotel R&D initiative? It was when they started folding the toilet paper so they do not have to give you new toilet paper every time you come in.<sup>13</sup>

- 2.15 Conversely, Lloyd Downey of Austrade felt that the importance of innovation in services is understated:

I do not think enough attention is given to innovation in services ... We talk about innovation and it seems to go hand in hand with some sort of technology, although innovation is occurring all the time in services and some of the most important developments we have ever had have been in services: the invention, for example, of the proprietary limited company; the invention of paper money – those sorts of things that have enabled credit and businesses to develop. They are not really listed in your list of major inventions of the last 200 years.<sup>14</sup>

- 2.16 Mr Downey further commented:

It would be nice to see a chair of service studies or something like that at a university.<sup>15</sup>

- 2.17 A similar view was put by the Australian Services Roundtable:

Australia needs a better developed, more robust understanding of what drives both innovation and competitiveness in its services sector. Initial studies suggest that the factors which drive innovation and the manner in which innovation takes place are very different in the services sector compared with the good sectors, suggesting that quite different policy instruments also might be required to promote it.<sup>16</sup>

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12 Australian Bureau of Statistics, *Australian system of national accounts*, cat. no. 5204.0, ABS, Canberra.

13 Mr D Etherton, Tourism Western Australia, *Transcript of evidence*, 20 February 2007, p. 22.

14 Mr L Downey, Austrade, *Transcript of evidence*, 1 December 2006, p. 8.

15 Mr L Downey, Austrade, *Transcript of evidence*, 1 December 2006, p. 8.

16 Australian Services Roundtable, *Submission no. 44*, p. 14.



## Services exports and the Australian economy

- 2.18 Australian exports of services were worth around \$44 billion in 2006. This represents more than a fifth of exports, much more than rural exports, and of a similar size to manufactures exports. This may surprise many people, who would immediately think of coal or wheat when they think of Australian exports. It is perhaps apt that service exports are sometimes referred to as 'invisible exports'. Indeed, it is not long ago that some 'services' were regarded as virtually synonymous with 'non-tradeables'.
- 2.19 As shown in Figure 2.1, services' share of total exports has increased considerably. It is likely to rise further (particularly if mineral prices fall back, as discussed later in this chapter). However, the share of services in exports is likely to remain well below their overall importance in the economy.
- 2.20 Statisticians identify four 'modes' by which services are provided to foreign consumers. These are:
- Mode 1: Cross-border supply is defined to cover services flows from the territory of one country (the exporter) into the territory of another (e.g. banking or architectural services transmitted via telecommunications or e-mail);
  - Mode 2: Consumption abroad refers to situations where a services consumer (e.g. a tourist, student or medical patient) travels temporarily into another country's territory (that of the exporter) to obtain a service abroad;
  - Mode 3: Commercial presence takes place where a services supplier of one country (the exporter) establishes a local presence, including through ownership or lease of premises, in another country's territory to provide a service in that market (e.g. domestic subsidiaries of foreign insurance companies or hotel chains);
  - Mode 4: Movement of natural persons consists of services providers of one country (the exporter) travelling temporarily to the territory of another country to supply a service (e.g. accountants, lawyers, doctors and teachers).<sup>17</sup>
- 2.21 The provision of services through modes 1 and 2 are classified as 'exports' in the balance of payments. As is the case for Australian companies owning a factory or mine overseas, the provision of services that occurs

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17 Australian Services Roundtable, *Submission no. 44*, p. 9.

overseas (modes 3 and 4) is not classified as an export. Rather the profit accruing to the Australian owner is included as an 'income credit' in the balance of payments.

2.22 The main service exports identified by the ABS in the balance of payments, as shown in Figure 2.3, are services to:

- 'other personal travellers' (ie leisure tourists) in Australia (around \$11 billion in 2006);
- passenger transport (\$8 billion);
- education (\$10½ billion);
- services to business travellers (\$2½ billion);
- financial and insurance services (\$1½ billion); and
- a variety of other business services are also collectively significant (\$5½ billion).

2.23 Some of these components are aggregated by the ABS to give their estimate of 'tourism related services' (\$28 billion) in the balance of payments.<sup>18</sup> The ABS also publish an estimate of 'consumption by international visitors of goods and services produced by the Australian economy', (\$20.5 billion in 2005-06), in their annual *Tourism Satellite Accounts*.<sup>19</sup> There are a range of other estimates cited by other groups and agencies.<sup>20</sup>

2.24 Australia's main markets for services have long been the United States, Japan and the United Kingdom, but China has been growing in

18 Derived from Australian Bureau of Statistics, *Balance of payments and international investment position March quarter 2007*, cat. no. 5302.0, ABS, Canberra, 2007. The 'tourism related services' is calculated by adding total travel services (business, education-related and other personal travel), passenger fares and the air transport component of other transportation services.

19 Australian Bureau of Statistics, *Tourism satellite account 2005-06*, cat. no. 5249.0, ABS, Canberra, May 2007. This concept is cited in the ABS, *Submission no. 8*, p. 3 and by the Department of Foreign Affairs and Trade, *Submission no. 34*, p. 3.

20 These include 'export revenue from visitors', \$18.2 billion in 2005 according to the Australian Tourism Export Council, *Submission no. 3*, p.3; 'tourism export receipts', \$23.2 billion in 2004-05 according to DITR, *Submission no. 21*, p.3; 'income from tourism exports', \$17 billion according to AusTrade, *Submission no. 26*, p. 5; 'inbound tourism', \$18.5 billion in 2005 and forecast to reach \$19.1 billion in 2006 according to Qantas, *Submission no. 37*, p.3; 'international inbound economic value', \$17.1 billion (in 2003-04 dollars) in 2004-05 according to Tourism Australia, *Submission no. 41*, p. 7; 'tourism exports', \$11 billion in 2005 according to Services Roundtable, *Submission no. 44*, p. 6.

Note that 'tourism' in these statistics includes spending by many people travelling for business or education, not just for leisure.

importance and is now the fifth largest market (with New Zealand fourth).<sup>21</sup>

## Recent trends in services exports

2.25 The Treasury described recent trends in service exports as follows:

Growth in Australia's exports of services has slowed over the past decade, abstracting from the spike and subsequent unwind associated with the 2000 Sydney Olympics and September 11 terrorist attacks.<sup>22</sup>

2.26 The value of service exports increased by 5½ per cent in 2005-06 (Table 2.4). This was comprised of a modest 2 per cent increase in volumes (Figure 2.2) and a 3½ per cent increase in prices.

Table 2.4 Recent trends in service exports (values)

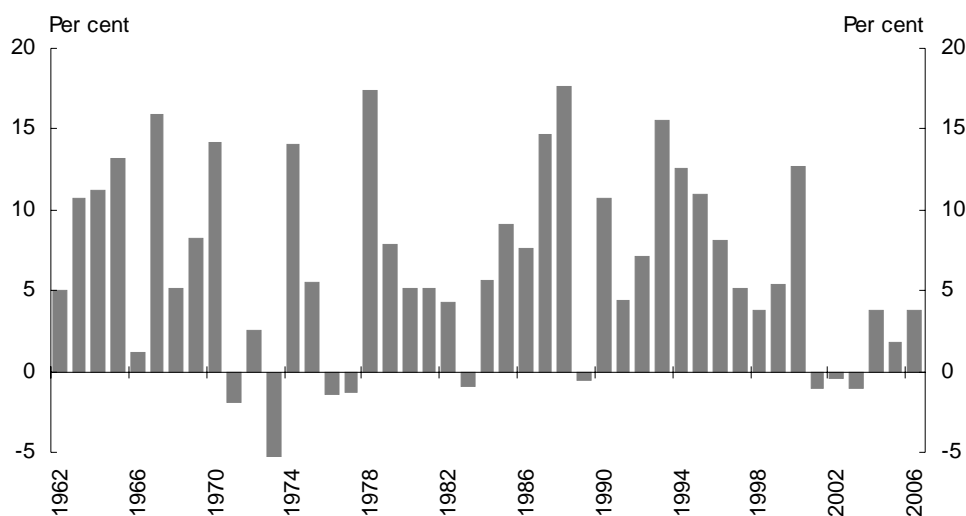
	2003-04	2004-05	2005-06	2005-06
	\$ billion	\$ billion	\$ billion	% change
Passenger transport	6.8	7.3	7.6	4.1
Freight transport	0.8	0.7	0.6	-13.6
Travel services: business	1.9	1.7	2.1	20.9
Travel services: education	7.8	8.8	9.7	11.2
Travel services: other personal	10.5	10.9	10.8	-1.4
Insurance and financial services	1.7	1.7	1.7	1.4
Computer and information services	1.2	1.3	1.2	-4.2
Other services	7.2	7.3	8.1	10.8
<i>Total services exports</i>	<i>37.7</i>	<i>39.7</i>	<i>41.9</i>	<i>5.4</i>
Memo item: total goods exports	109.5	127.9	154.4	20.8

Source Australian Bureau of Statistics, *Balance of payments and international investment position, March quarter 2007*, cat. no. 5302.0, ABS, Canberra, 2007.

21 The Treasury, *Submission no. 30*, p. 2.

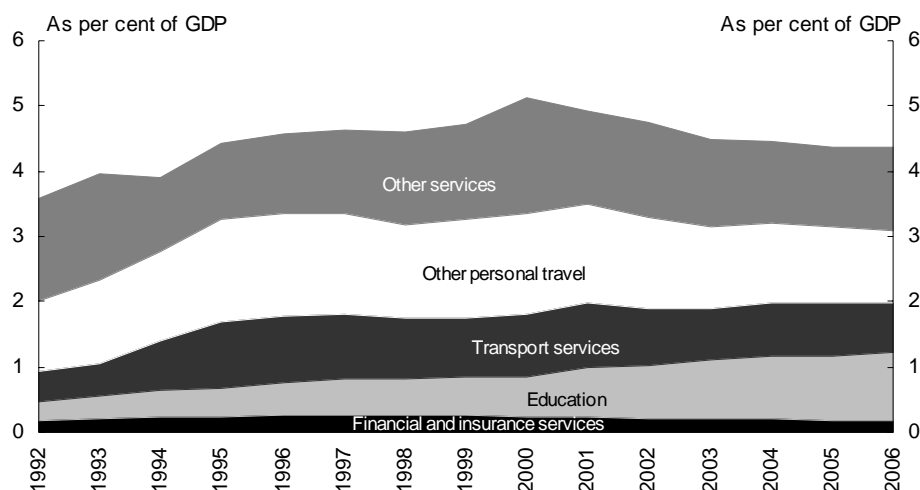
22 The Treasury, *Submission no. 30*, p. 3.

Figure 2.2 Australia's exports of services (chain volume measure; annual percentage change)



Source Updated from *The Treasury, Submission no. 30, p. 3.*

Figure 2.3 Australia's exports of services by type (nominal)



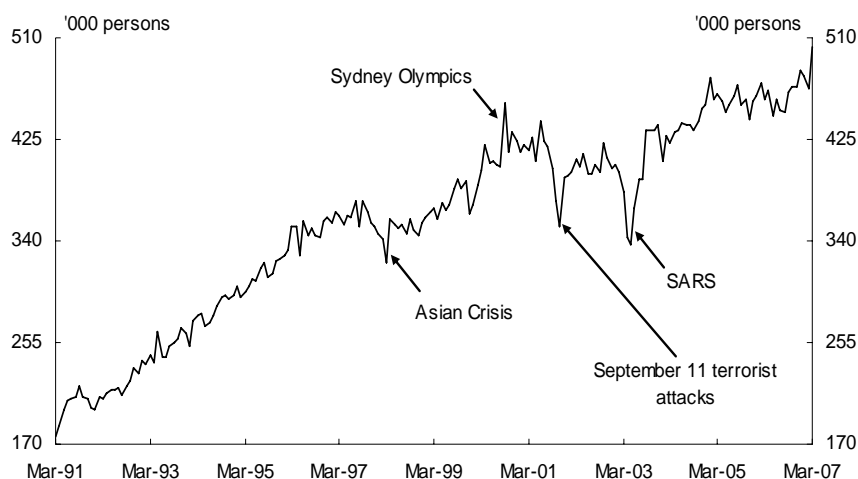
Source Updated from *The Treasury, Submission no. 30, p. 4.*

## Tourism

2.27 The recent slowing in service exports has partly been attributable to the stronger Australian dollar leading to slower growth in tourism-related services. Data from the World Tourism Organization show strong growth in total international tourist trips after the dip in 2003. International tourist trips grew by 10 per cent in 2004, 5½ per cent in 2005 and 4½ per cent in

2006.<sup>23</sup> This strong growth is attributed to pent-up demand for travel as concerns about terrorism and SARS wane. While tourist arrivals to Australia matched this growth in 2004 and 2005, they grew by less than 1 per cent in 2006.<sup>24</sup> (Figure 2.4).

Figure 2.4 Short-term arrivals to Australia (monthly)



Source Australian Bureau of Statistics, *Overseas arrivals and departures*, cat. no. 3401.0, ABS, Canberra, 2007.

- 2.28 In particular, there has been a decline in tourist arrivals from Japan over the past decade. The levelling off in Japan's population and modest economic growth partly explains this. However, it is not the whole story as Japanese tourism to China, Singapore and South Korea has continued to grow over this period.
- 2.29 Tourist arrivals from China have been the growth area. 283,000 Chinese tourists visited Australia in 2005, compared to just 16,300 in 1991. This strong growth in Chinese tourist arrivals has been assisted by Australia being the first Western country awarded Approved Destination Status, a bilateral tourism arrangement allowing Chinese group leisure travel, in 1999. However, in 2006, China awarded this status to another 100 destinations worldwide, eroding this advantage.
- 2.30 One challenge for Australia as a tourist destination is that the growth of low-cost carriers flying within Europe and within Asia has increased the relative price of a holiday in Australia for European and Asian tourists. So

23 World Tourism Organization, *Facts and figures and news release*, viewed on 1 May 2007, <[www.world-tourism.org](http://www.world-tourism.org)>.

24 Australian Bureau of Statistics, *Overseas arrivals and departures February 2007*, cat. no. 3401.0, ABS, Canberra, 2007.

far there has been relatively little development of low-cost long haul flights.

- 2.31 Furthermore, high world crude oil prices during 2006 resulted in many airlines introducing fuel surcharges of around \$75-100 on long haul flights, which further increased the cost of travel to Australia relative to other destinations. Fortunately, these are starting to be removed in response to easing world crude oil prices.
- 2.32 The opportunities and challenges for inbound tourism are discussed in detail in chapter 4.

## Education

- 2.33 Education exports continue to grow strongly, with the industry contributing around \$10 billion to the economy in 2005-06. While growth has been strong, there are signs that the market is maturing and it is therefore not showing the extremely rapid growth it achieved in the two decades since public institutions were first encouraged to enrol and charge international students in the mid-1980s. The strong growth from markets such as China, India and Thailand has been partially offset by continuing declines from some of Australia's more traditional source markets such as Hong Kong, Malaysia, Singapore and Indonesia.
- 2.34 International student enrolments grew by over 10 per cent in 2006. The value of education exports rose by 11 per cent in 2005-06 and is estimated to increase by a similar amount in 2006-07.
- 2.35 The Department of Education, Science and Training (DEST) commented:
- Traditional source countries are increasing their domestic educational capacity and more competitors are emerging for Australia and other traditional English-speaking destination countries.<sup>25</sup>
- 2.36 DEST also drew attention to recent initiatives by the governments of our competitors, such as the United Kingdom, United States, New Zealand and Canada, to boost international student numbers. Scandinavian and German universities are increasingly offering English-language tuition and becoming competitors. Singapore aims to become a regional education hub and China is seeking to develop Beijing and Tsinghua universities as international education destinations.
- 2.37 Treasury remarked that:
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25 Department of Education, Science and Training, *Submission no. 35*, p. 6.

Competition is intensifying in the Asia Pacific education market as Asian universities are offering modern facilities. Some Australian universities are responding to this competition by offering courses in Asia rather than requiring students to come to Australia. This allows them to offer part-time as well as full-time courses, which may be more attractive to students who do not wish to interrupt their careers.<sup>26</sup>

- 2.38 The strong Australian dollar is also making Australia a less attractive destination for study. The opportunities and challenges for education exports are discussed in detail in chapter 5.

### Other services

- 2.39 There continued to be strong increases in many of these exports (Table 2.3), reflecting an increase in the demand for Australian business and professional services. Some highlights include the value of 'legal, accounting, management and public relations' service exports increasing by 24 per cent in 2005-06 and 'architectural and engineering' services by 43 per cent. Data for the first half of 2006-07 suggest there has been further strong growth in exports of legal, accounting and architectural services.
- 2.40 However, there were some weak areas, with insurance and financial services exports only rising by 1 per cent, communications service exports flat, and computer and information service exports falling by 4 per cent. Data for the first half of 2006-07 suggest insurance and financial service exports have remained flat while there has been some pick-up in computer and information services.
- 2.41 The opportunities and challenges for some of Australia's 'other' services are discussed in detail in chapter 6.

### Services exports now and beyond the resources boom

- 2.42 Over the longer term, the services sector is likely to increase further its share of the economy. This process has been slowed by the resources boom and might be expected to accelerate if or when the resources boom finishes.
- 2.43 In particular, the resources boom has affected the growth of services exports. Firstly, workers and investors are attracted to the mining sector by

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26 The Treasury, *Submission no. 30*, p. 7.

the higher wages and profits on offer there. (The resultant shortage of workers and skills in the services sector is discussed in chapter 3.) Secondly, the increase in mining exports is associated with an appreciation of the Australian dollar, rendering Australian services (such as a holiday in Australia) more expensive in world markets.

- 2.44 This phenomenon is more usually discussed in the context of mining hurting the manufacturing sector, where it is referred to as the 'Dutch disease'.<sup>27</sup> But it applies to the services sector as well. The effect may be less stark, though, as it is likely to be associated with only a *slower growth* in services, whereas the manufacturing share of the economy is actually falling.
- 2.45 The appreciation of the Australian dollar is indirectly a result of the industrialisation of China. This is bidding up prices of Australia's mining exports and leading to resources being diverted to expanding mining production. While prognosticating about exchange rates is fraught with difficulty, it is a fairly widely held view that:
- There is a tendency for countries who have a large increase in their resource exports to have an appreciation in their currency and, other things being equal, that will hurt their manufacturing and services sectors.<sup>28</sup>
- 2.46 A shift in labour and capital to the mining sector from the services (and other) sectors is an entirely appropriate response to a long-lasting increase in returns in the mining sector. Of course, while beneficial to the economy as a whole, it poses challenges for the non-resources sectors, as discussed in chapter 3.
- 2.47 There may be wider challenges if commodity prices subside. These prices could fall back even if the Chinese economy continues to grow strongly, as the huge amount of mining investment seen recently in Australia and elsewhere should lead to large increases in mineral production in coming years. Of course, if the world's mining capacity increases faster than demand, mineral prices should fall. The 2007-08 budget papers acknowledge that some fall in commodity prices is likely:

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27 The expression was coined in 1977 when the manufacturing sector in the Netherlands appeared to have suffered from the development of gasfields. In Australia, it is often termed the 'Gregory thesis'. It will be more fully discussed in this committee's manufacturing report.

28 Mr J Hawkins, The Treasury, *Transcript of evidence*, 1 December 2006, p. 13.



Despite continued strong world growth, [commodity] prices are expected to fall as global mining supply comes on line.<sup>29</sup>

- 2.48 It should be noted, however, that predicting when commodity prices and the Australian dollar will ease is an inherently difficult task. Almost all of Australia's leading economists, including Treasury in its budget papers, have made incorrect forecasts about the length of the boom in the past few years. Most would have predicted that by mid-2007 commodity prices would at very least have fallen away from their record highs. But this is not the case. Commodity prices have stabilised in the past 12 months, but have not fallen, and the Australian dollar continues to perform strongly.
- 2.49 Economic theory would suggest that if commodity prices fall back, and the Australian dollar subsequently depreciates, other sectors, including services, will expand to fill the space vacated by shrinking mining exports. But if services infrastructure (in particular tourism and education facilities) has been underdeveloped during the boom, it may not be possible to meet the increased demand for some time.
- 2.50 It is, of course, primarily the responsibility of the private sector to predict and prepare for any surge in demand for services exports. Treasury noted:
- Governments are no better placed than firms and investors, responding to signals in the market, to determine whether [the resources boom] is temporary.<sup>30</sup>
- 2.51 Tourism Australia questioned whether the tourism industry would be fully prepared for potential increased demand:
- I think the resources boom is having an impact on both the short-term growth of the Australian tourism industry and certainly the investment that is necessary to deliver the potential of the industry going forward, particularly if we see the resources boom – as all other resources booms – coming to an end.<sup>31</sup>
- 2.52 The government also has a role in preparing the services sector for the future, through the provision of appropriate infrastructure, as well as through the assistance it provides to various service industries. But

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29 Australian Government, *Budget paper no. 1: Budget outlook and strategy 2007-08*, Australian Government, Canberra, 2007, p. 3-22.

30 The Treasury, *Submission no. 21*, p. 13. This argument is developed further by Treasury Secretary Dr K Henry in his speech 'Implications of China's re-emergence for the fiscal and economic outlook', reprinted in *Economic Roundup*, Winter 2006.

31 Mr K Flowers, Tourism Australia, *Transcript of evidence*, 15 November 2006, p. 7. (He makes similar points on p. 12.)

Treasury argues the best assistance the government can provide is to allow the market to operate efficiently:

The government can more effectively help the economy achieve its productive potential by allowing the market to operate unimpeded and allow resources to flow to their most efficient use. This will achieve improved productivity, economic growth and expanded national income in the long term.<sup>32</sup>

- 2.53 Overall, the resources boom has and continues to pose challenges for the services sector—the export sector, in particular. The end of the boom, if or when it occurs, appears likely to pose new challenges.

## **Government assistance to the services sector**

- 2.54 The greatest assistance the government can provide to the services sector is to ensure a healthy economy. More generally, the services sector has benefited from a range of sound policies. As Treasury commented:

Sound macroeconomic policy has led to low and steady inflation and low interest rates. Microeconomic reforms have enhanced domestic competition, and removed unnecessary impediments to business activity such as inefficient government process or excessive regulation, thereby providing business a sound basis on which to plan. Good government helps attract tourist and business visitors by making Australia a safe and environmentally attractive destination.<sup>33</sup>

- 2.55 In addition to this healthy economic setting, there are a number of schemes whereby the government assists the services sector. These are listed in Appendix D. Some are general schemes, such as Austrade's Export Market Development Grants and its general advisory services to potential exporters, while others are specific to a particular service industry such as tourism.
- 2.56 At around 30 per cent, the share of government assistance going to the services sector is much smaller than its share of output or employment of around 75-85 per cent. An important reason for this is that much government assistance supports exporting and research, and, as shown above, the services sector has a smaller involvement in these activities.

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32 The Treasury, *Submission no. 21*, p. 13.

33 The Treasury, *Submission no. 30*, p. 9.

Furthermore, a large amount of government assistance to manufacturing is directed to specific industries (cars and clothing) to help them adjust to the removal of tariff protection, and there are no comparable troubled service industries.

- 2.57 But, more fundamentally, there is no reason why government assistance should be regarded as like a pie to be sliced up and served to sectors in proportion to their size. As a senior Treasury economist put it:

On the question about the pie, you also want to think about, 'What is this pie? Where does it come from?' In other words, 'Is there an amount of money that now we are going to carve up to give to various industries for assistance?, – or have I thought through carefully how I can contribute to making the economy operate more productively and efficiently in these various areas?' I think the review saying, 'We spend X billion dollars and Y goes to services and that looks a bit low; perhaps we could spend a bit more,' would not lead necessarily to particularly good outcomes.<sup>34</sup>

- 2.58 There are areas where the government assists the services sector due to market failures. Probably the most obvious and prominent is in promoting Australia as a tourist destination overseas. Clearly, individual restaurants and bed-and-breakfasts cannot afford to advertise overseas.<sup>35</sup> It is also not possible for an industry organisation to levy its members to pay for an advertising campaign because of the 'free rider' problem. Individual hotels, retailers and tourist operators who did not contribute to the cost of the campaign would still gain just as much benefit from it, so there is no incentive to contribute. If an industry organisation forced its members to contribute, it may find it just loses members.

## Conclusions

- 2.59 As in comparable countries, the services sector continues to increase in importance and now constitutes the majority of economic activity.
- 2.60 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

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34 Dr S Kennedy, Treasury, *Transcript of evidence*, 1 December 2006, p. 6.

35 Although it was noted that there are some B&Bs that are 'bringing in people from New Zealand and further afield through their internet presence'. Mr P Richardson, Australian Services Roundtable, *Transcript of evidence*, 14 March 2007, p. 9.

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.

- 2.61 The role of services in exports is smaller than in domestic activity, but it is important and likely to grow. The main service exports are tourism and education. Both grew rapidly in the 1990s but slowed more recently, in part due to the appreciation of the dollar and some labour shortages associated with the mining boom. If conditions in the mining industry ease, this would offer scope for faster growth in services exports.
- 2.62 The current movement of some resources from the services sector to mining is a desirable response by the private sector to market signals rather than a problem needing to be addressed. Nonetheless, it is prudent to ensure the services sector is well-placed to respond should the market later signal (eg through falling commodity prices) that resources should flow back from the mining sector to the services sector. Most of the recommendations in this report are aimed at making the services sector more efficient, which is desirable whether the current mining boom turns out to be temporary or long-lasting.
- 2.63 Services receive a proportionally smaller share of government assistance than other sectors, but this reflects a smaller need rather than assistance being insufficient. Governments will continue to provide assistance to the service sector where appropriate, but it remains the responsibility of the private sector to show initiative and drive the expansion of services exports.

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### **Recommendation 1**

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

## 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.<sup>1</sup>

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.'<sup>2</sup>

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.<sup>3</sup>

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.<sup>4</sup>

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

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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.

designation of a central point of interlocution and coordinated policy responsibility within the Federal Government.<sup>5</sup>

## 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.**

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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.<sup>6</sup> 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.<sup>7</sup>
- 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.<sup>8</sup>
- 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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6 Australian Industry Group, *World class skills for world class industries*, AI Group, Sydney, 2006, p. x.

7 Reserve Bank of Australia, *Statement on monetary policy*, RBA, Sydney, February 2007, p. 36.

8 Australian Bureau of Statistics, *Australian system of national accounts*, cat. no. 5204, ABS, 2006; and Australian Bureau of Statistics, *Labour force*, cat. no. 6291, ABS, 2007.



Transport Forum (TTF) 'there is a human body shortage as much as there is a skills shortage.'<sup>9</sup>

## 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.<sup>10</sup>

3.21 This report concluded that Australia's current shortages 'are a consequence of all of these [factors].'<sup>11</sup>

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.<sup>12</sup>

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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9 Mr O Johnstone-Donnet, Tourism and Transport Forum, *Transcript of evidence*, 15 November 2007, p. 45.

10 S Richardson, *What is a skills shortage?* Australian Government, Canberra, 2007, p. 8.

11 S Richardson, *What is a skills shortage?* Australian Government, Canberra, 2007, p. 8.

12 Dr P Hobson, CRC for Sustainable Tourism, *Transcript of evidence*, 21 November 2007, p. 31.

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.<sup>13</sup>

- 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.’<sup>14</sup> Similarly, ATEC argued ‘the exponential growth of the mining industry is diverting many skilled operators into the mining sector.’<sup>15</sup>
- 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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13 S Richardson, *What is a skills shortage?* Australian Government, Canberra, 2007, p. 20.

14 Dr V Fitzgerald, Australian Services Roundtable, *Transcript of evidence*, 14 March 2007, p. 12.

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.<sup>16</sup>

- 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.<sup>17</sup>

- 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.<sup>18</sup>

- 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.<sup>19</sup>

- 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.

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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.

18 Ms A Kilminster, WA Hospitality and Tourism Industry Training Council, *Transcript of evidence*, 20 February 2007, p. 2.

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.<sup>20</sup>

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.<sup>21</sup>

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20 S Richardson, *What is a skills shortage?* Australian Government, Canberra, 2007, p. 28.

21 Department of Education, Science and Training, *Submission no. 49 (manufacturing inquiry)*, p. 9.

- 3.38 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

- 3.39 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.
- 3.40 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'.<sup>22</sup>
- 3.41 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.<sup>23</sup>
- 3.42 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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22 Department of Education, Science and Training, *Submission no. 49 (manufacturing inquiry)*, p. 6.

23 Department of Education, Science and Training, *Submission no. 49 (manufacturing inquiry)*, p. 9.

The non-traditional hours experienced by a significant proportion of the industry workforce highlight the need for flexible delivery modes.<sup>24</sup>

- 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.<sup>25</sup>

- 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.<sup>26</sup>

- 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.'<sup>27</sup>

- 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.<sup>28</sup>

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24 Service Skills Australia, *Submission no. 7*, p. 9.

25 Department of Education, Science and Training, *Submission no. 49 (manufacturing inquiry)*, p. 5.

26 Service Skills Australia, *Submission no. 7*, p. 8.

27 Department of Education, Science and Training, *Submission no. 49 (manufacturing inquiry)*, p. 5.

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’.<sup>29</sup>
- 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.<sup>30</sup>

## 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.<sup>31</sup>

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29 Mr B Galvin, Tourism Training Australian, *Transcript of evidence*, 15 November 2007, p. 41.

30 Mr B Galvin, Tourism Training Australian, *Transcript of evidence*, 15 November 2007, p. 41.

31 Commonwealth Government, *Submission no. 33 (to JSCM inquiry into temporary business visas)*, p. 2.

- 3.53 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.
- 3.54 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.'<sup>32</sup>
- 3.55 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.<sup>33</sup>
- 3.56 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.<sup>34</sup>
- 3.57 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'.<sup>35</sup>

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32 Restaurant and Catering Australia, *Submission no. 23*, p. 17.

33 Mr O Johnstone-Donnet, Tourism and Transport Forum, *Transcript of evidence*, 15 November 2007, p. 45.

34 Mr P Olah, Hotel, Motel and Accommodation Association, *Transcript of evidence*, 15 November 2007, p. 50.

35 Council of Australian Governments, *Communiqué of Australian Governments' meeting*, COAG, 14 July 2006, viewed 11 April 2007, <<http://www.coag.gov.au/meetings/140706/index.htm>>.



3.58 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.<sup>36</sup>

3.59 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.<sup>37</sup>

3.60 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.<sup>38</sup>

3.61 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.

37 Mr P Olah, Hotel, Motel and Accommodation Association, *Transcript of evidence*, 15 November 2007, p. 50.

38 A Millbank, *A seasonal guest-program for Australia?* Parliamentary Library, Canberra, May 2006, pp. 5 & 8.

- 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.<sup>39</sup>

### 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 – albeit 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 type 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.'<sup>40</sup>
- 3.65 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.<sup>41</sup>
- 3.66 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?'<sup>42</sup>
- 3.67 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.<sup>43</sup>

- 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

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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.<sup>44</sup>

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.<sup>45</sup>

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.’<sup>46</sup>

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;

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44 Australian Services Roundtable, *Submission no. 44*, p. 10.

45 Australian Services Roundtable, *Submission no. 44*, pp. 10-11

46 Mr R Milliner, Mallesons Stephen Jaques, *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.<sup>47</sup>
- 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.'<sup>48</sup> Therefore, DFAT stated that one of the keys to Australia realising its services export potential is 'negotiating improved access in key markets.'<sup>49</sup> 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.'<sup>50</sup>
- 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.<sup>51</sup>
- 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.<sup>52</sup>
- 3.92 The Services Roundtable commented on the deadlocked Doha round stating 'progress on services internationally currently seems to be

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47 Victorian Government, *Submission no. 38*, p. 17.

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.

completely hostage to progress on agriculture.<sup>53</sup> 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.<sup>54</sup>

## 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.<sup>55</sup>

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.<sup>56</sup>

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.'<sup>57</sup> 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'.<sup>58</sup>

- 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.<sup>59</sup>

## 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.<sup>60</sup>

- 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.'<sup>61</sup>

## 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.<sup>62</sup>

- 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.<sup>63</sup>

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62 Northern Territory Government, *Submission no. 31*, p. 4.

63 Austrade, *Submission no. 26*, p. 3.

- 3.110 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.<sup>64</sup>

- 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.<sup>65</sup>

- 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.'<sup>66</sup> 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.<sup>67</sup>

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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.<sup>68</sup>

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.'<sup>69</sup>

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.<sup>70</sup>

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68 Australian Tourism Export Council, *Submission no. 3*, p. 18.

69 Australian Tourism Export Council, *Submission no. 3*, p. 18.

70 Queensland Tourism Industry Council, *Submission no. 12*, p. 7.

## 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.<sup>71</sup>

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.<sup>72</sup>

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.<sup>73</sup>

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

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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.<sup>74</sup>

## 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.

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

- 3.128 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**

- 3.129 **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**

- 3.130 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.
- 3.131 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.<sup>75</sup>

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.<sup>76</sup>

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.<sup>77</sup>

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.'<sup>78</sup>

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.<sup>79</sup>

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75 Australian Services Roundtable, *Submission no. 44*, p. 8.

76 Austrade, *Submission no. 26*, p. 4.

77 Mr M Hingerty, Australian Tourism Export Council, *Transcript of evidence*, 15 November 2006, p. 62.

78 Engineers Australia, *Submission no. 48*, p. 8.

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.<sup>80</sup>

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.<sup>81</sup>

## 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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80 Australian Bureau of Statistics, *Submission no. 8*, p. 4.

81 Australian Bureau of Statistics, *Submission no. 8*, p. 4-5.

- 3.140 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.
- 3.141 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**

- 3.142 **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.**



## The inbound tourism industry

### Introduction to the inbound tourism industry

- 4.1 The inbound tourism industry plays a vital role in Australia's economy – a fact that was recognised throughout the committee's evidence. Tourism is officially defined as:

The activities of persons travelling to and staying in places outside their usual environment for not more than one consecutive year for leisure, business and other purposes not related to the exercise of an activity remunerated from within the place visited.<sup>1</sup>

- 4.2 Tourism is subject to an Australian Bureau of Statistics 'satellite account', which attempts to quantify the contribution of the tourism industry to the economy. The satellite account from 2005-06 reveals the importance of tourism to the Australian economy:

- the tourism industry employed over 460,000 people, a 4.6 per cent share of total employment in the economy;
- tourism contributed \$37.6 billion or 3.9 per cent of GDP;
- tourism generated \$80 billion in consumption; and
- tourism exports were \$20.5 billion, an increase of 4.7 per cent from 2004-05.<sup>2</sup>

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1 Tourism Australia, *Submission no. 41*, p. 5.

2 Australian Bureau of Statistics, *Tourism satellite account 2005-06*, cat. no. 5249.0, ABS, Canberra, May 2007.

- 4.3 While the above data show that tourism is one of Australia's most important industries, since 2001 its share of GDP has reduced from 4.7 per cent to 3.9 per cent. This fall was primarily caused by a reduction in the contribution of domestic tourism (3.6 per cent to 2.9 per cent), although that of inbound tourism has also reduced (1.2 per cent to 0.9 per cent).<sup>3</sup> The performance of domestic tourism is discussed in detail later in this chapter.
- 4.4 The inbound tourism industry enjoyed remarkable growth in the past three decades, as described by the Australian Tourism Export Council (ATEC):

The export (inbound) tourism industry has been a phenomenal success and the star performer of the export services sector. In 1972, the year ATEC (then ITOA) was formed, 426,402 overseas visitors arrived in Australia. By 1987, this had grown to 1,785,000 and by 1997 to 4,318,000. [In 2005] Australia welcomed 5,497,000 visitors contributing \$18.2 billion in export revenue.<sup>4</sup>

- 4.5 In more recent times, however, the inbound industry has experienced less impressive growth. The industry has endured a number of challenges following the high of the Sydney Olympics, including the 9-11 terrorist attacks, the Bali bombings, and the SARS epidemic. As a result, international visitor arrivals declined in 2002 and 2003.
- 4.6 Recovering from these shocks, arrival numbers have rebounded in recent years with a record 5.5 million international visitors coming to Australia in 2006.<sup>5</sup> Tourism exports also reached a record level in 2005-06 (\$20.5 billion), although post-Olympic growth has again been moderate. In real terms exports have only grown by around 1.4 per cent annually since 1999-00.<sup>6</sup>
- 4.7 Australia's biggest markets in terms of visitor numbers are New Zealand, the United Kingdom, Japan and the United States (see table 4.1 below). Visitor numbers from New Zealand and Great Britain have grown strongly in recent years, although numbers from New Zealand fell in 2006. Growth from the United States has been slow but consistent, while the Japanese market has been in steady decline. The highest growth in visitor numbers

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3 Australian Bureau of Statistics, *Tourism satellite account 2005-06*, cat. no. 5249.0, ABS, Canberra, May 2007.

4 Australian Tourism Export Council, *Submission no. 3*, p. 3.

5 Australian Bureau of Statistics, *Overseas arrivals and departures*, cat. no. 3401.0, ABS, Canberra, February 2007.

6 Australian Bureau of Statistics, *Tourism satellite account 2005-06*, cat. no. 5249.0, ABS, Canberra, May 2007.

has occurred from China, which has grown by around 280 per cent in the past seven years. Growth from India has also been impressive, although total visitor numbers remain relatively small.<sup>7</sup>

Table 4.1 Australia's top 10 tourism markets in terms of visitor numbers, 2005 and 2006

Number	Place of residence	No. of visitors 2005	No. of visitors 2006	% change
1	New Zealand	1,098,700	1,075,800	-2.1
2	United Kingdom	708,300	734,200	3.7
3	Japan	685,500	651,000	-5.0
4	United States	446,200	456,100	2.2
5	China	285,000	308,500	8.2
6	South Korea	250,400	260,800	4.2
7	Singapore	265,300	253,400	-4.5
8	Hong Kong	159,500	154,800	-2.9
9	Malaysia	165,900	150,300	-9.4
10	Germany	146,400	148,200	1.2
	Total Top 10	4,211,200	4,193,100	-0.4
	<b>Total of all arrivals</b>	<b>5,497,000</b>	<b>5,532,400</b>	<b>0.6</b>

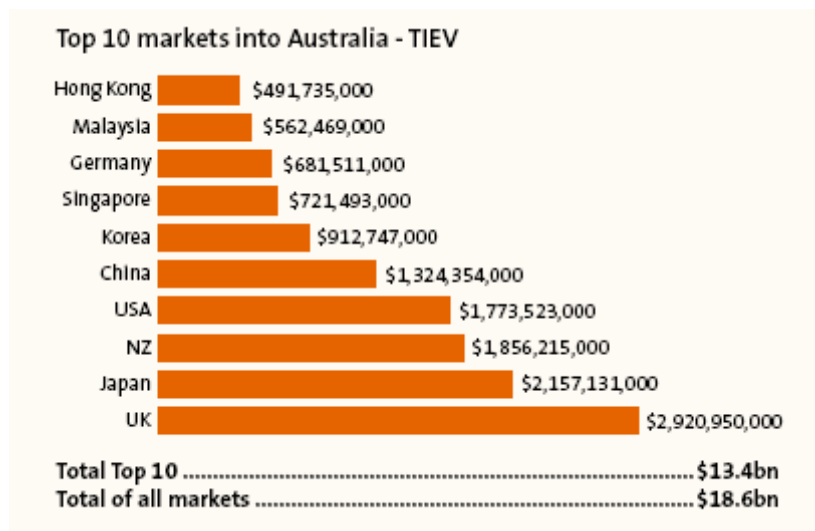
Source Australian Bureau of Statistics, *Overseas arrivals and departures*, cat. no. 3401.0, ABS, Canberra, February 2007.

4.8 The United Kingdom is the most important market to the inbound industry in terms of its total economic value. This reflects the fact that travellers from the UK tend to stay much longer than others. Tourism Australia estimates that UK visitors contributed around \$3 billion to the economy in the year ended December 2005. The other high-value markets are Japan (\$2.2 billion), New Zealand (\$1.9 billion), and the United States (\$1.8 billion) (see figure 4.1 below).<sup>8</sup>

7 Australian Bureau of Statistics, *Tourism satellite account 2005-06*, cat. no. 5249.0, ABS, Canberra, May 2007.

8 Tourism Australia, *Market insight tourism facts*, Tourism Australia, December 2005.

Figure 4.1 Australia's top 10 tourism markets in terms of economic value, 2005



Source Tourism Australia, *Market insight tourism facts*, Tourism Australia, December 2005

- 4.9 The Tourism Forecasting Committee has predicted strong growth for inbound tourism in the next decade. It has forecast that visitor arrivals to Australia will reach approximately 8.3 million in 2015 at an annual growth rate of 4.3 per cent. The Chinese and Indian markets are expected to be the main drivers of this growth, with arrivals from these countries forecast to increase annually by 12.3 and 17 per cent respectively. The total economic value of inbound tourism is also predicted to grow strongly, reaching \$31.6 billion in 2015 – an annual growth rate of 5.2 per cent.<sup>9</sup>
- 4.10 The tourism industry receives a considerable level of federal government assistance. At present, the level of funding is driven by measures announced in 2003 in the government's *Tourism white paper: A medium to long term strategy for tourism*. Among the key components of the white paper were the amalgamation of various government tourism bodies to form Tourism Australia, and an increase in funding for tourism promotion. The increased funding for promotion allowed the creation of the significant 'where the bloody hell are you' campaign.<sup>10</sup>

9 Tourism Forecasting Committee, *Forecast: The fifth release from the Tourism Forecasting Committee*, Tourism Australia, 2006, pp. 18-20.

10 Productivity Commission, *Trade and assistance review 2004-05*, Productivity Commission, Canberra, 2006.



## Issues for the industry

- 4.11 Evidence to this inquiry was dominated by discussion of the inbound tourism industry. The section below will outline and discuss some of the most important issues facing the industry. However, before discussing specific issues, the committee believes there is an overarching issue which can be addressed.
- 4.12 Inbound tourism has performed modestly since the Olympics, but nonetheless remains one of Australia's most important export industries. Its continued success is vital to the Australian economy.
- 4.13 To support growth in the 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.
- 4.14 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.
- 4.15 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.
- 4.16 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

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

## Rogue operators

4.18 'Rogue operators' – tourism operators who mistreat and take advantage of foreign tourists – have been a longstanding issue for the tourism industry. It is an issue that unfortunately remains prevalent, as the committee heard throughout its inquiry.

4.19 The Queensland Tourism Industry Council (QTIC) outlined the issue in the following terms:

Serious concerns persist in the industry, particularly in major international destinations, about the activities of inbound and tour operators who do not operate to acceptable business and customer service standards

...

The industry is concerned that the damage done to Australia's reputation has the potential to affect the broader tourism export market, notwithstanding the undesirable practices being limited to only a few operators.<sup>11</sup>

4.20 ATEC provided some specific examples of how rogue operators deceive and mislead international tourists:

Examples of poor service include promising four and five star CBD accommodation and providing poorly located three star motel accommodation, poor value and repetitive meals and long travel times in sub-standard mini-buses. Anecdotal evidence exists of tourists being charged to walk on a beach or to take photographs of landmarks.<sup>12</sup>

4.21 The markets particularly at risk from these operators are emerging markets for the Australian industry, including China, South Korea and Taiwan.<sup>13</sup>

4.22 At the committee's tourism roundtable in Sydney, witnesses cited two surveys of Asian visitors conducted between 2001 and 2003 which reported a significant level of dissatisfaction with Australian holidays. The Department of Industry, Tourism and Resources (DITR) later clarified the details of these surveys. The first survey, which was exclusively of Chinese tourists, reported 40 per cent dissatisfaction. The second, which surveyed visitors from Japan, Korea, China and Taiwan, reported 22 per cent

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11 Queensland Tourism Industry Council, *Submission no. 12*, p. 8.

12 Australian Tourism Export Council, *Submission no. 3*, p. 13.

13 Mr M Hingerty, Australian Tourism Export Council, *Transcript of evidence*, 15 March 2007, p. 2.

dissatisfaction.<sup>14</sup> The level of dissatisfaction, while clearly concerning for the industry, is not directly attributable to rogue operators according to DITR:

While the report highlighted the importance of focussing on providing quality tourism experiences, it did not identify unethical practices in the industry.<sup>15</sup>

## Current protection for international tourists

### Consumer protection and fair trading legislation

4.23 Under current state and federal laws there are a number of ways in which international tourists should be protected from the actions of rogue operators. Most obviously, tourists should be protected under consumer protection and fair trading legislation at both a state and federal level. As noted by DITR, 'the Trade Practices Act and [state and territory] fair trading legislation have strong application to addressing unethical conduct in inbound tourism.'<sup>16</sup>

4.24 This legislation is supported by the Inbound Tourism Compliance Taskforce which comprises state and federal tourism, fair trading and police agencies. DITR reported that:

All enforcement agencies on the Taskforce, including the Australian Competition and Consumer Commission (ACCC), have at all times indicated their willingness to thoroughly investigate any matter regarding unethical practices in the tourism industry that is brought to their attention.<sup>17</sup>

4.25 Despite this undertaking, there have been very few investigations into rogue operators. The ACCC told the committee it does not receive sufficient evidence to take action against specific operators:

There are a lot of anecdotes and rumour in relation to concerns, but upon working with the taskforce and meeting with the industry associations, we find as we drill down below the anecdotes to seek substantive information and facts there is very little evidence.<sup>18</sup>

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14 Department of Industry, Tourism and Resources, *Submission no. 45*, p. 1.

15 Department of Industry, Tourism and Resources, *Submission no. 45*, p. 1.

16 Department of Industry, Tourism and Resources, *Submission no. 45*, p. 5.

17 Department of Industry, Tourism and Resources, *Submission no. 45*, p. 9.

18 Mr N Ridgway, Australian Competition and Consumer Commission, *Transcript of evidence*, 1 March 2007, p. 1.

## Queensland specific legislation

- 4.26 The Queensland government introduced specific legislation to regulate tourism operators—the *Queensland Tourism Services Act 2003*. The Act requires inbound tour operators to register with the government, and also to comply with an enforceable code of conduct which outlaws unconscionable behaviour. The tourism industry is highly supportive of this move; however, they are concerned that 'the resources provided for enforcement are limited.'<sup>19</sup>

## The ADS scheme

- 4.27 The federal government has implemented the Approved Destination Status (ADS) scheme—a scheme which *only* applies to Chinese leisure tourists. DITR explain the ADS scheme as follows:

The China ADS scheme is a bilateral tourism arrangement between the Chinese government and a foreign destination. Countries with ADS status are permitted by China to host Chinese tourists undertaking leisure travel in groups on specified itineraries.

...

In China, the scheme regulates the outward travel of Chinese leisure tourists to approved destinations. In Australia, it regulates inbound tour operators that service this market.<sup>20</sup>

- 4.28 Tour operators that wish to service Chinese leisure groups must be approved by DITR under the ADS scheme. Once approved, operators must comply with a compulsory code of conduct, and are subject to random compliance checks.<sup>21</sup>
- 4.29 While the ADS scheme should protect all Chinese leisure tourists, ATEC asserts that 'some [inbound tour operators] are operating illegally outside the scheme.'<sup>22</sup> Further, many Chinese citizens travel to Australia outside of the ADS scheme on non-ADS visa types—study, business, or visiting family and friends. ADS scheme travellers only account for about 30 per cent of Australia's Chinese market.<sup>23</sup> Travellers on non-ADS visa types can make leisure travel arrangements with operators not approved under the ADS scheme.

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19 Australian Tourism Export Council, *Submission no. 3*, p. 15.

20 Department of Industry, Tourism and Resources, *Submission no. 45*, p. 6-7.

21 Department of Industry, Tourism and Resources, *Submission no. 45*, p. 7.

22 Australian Tourism Export Council, *Submission no. 3*, p. 14.

23 Mr M Hingerty, Australian Tourism Export Council, *Transcript of evidence*, 15 March 2007, p. 5.

## Voluntary codes of conduct

- 4.30 In addition to the regulatory protections outlined above, industry and government have developed 'a range of voluntary codes of conduct that promote ethical practices in inbound tourism.'<sup>24</sup> DITR provided details of three important codes:
- ATEC has developed a Tourism Export Code of Conduct voluntary accreditation program for tourism operators dealing in any inbound market. The Code was made available online in July 2006 through the Quality Tourism Portal at [www.qualitytourism.com.au](http://www.qualitytourism.com.au);
  - Guiding Organisations Australia (GOA) has developed the Guides of Australia national tour guide accreditation framework, which was launched in June 2006. The framework provides minimum benchmarks for tour guide professional standards and links to existing specialist accreditation programs and professional development. Information is available through the Quality Tourism portal at [www.qualitytourism.com.au](http://www.qualitytourism.com.au); and
  - a voluntary Code of Conduct is being developed specifically for inbound tour operators in the Korea market, and will provide a voluntary industry standard accreditation framework administered by the Korean Inbound Tour Operators Council of Australia. There was discussion regarding progressing the Code at a Korean Tourism Industry Forum hosted by Australia in Seoul on 24-25 October 2006.<sup>25</sup>
- 4.31 While stressing the importance of these codes, DITR noted they are only recent and therefore 'it is premature to judge their effectiveness'.<sup>26</sup>

## The need for a national approach

- 4.32 Tourism lobby groups have strongly urged governments to take a national approach to the issue of rogue operators. One of the primary concerns is that an inconsistent, state-by-state approach encourages rogue operators to locate in the state with the weakest regulation and enforcement. QTIC summarised this viewpoint, asserting: 'a state-based approach to this issue has only limited reach and encourages cross-boarder shifting of activities to avoid detection and prosecution.'<sup>27</sup>

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24 Department of Industry, Tourism and Resources, *Submission no. 45*, p. 8.

25 Department of Industry, Tourism and Resources, *Submission no. 45*, p. 8.

26 Department of Industry, Tourism and Resources, *Submission no. 45*, p. 8.

27 Queensland Tourism Industry Council, *Submission no. 12*, p. 8.

- 4.33 This view was supported by ATEC, who also argued it is important for the federal government to think of rogue operator regulation as a form of export protection:

If I can draw the analogy to the primary sector and the commodity sector where, if we are sending a kilo of beef anywhere overseas, significant effort, regulation and Commonwealth dollars are put in to ensuring that that kilo of beef is in fact a kilo of beef, that it is not tainted with drugs and so on. A significant amount of effort is put into export protection in that area. ATEC believes that that same sort of effort—maybe not to the same degree in terms of dollars, but at least some effort—is put into export protection from the Commonwealth in our sector in combination with the states.<sup>28</sup>

### To regulate or not to regulate

- 4.34 It seems that everyone agrees that rogue operators are a problem; however, there is far less agreement on what can be done to stop their operation. Essentially, there are two schools of thought on the solution. The first argues that there needs to be better enforcement of *existing* legislation in all jurisdictions, while the second contends that there needs to be *new* federal legislation introduced, which will require the licensing of all tour operators.

- 4.35 The strongest advocate of greater enforcement of existing legislation is the federal government. DITR summarised the government's position, stating:

To address the current concerns regarding unethical practices in the tourism industry, by a small number of operators in relation to targeting North Asian markets, achieving increased complaint activity to facilitate greater enforcement under existing legislation, and pursuing industry-based and non-legislative solutions is appropriate.<sup>29</sup>

- 4.36 The government's approach on better enforcement of existing legislation includes new processes to make it easier for mistreated tourists to make complaints. DITR summarised the new approach:

Consumer protection information on TA's multilingual site targeted to intending visitors to Australia, [www.australia.com](http://www.australia.com), has been updated. The Shopping Guidelines information highlights that visitors are protected under Australia's consumer protection

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28 Mr M Hingerty, Australian Tourism Export Council, *Transcript of evidence*, 15 March 2007, p. 2.

29 Department of Industry, Tourism and Resources, *Submission no. 45*, p. 8.

laws, and provides tips on purchasing tourism products and services in Australia. This information is currently positioned under the *Plan your trip/Useful Travel Information* area of the site.

The information on TA's site also advises that if a visitor feels they have been treated unfairly by a business in Australia and they wish to lodge a complaint, two national tourist complaint mechanisms are made available by DITR:

- a national telephone hotline 1300 552 263, with telephone interpreter services available by ringing 131 450; and
- an online tourist complaint form hosted on the DITR site at [www.industry.gov.au/touristcomplaints](http://www.industry.gov.au/touristcomplaints).

Submitted complaints automatically forward to State and Territory Fair Trading Agencies for response.<sup>30</sup>

- 4.37 Somewhat unusually, it is the industry seeking new legislation to regulate all tour operators. The industry's position was outlined by Matt Hingerty of ATEC, who told the committee:

We are a bit *Ripley's Believe It Or Not!* in terms of industry sectors. We actually support regulation of our particular part of the industry. We believe that the distribution chain, at least the Australian end of it, as I discussed earlier, should have mandatory licences and regulation. We are happy to support mandatory regulation. To use a common buzzword, there is an area of mutual responsibility here. We are happy to call down and abide by regulation—that is for ITOs, for tour guides in particular, for the shops, and for the whole distribution chain. I guess it is a measure of our despair surrounding this particular issue. The other side of mutual responsibility is for governments to enforce consumer laws and export protection laws against those people who are not doing the right thing. We fully understand that in calling for regulation of our sector we are swimming against the stream—in relation to all state and federal governments, regulation is not a sexy issue—but we see no other significant way out of this particular issue.<sup>31</sup>

## Committee conclusions

- 4.38 Tourism rogue operators are an issue the committee looked at in some detail. It is a long standing issue for the industry and one that needs to be solved as a matter of urgency. It is fundamentally important to the tourism

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30 Department of Industry, Tourism and Resources, *Submission no. 53*, p. 2.

31 Mr M Hingerty, Australian Tourism Export Council, *Transcript of evidence*, 15 March 2007, p. 3.

industry—one of Australia's biggest export industries—that rogue operators are not allowed to continue to damage our reputation as a tourism destination.

- 4.39 There is disagreement on how action against rogue 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.
- 4.40 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 argued for a new regulatory regime, not because existing powers are insufficient, but because existing powers have not been enforced by federal and state bodies.
- 4.41 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.
- 4.42 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.
- 4.43 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.
- 4.44 To assist members of the taskforce in making a case against alleged rogue operators, it is vital that tourists are able to make complaints easily. The



multi-language web-based measures the government has recently implemented appear to be a good start in facilitating a simplified complaints process. Adding to this process, it would be useful if tourists were advised of their rights, as well as ways in which they can make complaints, prior to their arrival. For example, information could be provided when visas are granted, and video messages (in several languages) could be played on all planes arriving into Australia.

### **Recommendation 8**

4.45 **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.**

## **Skills and labour shortages**

4.46 Skills and labour shortages were discussed in detail in chapter 3 which looked at issues for the services sector as a whole. Much of the evidence used in that discussion was from the tourism industry, reflecting the fact that the shortages are seen as a significant issue in the industry. This section will not repeat that lengthy discussion nor will it repeat the committee's conclusions and recommendation.

4.47 The committee once again notes that the House of Representatives Standing Committee on Employment, Workplace Relations and Workforce Participation is conducting an inquiry focussing entirely on workforce challenges in the tourism industry. This committee will closely monitor the conclusions and recommendations reached by its counterpart.

## Competitive issues for inbound tourism

- 4.48 The inbound tourism industry is facing a number of competitive pressures at present. These will be discussed separately below.

### The Australian dollar

- 4.49 One of the effects of the resources boom has been the appreciation of the Australian dollar. Most tourism-focussed submissions discussed the appreciating dollar as a constraining influence on tourism exports. The dollar and the apparent impact on tourism was summarised in Qantas's submission:

The Australian dollar has strengthened considerably against a number of major currencies in recent times. As a result, growth in the number of foreign visitors to Australia in some markets has slowed, while the number of Australian residents travelling has risen sharply.<sup>32</sup>

- 4.50 The dollar has appreciated 60 per cent against the US dollar since 2001 when the dollar was below US 50c. At the time of writing, the Australian dollar was consistently above the US 80c mark. This appreciation is significant for the tourism sector as the United States is the fourth biggest market in terms of visitor numbers, and may explain why growth in visitor numbers has been slow.
- 4.51 The Australian dollar has also appreciated significantly against the currency of the third most frequent visitors to Australia, the Japanese. The dollar has appreciated approximately 70 per cent against the yen since October 2000, reaching above ¥100 at the time of writing. Japanese visitor numbers have been in steady decline in recent years and the appreciation of the Australian dollar is one of the possible explanations for this decline (see more detailed discussion of the Japanese market below).
- 4.52 The dollar has been comparatively stable against our two most significant tourism export markets, New Zealand and the United Kingdom. This stability is reflected in the consistent growth in visitor numbers from these markets.
- 4.53 While the dollar's appreciation against the currency of trading partners explains some decline in visitor numbers, it also appears to have supported the strong growth in outbound tourism (Australians travelling overseas). This was recognised by ATEC who concluded that the growth
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32 Qantas, *Submission no. 37*, p. 15.

in outbound tourism 'has partly been attributed to the strong Australian dollar.'<sup>33</sup>

## Cheap flights in other markets

- 4.54 Another competitive pressure for the inbound tourism industry is the advent of low-cost airlines in Europe and, more recently, Asia. Essentially, the availability of these flights make short-haul, intra-continental travel more appealing, and consequently long-haul flights (like the flight to Australia) less appealing. John Hawkins of Treasury commented on the impact of cheaper flights:

The problem that we are facing is that, although people would like to go to Australia, it is quite a bit more expensive than regional destinations because there are now very cheap fares within Europe and, increasingly, very cheap fares within Asia and there has not been the same advent of low-cost, no frills airlines flying internationally.<sup>34</sup>

- 4.55 Tourism Australia discussed budget airlines in the context of Asia:

In South East Asia, the low cost carrier revolution is having major impacts on the effective price relativities of visiting Australia versus visiting a short haul regional destination.

For example, the Air Asia website indicated on 13 July 2006 that flights from Kuala Lumpur to Bali, vary from MRY100 (A\$35) to MRY280 (A\$100) one way depending on fare conditions. This compares to much higher airfares offered by Malaysia Airlines to Australia. The cheapest return flight found on Malaysia Airlines website on 13 July was MRY2,097 (A\$730) from Kuala Lumpur to Sydney, or over ten times that of the cheapest return Air Asia flight to Bali.

When a similar environment emerged in Europe over recent years, the share of total travel going short haul by air increased at the expense of long haul travel and traditional carriers were forced to make cost rationalisations.<sup>35</sup>

- 4.56 Overall, it is clear that the introduction of budget, intra-continental airlines poses a significant competitive threat to Australia's inbound industry.

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33 Australian Tourism Export Council, *Submission no. 3*, p. 8.

34 Mr J Hawkins, *The Treasury, Transcript of evidence*, 1 December 2006, p. 1.

35 Tourism Australia, *Submission no. 41*, p. 39.

## The tyranny of distance

4.57 Australia's relative distance from source markets has always been an issue for the inbound tourism industry. It is an issue the industry has been able to overcome to some extent, as flight times and in-flight service and comfort have improved over the years.

4.58 However, the 'tyranny of distance' has re-emerged according to the evidence of this inquiry. It has done so for a number of reasons. Firstly, there is an increasing tendency toward shorter breaks. As such, the attraction of long-haul destinations has suffered. The trend toward shorter breaks and the effect on inbound tourism was discussed by Tourism Australia:

Globalisation has created pressures on employees to avoid taking extended breaks. This reduces the attractiveness of an Australian holiday. Adding to this in some Asian countries, official hours of work are heading downwards, towards a five day week. This is creating greater opportunities for short breaks away from home around weekends.<sup>36</sup>

4.59 The trend for shorter breaks is, of course, supported by the emergence of low-cost, short-haul airlines discussed above.

4.60 Secondly, the increased price of oil acutely affects the price of long-haul flights. Karl Flowers of Tourism Australia discussed this impact:

There has been quite strong growth in international airfares, including fuel surcharges, over the last 18 months. When you have fuel surcharges between \$300 and \$400 to return to Europe, that does have an impact on demand.<sup>37</sup>

4.61 Finally, the increasing public interest in climate change has the potential to exacerbate the tyranny of distance for the inbound tourism industry. Aircraft currently contribute approximately 2-3 per cent of global carbon emissions. This figure is estimated to reach 4-5 per cent in coming years if airline travel continues to grow at the current rate.<sup>38</sup>

4.62 ATEC, among others, has highlighted the potential for 'global guilt' on climate change—particularly from European markets—to impact

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36 Tourism Australia, *Submission no. 41*, p. 39.

37 Mr K Flowers, Tourism Australia, *Transcript of evidence*, 15 November 2007, p. 9.

38 D Robertson, 'Virgin to fly non-stop from London to Sydney', *The Australian*, 25 April 2007, viewed 26 April 2007, < <http://www.theaustralian.news.com.au/story/0,20867,21618411-643,00.html>>.

Australia's inbound industry.<sup>39</sup> There has also been a recent push from within Europe for consumers to avoid long-haul flights. If significant numbers of Europeans decide to reduce the number of long-haul flights they take, the Australian inbound tourism industry may suffer.

- 4.63 The Tourism Minister, the Hon Fran Bailey MP, recently announced that a 'Tourism action plan on climate change' would be developed. The press release announcing the action plan highlighted that tourism is one of the sectors most vulnerable to climate change.<sup>40</sup>

## Committee conclusions

- 4.64 Inbound tourism is by nature a hugely competitive industry. Almost every country in the world is vying to become a popular tourism destination. Over recent decades, Australia has been able to compete well in the global market, building a strong inbound industry. However, it is clear that there are a number of competitive challenges facing the industry both now and into the future.
- 4.65 The high Australian dollar is an issue for the industry, but perhaps not as big of an issue as some might suggest. The dollar is considerably above its post-float average against the US dollar. Nonetheless, the number of visitor arrivals from the United States continues to grow – albeit at more moderate levels than other markets.
- 4.66 The dollar has appreciated significantly against the Japanese yen in recent years, which has coincided with a steady decline in visitor numbers from Japan. However, the yen is only marginally above its post-float average. Further, in 1997-98 when a record 797,000 visitors arrived from Japan, the yen was at similar levels to those seen today. The appreciation of the dollar against the yen is certainly a factor in the decline of the Japanese market, but it is probably not the definitive factor. The decline of the Japanese market is discussed in more detail below.
- 4.67 Cheap intra-Asia and intra-Europe flights are providing significant competition to Australia's inbound tourism industry. There is very little the industry can do about the advent of these airlines other than continuing to offer a quality product and continuing strong overseas marketing. It is, however, encouraging that there are low-cost carriers, such as Jetstar and Tiger, starting to fly to Australia from various Asian hubs.

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39 L Allen, 'Tourism to joint climate debate', *The Australian Financial Review*, 18 April 2007, p. 5.

40 The Hon F Bailey MP, *Tourism action plan on climate change*, Media Release, 18 April 2007.

- 4.68 Distance has always been an issue for the inbound industry. It appears there are a number of factors which may exacerbate this issue looking forward. The global trend for shorter breaks is potentially harmful for Australia and other long-haul destinations. Similarly, the high cost of oil may impact the inbound industry. Oil prices have increased in early 2007 and may soon approach the record levels seen in mid 2006. The resultant fuel surcharges on long haul flights can be significant. There is, once again, very little the industry can do about these issues except for continued marketing and offering a quality product.
- 4.69 An emerging challenge for the 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.
- 4.70 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.
- 4.71 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.
- 4.72 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

- 4.73 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

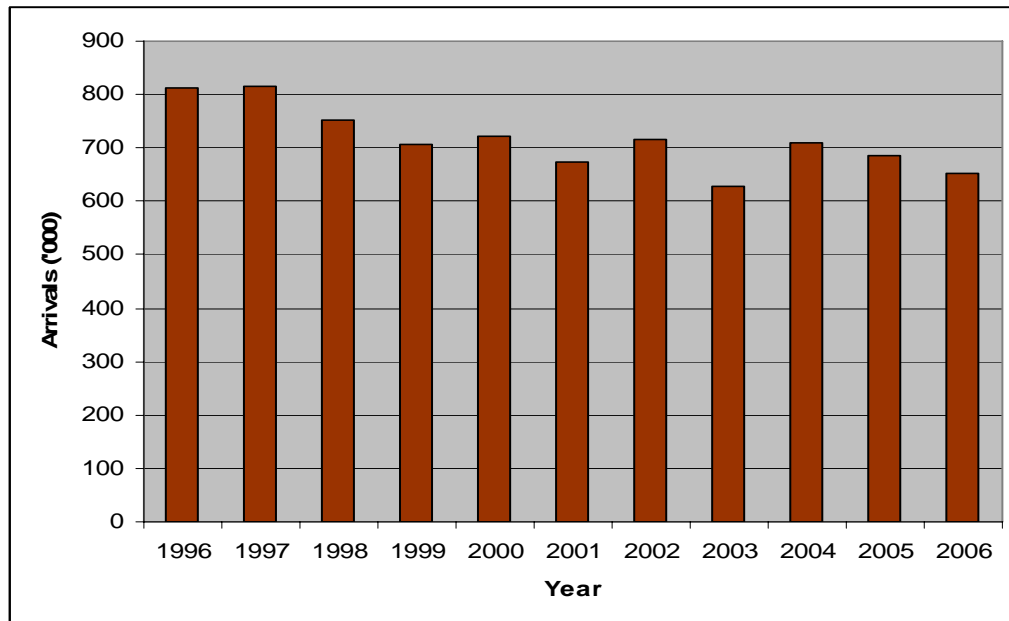
- 4.74 While the industry has experienced strong growth from markets such as China and India (these markets will be discussed in detail below), there has been a consistent decline in the Japanese market. Evidence to this inquiry highlighted this fact and suggested it is an area needing some attention.
- 4.75 In 1997-98, 797,000 Japanese visitors came to Australia; in 2004-05, this figure had fallen to 700,800.<sup>41</sup> From January 2006 to January 2007, this figure had fallen further to 638,600.<sup>42</sup> In 1997-98 Japanese were the most frequent visitors to Australia; now they are only the third most frequent behind New Zealand and the United Kingdom. Overall, there has been almost a 20 per cent decline in the Japanese market since 1996 (see figure 4.2 below).
- 4.76 Despite this decline, and the fact the Japanese are now third in terms of visitor numbers, the Japanese market remains the second most important for the inbound industry in terms of total economic value.

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41 Australian Bureau of Statistics, *Tourism satellite account*, cat. no. 5249.0, ABS, Canberra, 2006.

42 Australian Bureau of Statistics, *Overseas arrivals and departures*, cat. no. 3401.0, ABS, Canberra, 2007.

Figure 4.2 Japanese visitors to Australia, 1996-2006



Source Australian Bureau of Statistics, *Overseas arrivals and departures, cat. no. 3401.0, ABS, Canberra, 2007.*

- 4.77 One factor which has undoubtedly hurt the Japanese market is the appreciation of the Australian dollar against the Japanese yen. The dollar has increased against the yen by approximately 70 per cent since 2000.
- 4.78 A number of witnesses and submissions highlighted the obvious correlation between the appreciation of the dollar and decline in Japanese tourism to Australia. Qantas, for example, reported 'relative exchange rate movements have heavily influenced Japanese leisure travel patterns in recent years.'<sup>43</sup>
- 4.79 The high dollar is certainly a factor in the decline in the Japanese market, but it is not the *only* factor. This was recognised by the Action Plan for Japanese Tourism Committee, who recently studied the Japanese inbound market. The committee highlighted numerous factors contributing to the decline, including the Japanese economic downturn, changing traveller types for Australia, airline developments, competition, and inconsistency in Australia's presence and activity.<sup>44</sup>
- 4.80 The committee made four key recommendations for recapturing the Japanese market. These are:

43 Qantas, *Submission no. 37*, p. 15.

44 Action Plan for Japanese Tourism Committee, *Embracing change: Action plan for Japanese tourism*, Commonwealth of Australia, January 2006, p. 9



- Restore the Australian brand and refresh the product representing it in order to make Australia a 'must see' destination for our newly defined best prospect segments.
  - Build a strong, aligned and collaborative approach to marketing and distributing product to target markets, led by Tourism Australia in conjunction with the state/territory tourism offices.
  - Ensure airline pricing and products for the Australia–Japan route are competitive and promote market growth.
  - Adopt a new experience-based approach to product development to match the needs identified by new market segmentation for Japan and closely target appropriate products to key segments.<sup>45</sup>
- 4.81 The Tourism Forecasting Committee is predicting visitor arrivals from Japan will return to the peak of the mid nineties, but not until 2014. Despite this, the committee forecasts that the economic value of inbound tourism from Japan, in real terms, will decline by 0.3 per cent to 2015. This presumption is based on reduced spending per visitor.<sup>46</sup>

## Committee conclusions

- 4.82 The Japanese have long been one of Australia's best export markets. It is therefore concerning for the inbound tourism industry that this important market has been in decline in recent years. There are clearly a number of reasons behind this decline. Some of these reasons – the exchange rate and the Japanese economic downturn, for example – are beyond the industry's or the government's control.
- 4.83 However, there are also reasons that can be addressed by industry and government. 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.
- 4.84 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.

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45 Action Plan for Japanese Tourism Committee, *Embracing change: Action plan for Japanese tourism*, Commonwealth of Australia, January 2006, p. 7.

46 Tourism Forecasting Committee, *Forecast: The fifth release from the Tourism Forecasting Committee*, Tourism Australia, 2006, p. 23.

## Recommendation 10

- 4.85 **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.**

## Underperforming domestic tourism

- 4.86 This inquiry focussed primarily on tourism exports; however, there was also some discussion about domestic tourism. As was noted by the Tourism and Transport Forum (TTF), 'the success of the export sector or inbound market is inextricably linked to the health of the domestic sector.'<sup>47</sup>

- 4.87 DITR also commented on the importance of the domestic market:

Notwithstanding the importance of inbound tourism, domestic tourism is also an essential component of the tourism industry. Australians travelling in Australia are the biggest market for most tourism businesses ... generat[ing] 76 per cent of tourism industry gross domestic product in 2004-05.<sup>48</sup>

- 4.88 Given the significance of domestic tourism, several groups were concerned about its performance in recent times. Tourism Australia outlined some of the recent figures which highlight the concerning state of domestic tourism:

Domestic tourism has not performed as strongly as inbound tourism since the end of the SARS crisis in the second quarter of 2003. The most recent data from Tourism Research Australia for 2005 shows a heavy fall in domestic tourism and in particular domestic leisure tourism. In 2005, there was a decline in total domestic nights (-7 per cent), trips (-6 per cent) and spend (-2 per cent, before inflation). There were also significant falls in visitor nights for the purposes of visiting friends and relatives (-14 per cent) and holiday (-5 per cent).<sup>49</sup>

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47 Tourism and Transport Forum, *Submission no. 27*, p. 12.

48 Department of Industry, Tourism and Resources, *Submission no. 21*, p. 9.

49 Tourism Australia, *Submission no. 41*, p. 18.

4.89 ATEC commented on the effect the declining domestic market can have on inbound tourism:

The risk of a poorly-performing domestic sector is under-investment in business development and the provision of poor quality experiences to international tourists.<sup>50</sup>

4.90 A recent report commissioned by DITR, *An assessment of the Australian domestic tourism market*, concluded there are three broad trends leading to the decline in domestic tourism:

- Australians are travelling less – in 2005 Australians took an average of 4.3 trips per capita, down from 5 trips in 1998. Visitor nights per capita also declined from 19.7 nights in 1998 to 16.9 nights in 2005.
- A smaller portion of household consumption is being allocated to tourism activity – in 2005 tourism contributed 14.3 per cent of household consumption, down two percentage points from 1998.
- Domestic travel is in decline relative to overseas travel – outbound visitor nights increased by 29 per cent in the two years to the March quarter 2006, while domestic visitor nights declined 8 per cent over the same period.<sup>51</sup>

4.91 A follow-up report, also commissioned by DITR, inquired into the reasons behind the trends identified. One of the conclusions was that domestic travel is not well regarded by Australians: ‘Semantically, travel within Australia has shifted from not being real travel, to not being travel at all.’<sup>52</sup> The report also found that domestic tourism is not seen as providing value for money. The report cited three main issues in this regard:

- Accommodation – This is either luxury product or neutral and characterless. Further, there is little to help the consumer differentiate product thanks to a lack of accreditation that is both national and neutral.
- Lack of packages – These help make tourism tangible. Although the content of packages should vary for different groups, almost everyone agreed this would encourage them to travel more. It is also important

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50 Australian Tourism Export Council, *Submission no. 3*, p. 8.

51 A Maurer et al, *An assessment of the Australian domestic tourism market*, Tourism Research Australia, Canberra, 2006; in D Collins et al, *Changing consumer behaviour: Impact on the Australian domestic tourism market*, Tourism Research Australia, Canberra, 2007, p. 2.

52 D Collins et al, *Changing consumer behaviour: Impact on the Australian domestic tourism market*, Tourism Research Australia, Canberra, 2007, p. 23.

that packages are a lead in; flexibility in the final shape of the package should be allowed.

- Lack of attractions – There is felt to be insufficient things to do on holidays within Australia, especially for younger travellers and for families. Those attractions which are available are felt to be a long way apart.<sup>53</sup>

4.92 One of the most significant findings was that domestic tourism is unlikely to ever be as important as it once was:

Unless the pressures and competition for share of wallet and time reduce (which is highly unlikely), travel domestically will never regain the primary status it had in people's spending 10-15 years ago.<sup>54</sup>

4.93 However, the report's final conclusion was that 'despite the very significant challenges domestic tourism faces, there is a good case to be made for addressing them.'<sup>55</sup>

4.94 Tourism Australia noted that the federal government has a lesser role in promoting domestic tourism compared to its role in inbound tourism:

The Australian government is not a major provider of funding for domestic tourism marketing

...

It is the primary responsibility of the states and territories as well as regional organisations to promote particular destinations and products to domestic ... tourists.<sup>56</sup>

4.95 Tourism Australia itself acknowledged that more federal government involvement in domestic tourism may assist in reversing the current trends:

Increased support from the Australian Government for domestic tourism could provide a useful role by increasing the status of Australian holidays and encouraging less stockpiling of leave.<sup>57</sup>

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53 D Collins et al, *Changing consumer behaviour: Impact on the Australian domestic tourism market*, Tourism Research Australia, Canberra, 2007, p. 24.

54 D Collins et al, *Changing consumer behaviour: Impact on the Australian domestic tourism market*, Tourism Research Australia, Canberra, 2007, p. 23.

55 D Collins et al, *Changing consumer behaviour: Impact on the Australian domestic tourism market*, Tourism Research Australia, Canberra, 2007, p. 24.

56 Tourism Australia, *Submission no. 41*, pp. 11 & 28.

57 Tourism Australia, *Submission no. 41*, pp. 44.

- 4.96 Evidence to the inquiry also commented on the role of state governments in the promotion of both domestic and inbound tourism. It was argued that while some state governments do a good job, others do a poor one. Owen Johnstone-Donnet of TTF commented:

Victoria spends twice the amount of money that New South Wales spends. New South Wales has the distinct record of being the only city in the world to have hosted an Olympic Games where the number of visitors before the games was greater than after the games ... We need to look at how some states are doing a wonderful job ... but there are other states where we need to look at the mix.<sup>58</sup>

- 4.97 In a stronger criticism, Mike Cannon of the Australian Association of Convention Bureaux (AACB) stated:

I have heard criticism of state marketing, and some states—for example, the one we are sitting in (New South Wales)—are abysmal.<sup>59</sup>

## Committee conclusions

- 4.98 Domestic tourism is fundamentally important, not only to the Australian economy as a whole, but also to the inbound tourism industry. Domestic and international tourists utilise the same infrastructure and services. The provision of quality tourism infrastructure and services is largely dependant on income from domestic tourists, given that domestic tourists comprise approximately 75 per cent of tourism spending.
- 4.99 Contributors to this inquiry were rightly concerned about the steady decline in domestic tourism. There are numerous causes of this decline, as shown in the recent reports commissioned by the federal government. Some of the causes—such as the reduced ability to spend time and money on a holiday—may be difficult to rectify. There are, however, other causes—like the attitude to travelling in Australia and the perception of value for money—which can and should be addressed.
- 4.100 Domestic tourism is primarily the responsibility of state governments. Evidence to this inquiry suggested that some states are promoting their tourism industries well, while others—New South Wales, in particular—are not. It is clear that some states must improve their tourism promotion.

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58 Mr O Johnstone-Donnet, Tourism and Transport Forum, *Transcript of evidence*, 15 November 2007, p. 16.

59 Mr M Cannon, Australian Association of Convention Bureaux, *Transcript of evidence*, 15 November 2007, p. 57.

- 4.101 The federal government plays a lesser role in domestic tourism. Having said this, the Tourism White Paper recognised the importance of, and committed the government to, improving domestic tourism. It is encouraging that the federal government has commissioned detailed research into why the domestic industry is in decline. It is important that the government continues this leadership and coordination role.

## Aviation policy

- 4.102 Aviation policy is crucial for Australia's inbound tourism industry. Reflecting this, a number of submissions and witnesses raised issues regarding aviation during the inquiry. The most prominent debate was about whether there is sufficient capacity operating on routes into Australia, and whether air services agreements are constraining growth in inbound tourism.
- 4.103 There was a view that on some routes there is insufficient capacity operating into Australia. This view was expressed by Cameron Macphee of Brisbane Airport in relation to flights into Brisbane:

We have a gap developing between, shall we say in the immediate sense, the reduction in seat capacity coming from key hubs and the expectation of growth that we have from some of the emerging markets.<sup>60</sup>

- 4.104 One of the reasons given for capacity shortages was the delay in production of the Airbus A380 aircraft, and the consequent commercial decisions by airlines to use the planes they have available on more profitable routes. Cameron Macphee provided an example of this situation materialising:

We have lost from Singapore Airlines seven services a week out of 21, come next April. Those aircraft are going to be flying Singapore-Shanghai. They are flying Singapore-Shanghai because they do not have the A380s that they were going to use on those routes.<sup>61</sup>

- 4.105 Similar evidence was given by Philip Noonan of DITR, who stated:

We do have evidence of airlines who have flown to Australia in the past diverting their flight to Shanghai because that is a more

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60 Mr C Macphee, Brisbane Airport, *Transcript of evidence*, 21 November 2007, p. 12.

61 Mr C Macphee, Brisbane Airport, *Transcript of evidence*, 21 November 2007, p. 12.

profitable market and they had planned to fly a 747 there when they got an A380 for our route, or vice versa. So for the next two years, we do face a difficult issue.<sup>62</sup>

- 4.106 While acknowledging some of the problems caused by the delayed A380 aircraft, Mr Noonan argued that on the whole airline capacity was not a major concern for the industry:

I would say there are very few routes into Australia where the capacity is a major constraint. There are far more routes where there may not be enough services or direct services, but when you look at the reasons you see they are commercial reasons – that is, airlines are not able to make a profit out of adding the extra plane or they are able to make a greater profit out of taking the plane on routes to China, for instance.<sup>63</sup>

- 4.107 Bilateral air services agreements control access to air routes into and from Australia. There was some debate as to whether these agreements are overly restrictive and therefore causing capacity shortages on certain routes. When asked the department's opinion on this claim, Mr Noonan said:

I think there are a number of ports in Australia that would like more flights and perhaps more flights could be made profitable to Australia but the reasons why those are not happening in most cases are not air services agreements but rather commercial decisions by airlines that they cannot make as much money on the flight to Australia as they can somewhere else.<sup>64</sup>

- 4.108 The federal government has recently reviewed its policy approach to air services agreements. The government concluded that into the future its air services policy will:

- recognise 'open skies' as an aspirational goal to be sought on a case-by-case basis, where it is in the national interest;
- negotiate capacity for air services ahead of demand, to allow airlines to make decisions and provide for competition and growth;
- maintain and expand access to a range of aviation hubs;

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62 Mr P Noonan, Department of Industry, Tourism and Resources, *Transcript of evidence*, 1 December 2006, p. 40.

63 Mr P Noonan, Department of Industry, Tourism and Resources, *Transcript of evidence*, 1 December 2006, p. 39.

64 Mr P Noonan, Department of Industry, Tourism and Resources, *Transcript of evidence*, 1 December 2006, p. 40.

- recognise the contribution an Australian-based airline industry makes to the economy;
- encourage major foreign carriers to commit to a long-term presence in Australia;
- address Australia's trade and economic interests;
- continue to attract more services to the regions and smaller states by offering unlimited access for airlines to all airports other than the four gateways of Sydney, Melbourne, Brisbane and Perth;
- grow the air freight market by seeking unlimited access for freight aircraft from Australian markets to and beyond the markets; and
- continue to reform the bilateral air services system by:
  - ⇒ seeking to designate airlines through their principal place of business, rather than through ownership criteria; and
  - ⇒ continuing to seek liberalisation through multilateral forums such as the International Civil Aviation Organisation (ICAO) and World Trade Organisation (WTO).<sup>65</sup>

## Committee conclusions

- 4.109 Aviation policy is of great importance to the inbound tourism industry. Unlike other countries—European countries, in particular—Australia relies almost exclusively on air travel to bring in its inbound tourists.
- 4.110 It appears that capacity may be a problem on some routes. However, it also appears that capacity is an issue primarily because of delayed aircraft acquisitions and the consequent commercial decisions of airlines, not because of restrictions imposed by air services agreements. If this statement is true, the solution to any current capacity constraints will come in the next few years when the Airbus A380 comes into service.
- 4.111 Having said this, continued liberalisation of air services agreements will be important into the future if we are to accommodate the 3.5 million additional visitors predicted by the Tourism Forecasting Committee. The government's recent policy framework on air service agreements, including the aspirational goal of 'open skies', should assist in the negotiation of appropriate agreements.

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65 Department of Transport and Regional Services, *Submission no. 29*.



## Opportunities for growth and policies for realisation

4.112 Submissions to this inquiry have highlighted numerous growth opportunities for the inbound tourism industry. The section below will discuss these opportunities under two broad headings:

- Emerging markets; and
- Niche markets.

### Emerging markets

4.113 The pillars of the inbound tourism industry in Australia have long been countries like Japan, New Zealand and the United Kingdom. While these markets remain important, the industry has a number of emerging markets that are likely to be of increasing importance into the future. Some of the regions from which visitor numbers are expected to increase significantly include Eastern Europe, South America and the Middle East.<sup>66</sup>

4.114 The government's Emerging Markets Consultative Group explained the importance of emerging markets for the inbound industry:

Australia has a number of designated 'core' markets, which provide the bulk of inbound tourism revenue. As new markets emerge and are developed, they add to strength of these existing markets in delivering increased export revenue benefits for Australia.<sup>67</sup>

4.115 Submissions to this inquiry, as well as research outside of this inquiry, have focussed primarily on two particular emerging markets: China and India. These markets are discussed separately below.

### China

4.116 The industrialisation of China is fuelling Australia's current resources boom. This industrialisation is also fuelling another boom for the Australian economy – a boom in the number of Chinese citizens coming to Australia as tourists.

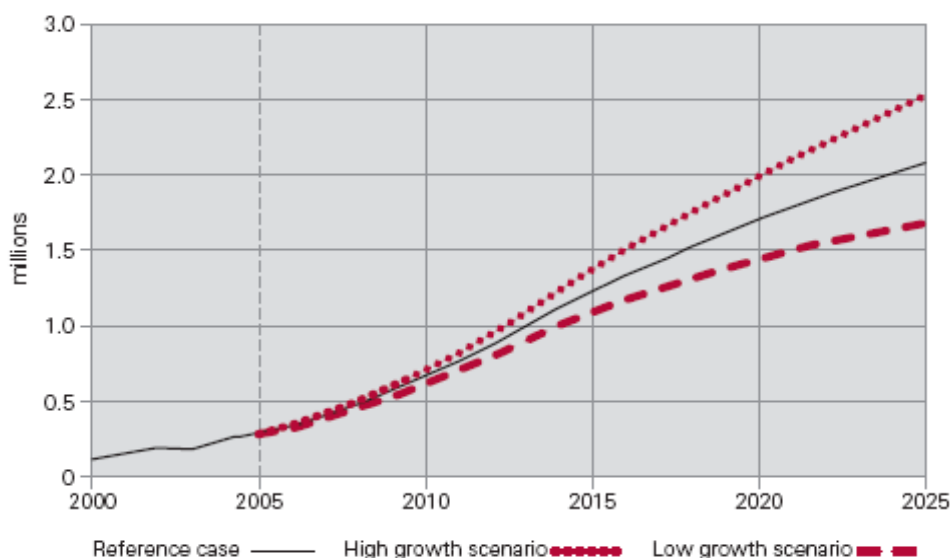
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<sup>66</sup> Tourism Australia, *Submission no. 41*, pp. 41-42.

<sup>67</sup> Emerging Markets Consultative Group, *Investing in today for tomorrow, national tourism emerging markets strategy: China and India*, Department of Industry, Tourism and Resources, December 2005, p. 53.

- 4.117 Between 1997-98 and 2004-05 visitor numbers from China grew by approximately 280 per cent. This growth has seen China become the inbound industry's fifth largest market, both in terms of visitor numbers and total economic value.<sup>68</sup>
- 4.118 The Tourism Forecasting Committee has forecast very strong growth in the Chinese market over the medium term. The committee has estimated that visitor arrivals from China will grow from 285,000 in 2005 to 911,000 in 2015 – an annual growth rate of 12 per cent (see figure 4.3 below). If this level of growth materialises, China will become Australia's third largest market in terms of visitor numbers, and largest in terms of total economic value.<sup>69</sup>

Figure 4.3 Forecast visitor arrivals from China, 2005 to 2025



Source *Emerging Markets Consultative Group, Investing in today for tomorrow, national tourism emerging markets strategy: China and India, Department of Industry, Tourism and Resources, December 2005, p. 10.*

- 4.119 Recognising the importance of the Chinese market, the government appointed a consultative group to produce an emerging markets strategy for the Chinese and Indian markets. The consultative group was tasked with identifying strategies to ensure the inbound industry captures the expected demand, and also strategies to address any impediments to growth.

68 Australian Bureau of Statistics, *Tourism satellite account*, cat. no. 5249.0, ABS, Canberra, 2006.

69 Tourism Forecasting Committee, *Forecast: The fifth release from the Tourism Forecasting Committee*, Tourism Australia, 2006, pp. 34-35.

4.120 The group came up with 12 recommendations to assist in the development of the Chinese market. The recommendations focussed on the following areas:

- Engagement with the China market:
  - ⇒ Identifying best prospect visitors;
  - ⇒ Creating awareness of the Australian brand;
  - ⇒ Making Australia a competitive destination with product appeal;
  - ⇒ Ensuring interest visiting Australia is converted to action; and
  - ⇒ Developing a strategy for product distribution and promotion.
- Access:
  - ⇒ Continued monitoring of air capacity; and
  - ⇒ Best practice customs, immigration and quarantine arrangements.
- Delivery of the promise:
  - ⇒ Reviewing the accommodation needs of the Chinese market;
  - ⇒ Address language and skills shortages in the industry;
  - ⇒ Enact national legislation to eradicate rogue operators; and
  - ⇒ Develop standards for tour operators and guides.
- Investment in the future:
  - ⇒ Engagement with the Chinese travel industry and government.<sup>70</sup>

4.121 The government responded to this report in early 2007, summarising that 'the majority of recommendations ... are supported by or already implemented in current government policy and arrangements.'<sup>71</sup>

## India

4.122 India, like China, has been one of the world's fastest growing economies in recent years:

Since the 1990s when the Indian Government adopted economic reforms, its economy has emerged as one of the fastest growing in the world. Annual growth during the last decade averaged 6 per

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70 Emerging Markets Consultative Group, *Investing in today for tomorrow, national tourism emerging markets strategy: China and India*, Department of Industry, Tourism and Resources, December 2005, pp. 19-38.

71 Department of Industry, Tourism and Resources, *Australian government response to the national tourism emerging markets strategy report and the national tourism investment strategy report*, DITR, January 2007, p. 3.

cent, making it Asia's fourth largest economy and ranking it twelfth in the world.<sup>72</sup>

- 4.123 The Indian economy is forecast to grow at approximately 7 per cent annually over the next decade, making it the world's third largest economy.<sup>73</sup> Resulting from this impressive growth will be an increase in the number of Indian citizens seeking overseas tourism experiences.
- 4.124 This increase has been evident in Australia's inbound tourism numbers over the past decade. In 1995-96, 19,000 Indian tourists came to Australia; in 2004-05, 59,000 arrived—an increase of some 210 per cent. Despite this impressive growth, the Indian market remains very small for the industry, representing just 1 per cent of inbound tourism's total contribution to the Australian economy. India is only the fourteenth largest single-country market for the inbound industry.<sup>74</sup>
- 4.125 While the Indian market is small at present, India's massive population and continued economic growth make it a priority emerging market for the industry. The Tourism Forecasting Committee has reported that 'anecdotal feedback suggests interest in travelling to Australia is increasingly rapidly.'<sup>75</sup> Matt Hingerty of ATEC outlined some of Australia's advantages in attracting Indian tourists:
- The opportunity is that it is a predominantly English-speaking, high-yielding market which is looking to travel internationally. We have good cultural links with India. They come from a Western democratic type system, so they understand the way Australia operates. There are not the same cultural barriers that we are having in engaging with China.<sup>76</sup>
- 4.126 The Tourism Forecasting Committee has forecast that the number of Indian inbound tourists to Australia will increase to 327,000 in 2015—an average annual growth rate of 17 per cent (considerably faster even than the expected Chinese growth rate, and far above the growth rate expected
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72 Emerging Markets Consultative Group, *Investing in today for tomorrow, national tourism emerging markets strategy: China and India*, Department of Industry, Tourism and Resources, December 2005, p. 13.

73 Emerging Markets Consultative Group, *Investing in today for tomorrow, national tourism emerging markets strategy: China and India*, Department of Industry, Tourism and Resources, December 2005, p. 13.

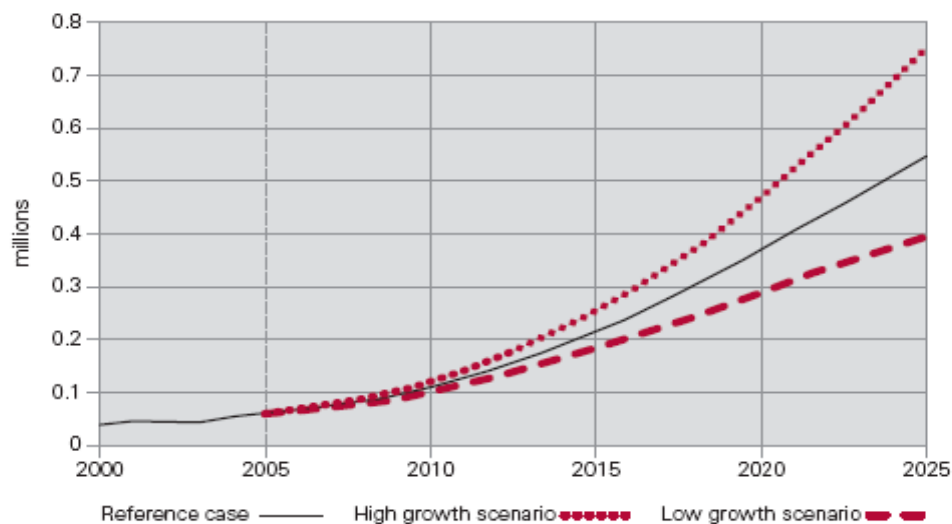
74 Tourism Forecasting Committee, *Forecast: The fourth release from the Tourism Forecasting Committee*, Tourism Australia, 2006, pp. 9-11.

75 Tourism Forecasting Committee, *Forecast: The fourth release from the Tourism Forecasting Committee*, Tourism Australia, 2006, p. 40.

76 Mr M Hingerty, Australian Tourism Export Council, *Transcript of evidence*, 15 November 2007, p. 20.

in other markets). If this situation eventuates, India will become Australia's seventh largest market in terms of visitor numbers and total economic value.<sup>77</sup> If the inbound industry is able to achieve higher than forecast growth, India may become a top five market by 2025 (see figure 4.4 below).<sup>78</sup>

Figure 4.4 Forecast visitor arrivals from India, 2005 to 2025



Source *Emerging Markets Consultative Group, Investing in today for tomorrow, national tourism emerging markets strategy: China and India, Department of Industry, Tourism and Resources, December 2005, p. 16.*

4.127 As outlined in the discussion on China, the government recently commissioned research on strategies to develop, and policies to address issues, in the Indian and Chinese markets. The consultative group's recommendations in relation to the Indian market are very similar to those for the Chinese market. The government has generally supported the recommendations in the report.

## Committee conclusions

4.128 It is not surprising that the world's two most populous countries, with two of the world's fastest growing economies, are considered to be the two primary emerging markets for the inbound tourism industry. The Chinese market is already very significant for the industry, and will become the

77 Tourism Forecasting Committee, *Forecast: The fourth release from the Tourism Forecasting Committee*, Tourism Australia, 2006, pp. 9-11.

78 Emerging Markets Consultative Group, *Investing in today for tomorrow, national tourism emerging markets strategy: China and India*, Department of Industry, Tourism and Resources, December 2005, p. 16.

most significant within the next decade. The Indian market is comparatively small but will become increasingly important over time.

- 4.129 The committee commends the government-commissioned research that has been conducted into these markets. The strategies identified, if implemented, will place the industry in a good position to capitalise on the market opportunities.
- 4.130 Some of the issues identified earlier in this chapter are relevant to the future of these markets. A swift solution to the issue of rogue operators will be particularly important for the Chinese market—a fact that was recognised by the Emerging Markets Consultative Group. The issue of rogue operators is less of an issue for Indian travellers as they are more likely to be English speaking.
- 4.131 The issue of airline capacity will need to be monitored by the government into the future as more and more Indian and Chinese tourists seek to travel here. Clearly, current capacity would not be able to service the millions of extra annual arrivals expected from these markets in coming years.
- 4.132 It is also important that tourism-related infrastructure—airports, roads, hotels etc.—are progressively updated and improved upon to ensure the inbound industry can service the expected increased demand. As noted above, there is potential for infrastructure development to be hindered by the under-performance of the domestic industry. The importance of infrastructure for the development of emerging markets was raised not only by the Emerging Markets Consultative Group, but also by numerous submissions and witnesses to this inquiry.
- 4.133 Finally, the committee believes it is important for the government to conduct research into other emerging markets, having done so for the Chinese and Indian markets. Understanding and targeting opportunities in other markets will broaden the base of the inbound industry.

## **Niche markets**

- 4.134 Tourism is a highly competitive industry. It is therefore imperative that Australia's inbound industry differentiates itself from other destinations by offering unique tourism products and experiences. Doing so will provide the industry with a competitive advantage over other markets, which in turn should ensure continued success for the inbound industry.
- 4.135 Evidence to this inquiry discussed the importance of targeting unique products and experiences—often termed targeting 'niche' markets. DITR

and Tourism Australia have identified and are targeting a number of niche markets, including:

- Food and wine tourism;
- International students and study tourism;
- Nature-based tourism and ecotourism;
- Caravanning;
- Business tourism;
- Cultural and heritage tourism;
- Sports tourism;
- Seniors;
- Indigenous tourism;
- Backpackers;
- Cruise shipping; and
- Cycling tourism.<sup>79</sup>

4.136 Each of the above is an area where Australia has a comparative advantage over other destinations. While every niche market is important for the inbound industry, evidence to this inquiry focussed primarily on three in particular: Business events tourism, medical tourism and study tourism. The business and medical niche markets are discussed separately below – study tourism is discussed in the following chapter on international education.

## Business tourism

4.137 The niche market most frequently raised in evidence was business tourism. Business tourism is already an important market for the industry, but there remains scope for significant growth.

4.138 A strong business tourism industry holds a number of advantages over the leisure tourism industry. For example, business tourists tend to spend more money:

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<sup>79</sup> Department of Industry, Tourism and Resources, *Niche tourism markets overview*, DITR, Canberra, 7 February 2007, viewed 3 May 2007, <<http://www.industry.gov.au/content/itrinternet/cmscontent.cfm?objectID=F294F506-96C7-EC89-7E8ED5CAD0751824>>.

Studies show that visitors attending a convention, meeting or conference generally spend double the amount of a holiday tourist.<sup>80</sup>

Whichever way you measure our sector, [business tourists] buy more beers in the pub. There is a much higher yield whichever way you measure it.<sup>81</sup>

4.139 According to Tourism Australia, business tourism also tends to be a more stable market than ordinary holiday makers:

Non-leisure travel is commonly less influenced than leisure travel by economic variables like source country economic growth and exchange rates.<sup>82</sup>

4.140 Australia has a number of advantages in attracting businesses to hold events here, as noted on the website of the association for business events marketing organisations, AACB:

- Well recognised as a base for trading within Australasia.
- One of the world's most deregulated economies.
- Producer of well planned, executed and managed world class events.
- A natural business hub in the Asia Pacific Region. It is forecast that the world GDP share of major economies within the Asia Pacific region will rise from 38% to 45% over the next 10 years.
- A wealth of internationally recognised science and technology professionals in all industry sectors.
- Excellent hotels and meeting places.<sup>83</sup>

4.141 The Australian Hotels' Association asserted that Australia has potential as a business venue but 'more needs to be done to ensure a co-ordinated national approach to this market.'<sup>84</sup> AACB shared a similar view:

Simply, whilst Australia is very well recognised as a destination for the leisure visitor, the holidaymaker – or tourist, it is not as well known as a destination for business events.<sup>85</sup>

80 Australian Hotels Association, *Submission no. 16*, p. 11.

81 Mr M Cannon, Australian Association of Convention Bureaux, *Transcript of evidence*, 15 November 2007,, p. 66.

82 Tourism Australia, *Submission no. 41*, p. 8.

83 Australian Association of Convention Bureaux, *The case for holding your next corporate meeting in Australia*, AACB, Sydney, 2007, viewed 3 May 2007, <[http://www.aacb.org.au/page/the\\_case\\_for\\_braustralia.html](http://www.aacb.org.au/page/the_case_for_braustralia.html)>.

84 Australian Hotels Association, *Submission no. 16*, p. 11.



- 4.142 AACB quoted recent data supporting the view that Australia is underachieving in business tourism:

Not only have we failed to maintain our market share, our share has fallen in absolute and real terms (11% over 10 years). For example:

- In 2001 Australia hosted 295 international meetings;
- This has fallen by 32% over 5 years to 200 meetings in 2005; and
- This in turn has resulted in a decline in total market share from 3.1% to 2.2% for the same period.<sup>86</sup>

- 4.143 DITR noted that the government has allocated resources to business tourism:

As part of taking advantage of future global opportunities in the area of business events, Tourism Events Australia (TEA) became a new business unit within Tourism Australia to focus on marketing Australia as a business and major events destination.<sup>87</sup>

- 4.144 However, Mike Cannon of AACB was critical of the resources allocated to the TEA:

It has three [people] at the moment ... It had five in 1999. In 1999, it spent about \$4 million per annum. At the moment, it is quoted as spending about the same. But its role has become promoting Australia as not only a business events destination but also a major events destination. We have no criticism of that, but the fact is that it is a bigger share of the pie to promote with a far lesser amount in the barrel.<sup>88</sup>

- 4.145 In addition to concerns about the level of Tourism Australia assistance, there was also a view that there could be more effective coordination between other agencies who promote Australia. Mr Cannon explained this concept as follows:

There is a great sync. For example, we would love to be able to afford to go to every trade mission that Austrade attends so that we can join them and Invest Australia in promoting Australia as a business event destination to all the buyers at that trade show

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85 Australian Association of Convention Bureaux, *Submission no. 43*, p. 1.

86 Australian Association of Convention Bureaux, *Submission no. 43*, p. 1.

87 Department of Industry, Tourism and Resources, *Submission no. 21*, p. 16.

88 Mr M Cannon, Australian Association of Convention Bureaux, *Transcript of evidence*, 15 November 2007, p. 65.

It will be Tourism Australia, Invest Australia and Austrade promoting Australia across the board.<sup>89</sup>

- 4.146 Overall, there was some agreement that governments need to place greater emphasis on promoting Australia as a business events destination.

## Medical tourism

- 4.147 Medical tourism was another niche market opportunity discussed in the committee's evidence. Interestingly, medical tourism is not one of the high priority niche markets listed above and detailed on DITR's website.

- 4.148 Matt Hingerty of ATEC described the opportunity that exists to develop medical tourism industry:

We are very excited about the potential in Australia to develop a health tourism sector. It is a multibillion dollar industry globally. We are well set up to service that industry, but we have not in any significant way put a toe in the water. It is a burgeoning industry, particularly in our region.<sup>90</sup>

- 4.149 ATEC highlighted that a medical tourism industry has the potential to be 'extremely high-yielding'.<sup>91</sup>

- 4.150 The Service Industry Research Centre (SIRC) also discussed medical tourism as a significant growth opportunity, stating:

Medical tourism has the potential to increase tourist volume, average daily visitor spend and also average length of stay. These are significant metrics for the tourism industry, and medical procedures are widely acknowledged to be a true export of services.<sup>92</sup>

- 4.151 SIRC provided three examples of successful medical tourism industries which Australia could look to emulate:

- **India**, who have targeted their marketing at European markets based on the premise of medical 'queue jumping';
- **Singapore**, who promote their product in the Middle East as a 'world class' medical tourism experience;

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89 Mr M Cannon, Australian Association of Convention Bureaux, *Transcript of evidence*, 115 November 2007, pp. 65-66.

90 Mr M Hingerty, Australian Tourism Export Council, *Transcript of evidence*, 15 November 2007, p. 16.

91 Australian Tourism Export Council, *Submission no. 3*, p. 19.

92 Service Industry Research Centre, *Submission no. 13*, p. 3.

- **South Africa**, who have developed a highly regarded spa and retreat industry.<sup>93</sup>

4.152 An extensive Australian medical tourism industry would have a number of potential competitive advantages over other destinations according to Brett Wilson of the Australian Health Export Industry Council (AHEIC):

Our competitive situation is very favourable in that, as Australia has one of the highest standards of health service provision in the world, we are well equipped to handle cultural sensitivities in terms of Asian visitation and we have surplus capacity where we are looking at optimising the capacity that is underutilised in the country at the moment.<sup>94</sup>

4.153 Mr Wilson emphasised that there is an important role for government in developing a medical tourism industry:

The Australian government needs to invest in the marketing of our services. The Australian health industry is quite fragmented and many of the major facilities—hospitals, imaging facilities, pathology clinics and medical clinics—vest in the interest of corporate or state ownership.<sup>95</sup>

4.154 Mr Wilson also commented on the role other countries' governments have played in developing medical tourism industries:

Since 2003 Singapore have injected some \$2 billion to their biomedical and health tourism marketplace in order to grow Singapore as a more recognised health hub in the Asian region. India are investing heavily. They are looking at revenues of over \$2 billion in the next few years.<sup>96</sup>

4.155 While medical tourism does appear to have significant potential, there are potential problems for governments, as described by a former member of this committee:

In Australia ... there is a problem on the supply side in terms of surgeons. If you take the time surgeons spend in the private sector—of course your customers are going to have significant capacity to pay, I suspect—then you are potentially going to have

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93 Service Industry Research Centre, *Submission no. 13*, pp. 3-4.

94 Mr B Wilson, Australian Health Export Industry Council, *Transcript of evidence*, 15 November 2007,, p. 17.

95 Mr B Wilson, Australian Health Export Industry Council, *Transcript of evidence*, 15 November 2007,, p. 18.

96 Mr B Wilson, Australian Health Export Industry Council, *Transcript of evidence*, 15 November 2007,, p. 18.

an impact on the supply-demand equation in the public sector, and therefore you might face criticisms that this could lead to longer waiting lists in the public health system.<sup>97</sup>

- 4.156 In response to this comment, Brett Wilson of AHEIC said that the extra revenue from international patients may actually help keep surgeons in Australia, rather than being attracted overseas:

That criticism ignores the fact that we already compete internationally for the skills and services of those surgeons, and that is likely to increase dramatically in the near term as governments which are investing billions of dollars in this particular category look at how they are going to grow their own jurisdictions as competitive health hubs.<sup>98</sup>

- 4.157 On the whole, medical tourism appears to be an area of potential growth for Australia.

## Committee conclusions

- 4.158 The development of niche markets in which Australia has a competitive advantage is a good strategy for the future. Many of the markets identified by DITR and Tourism Australia are high-yielding markets, adding to their appeal.
- 4.159 There are a multitude of markets in which Australia can specialise. Food and wine tourism, ecotourism and indigenous tourism are already important industries, and will become increasingly important into the future.
- 4.160 While there are numerous niche markets for Australia, two in particular drew detailed evidence in this inquiry – business tourism and medical tourism. Both markets are potentially lucrative and, according to evidence, are underdeveloped in Australia.
- 4.161 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, as discussed in chapter 3, Australia's overseas brand is predominantly directed toward leisure tourism, to the detriment of our other capabilities. The recommendation in chapter 3

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97 Mr J Fitzgibbon, *Transcript of evidence*, 15 November 2007, p. 19.

98 Mr B Wilson, Australian Health Export Industry Council, *Transcript of evidence*, 15 November 2007, p. 18.

about broadening Australia's brand and introducing a 'Brand Australia Council' would certainly assist the business tourism sector.

4.162 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**

4.163 **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.**



## The international education industry

### Introduction to the international education industry

5.1 Australia's international education industry has grown enormously in recent decades. The industry is now Australia's fourth largest exporter behind coal, tourism and iron ore.<sup>1</sup> The Australian Services Roundtable demonstrated the importance of education exports, stating:

The Chinese students studying in Australia are worth more in education services export earnings than all of Australia's wheat exports to China.<sup>2</sup>

5.2 In 1991-92 education exports were worth about \$1.2 billion to the Australian economy. In 2005-06 exports were worth \$10 billion. Growth has been impressive in the past five years with education exports doubling in size – an annual growth rate of 15.3 per cent (see figure 5.1 below).<sup>3</sup>

5.3 In 2006 there were 383,818 international students enrolled with Australian institutions. Of these, 172,297 were enrolled in higher education courses, 83,685 in vocational and technical education (VTE) courses, 24,717 in schools, and 77,468 in English language courses (see figure 5.2 below).<sup>4</sup>

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1 Department of Education, Science and Training, *Submission no. 47*, p. 1.

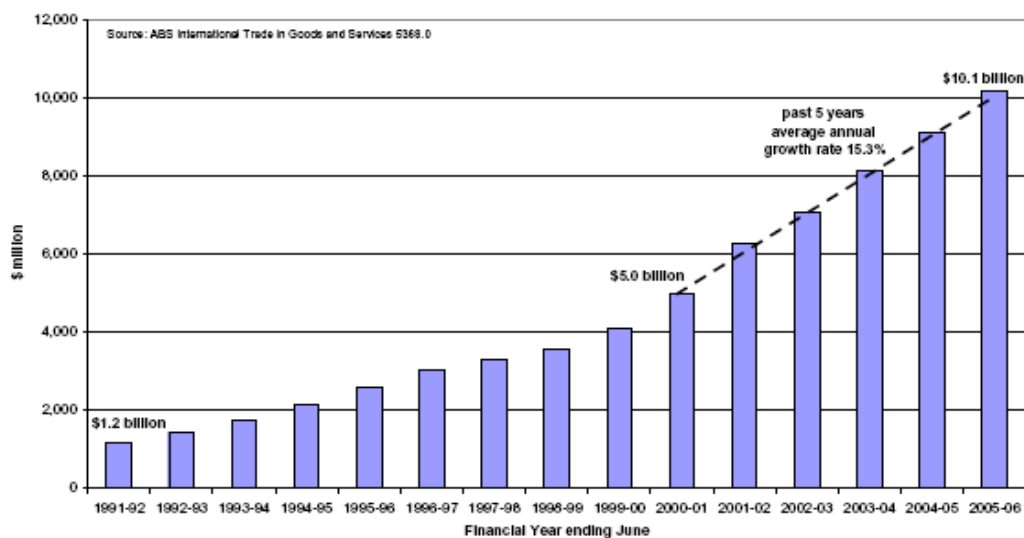
2 Australian Services Roundtable, *Submission no. 44*, p. 9.

3 Department of Education, Science and Training, *Submission no. 47*, p. 1.

4 Australian Education International, *2006 annual international student statistics*, Australian Education International, 2007, viewed 7 May 2007, <[http://aei.dest.gov.au/AEI/MIP/Statistics/StudentEnrolmentAndVisaStatistics/2006/2006Annual\\_Stats.htm](http://aei.dest.gov.au/AEI/MIP/Statistics/StudentEnrolmentAndVisaStatistics/2006/2006Annual_Stats.htm)>.

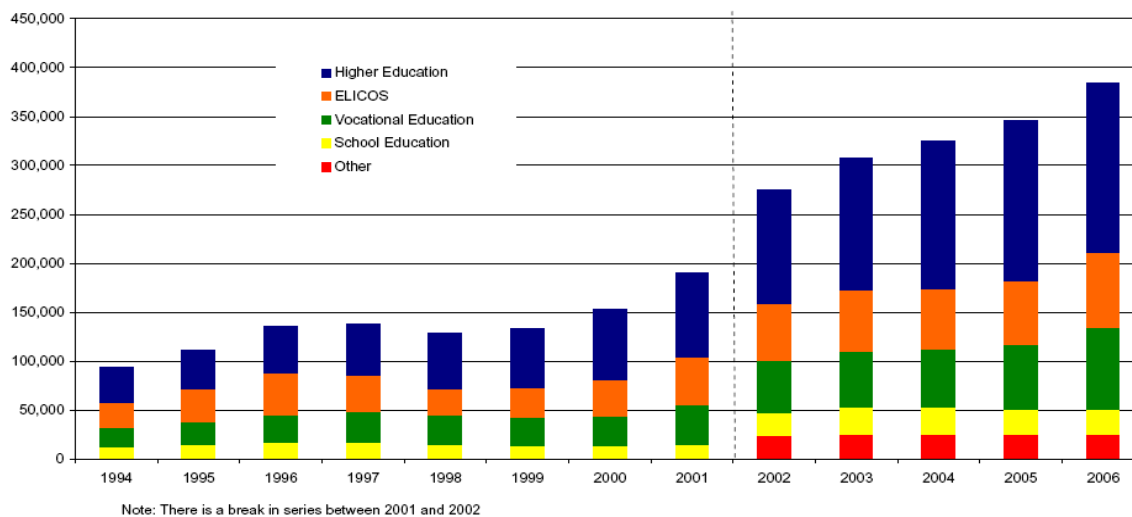
5.4 Since 2002 there has been a 49 per cent increase in the number of international students studying at higher education institutions. There has been a similar increase in VTE enrolments (54 per cent), but a smaller increase in English language enrolments (34 per cent). Growth in school enrolments has been negligible at around 6 per cent.<sup>5</sup>

Figure 5.1 Education exports 1991-92 to 2005-06



Source Department of Education, Science and Training, Submission no. 47, p. 1.

Figure 5.2 International student enrolments 1994-2006



Source Australian Education International, 2006 annual international student statistics, Australian Education International, 2007, viewed 7 May 2007, <[http://aei.dest.gov.au/AEI/MIP/Statistics/StudentEnrolmentAndVisaStatistics/2006/2006Annual\\_Stats.htm](http://aei.dest.gov.au/AEI/MIP/Statistics/StudentEnrolmentAndVisaStatistics/2006/2006Annual_Stats.htm)>.

5 Australian Education International, 2006 annual international student statistics, Australian Education International, 2007, viewed 7 May 2007, <[http://aei.dest.gov.au/AEI/MIP/Statistics/StudentEnrolmentAndVisaStatistics/2006/2006Annual\\_Stats.htm](http://aei.dest.gov.au/AEI/MIP/Statistics/StudentEnrolmentAndVisaStatistics/2006/2006Annual_Stats.htm)>.



- 5.5 Australia's key source market for international students is China with 90,287 enrolments in 2006—nearly double the number of enrolments in 2002. India is the second largest market for the industry with 39,166 enrolments. The number of enrolments from India has almost quadrupled since 2002.<sup>6</sup> Other markets to enjoy impressive growth include Brazil, Vietnam, Germany, the Middle East, Sri Lanka and Canada.<sup>7</sup>
- 5.6 Despite the dramatic growth from China and India, in particular, five of Australia's top 10 markets—Hong Kong, Malaysia, Japan, Indonesia and the United States—have been in decline in recent years (see table 5.1 below).<sup>8</sup>

Table 5.1 International student enrolments in Australia from top 10 source countries, 2002 to 2006

Country	2002	2003	2004	2005	2006	% Change 2005 to 2006
China	48,088	60,076	70,556	81,730	90,287	10.5%
India	11,370	14,374	20,752	27,605	39,166	41.9%
Korea, Republic of (South)	18,700	22,195	23,816	26,319	31,257	18.8%
Hong Kong	22,148	23,970	22,968	21,343	20,523	-3.8%
Malaysia	17,542	19,825	20,003	19,362	19,166	-1.0%
Thailand	15,737	17,093	16,316	16,514	17,889	8.3%
Japan	17,418	19,497	20,037	19,053	17,804	-6.6%
Indonesia	21,048	20,422	18,138	16,121	15,038	-6.7%
United States of America	11,120	12,584	12,793	12,585	12,045	-4.3%
Brazil	4,233	3,822	4,731	7,081	10,190	43.9%
Sub-total	187,404	213,858	230,110	247,713	273,365	10.4%
Other nationalities	87,473	94,102	95,246	98,366	110,453	12.3%
Total	274,877	307,960	325,356	346,079	383,818	10.9%

Source Australian Education International, 2006 annual international student statistics, Australian Education International, 2007, viewed 7 May 2007, <[http://aei.dest.gov.au/AEI/MIP/Statistics/StudentEnrolmentAndVisaStatistics/2006/2006Annual\\_Stats.htm](http://aei.dest.gov.au/AEI/MIP/Statistics/StudentEnrolmentAndVisaStatistics/2006/2006Annual_Stats.htm)>.

- 5.7 Business and management courses are the most popular for international students studying in Australia, as explained by Department of Education, Science and Training (DEST):

6 Australian Education International, 2006 annual international student statistics, Australian Education International, 2007, viewed 7 May 2007, <[http://aei.dest.gov.au/AEI/MIP/Statistics/StudentEnrolmentAndVisaStatistics/2006/2006Annual\\_Stats.htm](http://aei.dest.gov.au/AEI/MIP/Statistics/StudentEnrolmentAndVisaStatistics/2006/2006Annual_Stats.htm)>.

7 Department of Education, Science and Training, *Submission no. 35*, p. 7.

8 Australian Education International, 2006 annual international student statistics, Australian Education International, 2007, viewed 7 May 2007, <[http://aei.dest.gov.au/AEI/MIP/Statistics/StudentEnrolmentAndVisaStatistics/2006/2006Annual\\_Stats.htm](http://aei.dest.gov.au/AEI/MIP/Statistics/StudentEnrolmentAndVisaStatistics/2006/2006Annual_Stats.htm)>.

Since 2002, the proportion of international higher education and VTE enrolments in the field of business administration and management has increased to 40%, while computer science and information systems have dropped to 13% (down from 22% in 2002). Other fields of study account for only small proportions of total enrolments. Services, hospitality and transport increased (now 9% of the total). Enrolments in both arts and engineering have increased, though both these fields have declined slightly as proportions of the total. Health and education have increased strongly, though from relatively small bases.<sup>9</sup>

- 5.8 DEST also explained that much of Australia's international education services are provided to students not residing in Australia:

Australian education providers continue to have a strong presence in overseas markets, particularly in the Asia-Pacific region. In 2003, the Higher Education Statistical Collection recorded 73,582 higher education enrolments by students not resident in Australia. Of these enrolments, 58,930 were enrolments with providers based outside Australia and 14,652 were enrolments in distance education with providers in Australia. This figure grew to 76,575 enrolments in 2004, an increase of 4 per cent. There were 64,707 enrolments at offshore campuses and 11,868 enrolments in distance education providers.<sup>10</sup>

## Issues for the industry

- 5.9 The committee received a substantial amount of evidence on the international education industry. Some of the key issues for the industry are discussed below.

## Increasing international competition

- 5.10 In recent decades Australia has built a highly successful international education industry. Australia is the fifth most popular study destination in the world. However, Australia's share of international higher education

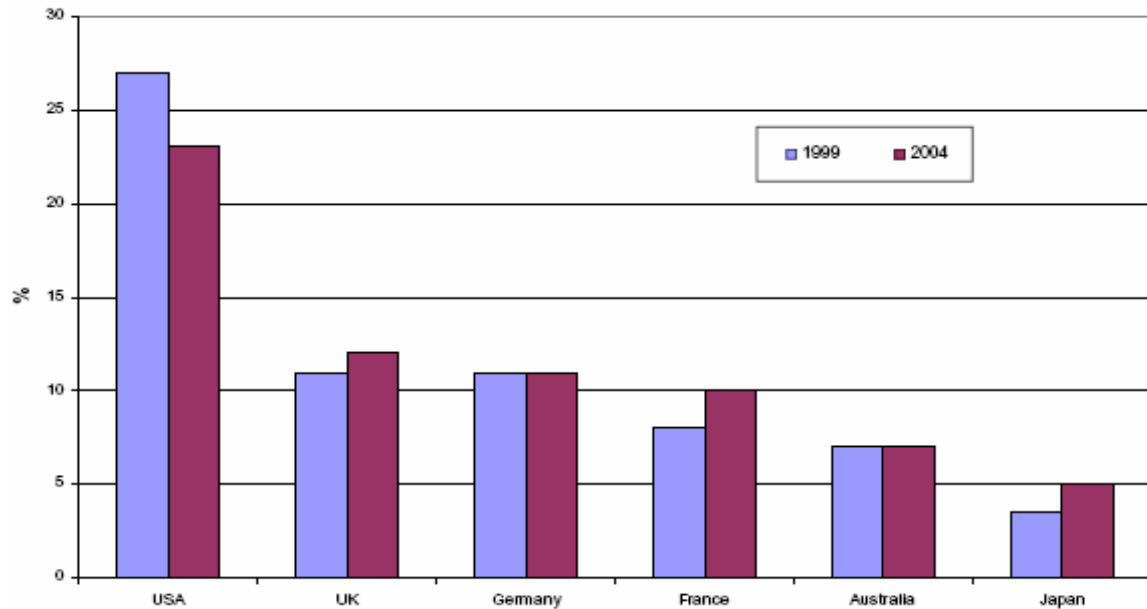
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9 Department of Education, Science and Training, *Submission no. 35*, p. 9.

10 Department of Education, Science and Training, *Submission no. 35*, p. 10.

remained stagnant from 1999 to 2004 (see figure 5.3 below), despite the fact that enrolments in Australian institutions doubled.<sup>11</sup>

Figure 5.3 Market share of international higher education, 1999 and 2004



Source Department of Education, Science and Training, *Submission no. 35*, p. 11.

5.11 This reflects the fact that there is strong and increasing global competition for international students. The threat to Australia's education export market from growing competition was discussed by a number of witnesses and submissions. Treasury, for example, commented that 'competition is intensifying in the Asia-Pacific education market as Asian universities are offering modern facilities.'<sup>12</sup> Similarly, DEST reported that 'the global international education market is increasingly competitive as other nations enhance their domestic and international capabilities.'<sup>13</sup>

5.12 Professor Ian Young of the Australian Vice-Chancellors' Committee (AVCC) hypothesised about the effect declining international student revenues might have on Australian universities:

Probably more than 20 per cent of the budgets of most Australian universities are based on international fee revenue ... if you turned that off tomorrow, the viability of many Australian universities would be questionable.<sup>14</sup>

11 Department of Education, Science and Training, *Submission no. 35*, p. 11.

12 The Treasury, *Submission no. 30*, p. 7.

13 Department of Education, Science and Training, *Submission no. 35*, p. 12.

14 Professor I Young, Australian Vice-Chancellors' Committee, *Transcript of evidence*, 2 March 2007, p. 47.

- 5.13 Of course, no one, including Professor Young, is suggesting that Australia's international education market will disappear. However, as countries in our region develop their educational capabilities Australia's market share is likely to be challenged. The early stages of this effect may already be evident, with students from Japan, Hong Kong, Indonesia and Malaysia in decline in recent years (table 5.2 above). The challenge of increased competition was summarised by DEST:

Traditional markets in Southeast Asia have been stagnant or declining for a few years. As other countries in Asia invest in their domestic education systems and develop their economies, there is a long-term prospect that this could happen elsewhere too. Australia's (relative) geographical proximity may become less attractive to Asian students as Singapore, Japan and China develop as study destinations. The governments of Singapore, Malaysia and China have announced initiatives to increase their international education enrolments and are seeking a greater share of the market.<sup>15</sup>

- 5.14 Despite these challenges, the industry expects growth to continue in the short to medium term, as explained by the AVCC:

It is a fact that a whole range of countries around the world are increasing their capacity to educate in-country. That will undoubtedly impact on our ability to continue to grow at the sorts of rates we have seen. My expectation and the predictions we have from agencies like IDP are that we probably can expect a continued growth for the foreseeable future – and by that I mean five to six years – of probably seven or eight per cent. So there will be slower growth than we have seen in the past, but my expectation is that we will continue to see growth.<sup>16</sup>

- 5.15 While growth is anticipated in the face of increasing competition, one concern for the industry is that it relies heavily on just a few countries for the bulk of enrolments. DEST expanded on this issue, stating:

Australia's rather narrow market position – in terms of source countries and levels and fields of study – may potentially be an issue ... There remains a strong reliance on enrolments from China and India. This reliance on a few key source countries makes the

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15 Department of Education, Science and Training, *Submission no. 35*, p. 12.

16 Professor I Young, Australian Vice-Chancellors' Committee, *Transcript of evidence*, 2 March 2007, p. 47.

sector vulnerable to shocks from economic or other causes of instability.<sup>17</sup>

- 5.16 DEST noted that the industry has been relatively successful in ‘diversifying enrolments—especially through attracting more students from the Americas, Europe and the Middle East.’<sup>18</sup> Professor Young of the AVCC was confident the industry would continue to broaden its base:

We will diversify the countries that the students are coming from. Undoubtedly the competition to do this is increasing, but Australia will continue to be competitive while we can continue to convince people that they get a quality education by coming here.<sup>19</sup>

## Committee conclusions

- 5.17 International education has been one of Australia’s exporting success stories in recent decades. Australia’s traditional competitors in the international education market, the United States and the United Kingdom, continue to target growth in international student numbers. In addition to this traditional competition, the industry is now facing competition from many of our neighbours in the Asian region.
- 5.18 Countries like Singapore, China and Malaysia are rapidly developing their own high-quality educational institutions and are offering more courses in English. Not only are these countries developing capacity to educate their own citizens, they are also competing to attract students from other countries in the region. Evidence to this inquiry recognised that the increasing educational capacity in our region will eventually have some effect on the demand for Australian educational services.
- 5.19 Educational institutions, with the assistance of governments, must develop and implement new strategies if the industry is to maintain its current market share. One such strategy is to diversify the source countries and fields of study of international students. Government and industry have recognised the need to do this and already appear to have had some success, with good growth in non-traditional markets in recent years. Clearly, more source market diversification will need to occur into the future as competitive pressures affect our traditional markets.

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17 Department of Education, Science and Training, *Submission no. 35*, p. 12.

18 Department of Education, Science and Training, *Submission no. 35*, p. 12.

19 Professor I Young, Australian Vice-Chancellors’ Committee, *Transcript of evidence*, 2 March 2007, p. 47.

- 5.20 A number of other strategies aimed at preparing the industry for the future were identified in evidence and are discussed later in this chapter under the heading *Opportunities for growth and policies for realisation*. The strategies include a coordinated approach to marketing, new methods of education delivery, and linking education and tourism.

## Student visas

- 5.21 Issues surrounding student visas were one of the key features of evidence on the international education industry. There was a general theme that Australia's visa requirements are quite tough when compared to our major competitors – particularly the United Kingdom and New Zealand.

- 5.22 The University of South Australia summarised the approach the industry believes the government should take to student visas:

In relation to visa requirements, the University believes there is a need for the immigration regulatory environment to be:

- responsive to changing regulations among competitors; and
- open enough not to be a barrier, but stringent enough not to flood the market beyond university capacity.

- 5.23 There were two specific concerns raised about Australian study visas, which will be discussed separately below. These are:

- Visas for English language students; and
- Comparatives costs of student visas.

## Visas for English language students

- 5.24 The 'English language intensive courses for overseas students' (ELICOS) industry is significant for the education industry. According to the Australia Education International (AEI) statistics detailed above, there were 77,468 ELICOS enrolments in 2006 – approximately 20 per cent of all overseas enrolments.<sup>20</sup> Research presented to the committee by English Australia (EA), the peak body representing the ELICOS industry, put the number of enrolments considerably higher. The EA research reported that

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20 Australian Education International, *2006 annual international student statistics*, Australian Education International, 2007, viewed 7 May 2007, <[http://aei.dest.gov.au/AEI/MIP/Statistics/StudentEnrolmentAndVisaStatistics/2006/2006Annual\\_Stats.htm](http://aei.dest.gov.au/AEI/MIP/Statistics/StudentEnrolmentAndVisaStatistics/2006/2006Annual_Stats.htm)>.

in 2005 there were 101,807 ELICOS enrolments.<sup>21</sup> Both figures, regardless of which is more accurate, highlight the importance of the ELICOS industry to the Australian economy.

5.25 Japan and South Korea are the two major source nationalities for the ELICOS industry. Asian nationalities represent approximately 80 per cent of total enrolments.<sup>22</sup>

5.26 Students from China are, despite being by far the most numerous and important for Australia's international education industry as a whole, comparatively much less numerous and important to the ELICOS industry. Sue Blundell of EA told the committee that this apparent discrepancy is caused by the onerous visa requirements placed on potential Chinese English language students.<sup>23</sup>

5.27 Student visa applications are evaluated according to an 'assessment level', as explained on the 'Study in Australia' website:

The assessment level is determined by the passport held and visa subclass applied for. The assessment levels relate generally to how likely students are to comply with their visa conditions, based on previous students' behaviour. Assessment level 1 represents the lowest assessment level and assessment level 5 the highest. The higher the assessment level, the more evidence you will need to provide to demonstrate your financial capacity, understanding of the English language and other relevant matters.<sup>24</sup>

5.28 China is one of the few countries with a level 4 rating for ELICOS study visas. The others are Cambodia, Lebanon, Pakistan and Vietnam. One of the requirements of a level 4 applicant is to have achieved a minimum 5.0 band score on the International English Language Testing System (IELTS) test.<sup>25</sup>

5.29 Sue Blundell of EA explained that a score of 5.0 on the IELTS test 'means being vocationally fluent in English language.'<sup>26</sup> It is argued that this requirement effectively restricts many Chinese people, as well as people from other level 4 countries, from coming to Australia to learn English:

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21 English Australia, *Submission no. 9*, p. 6.

22 English Australia, *Submission no. 9*, p. 6.

23 Ms S Blundell, English Australia, *Transcript of evidence*, 14 November 2007, p. 10.

24 Australian Government, *Student visa requirements*, Australian Government, 2007, viewed 8 May 2007, <<http://studyinaustralia.gov.au/Sia/en/WhatToStudy/howtoapply/visarequirements.htm>>.

25 Australian Government, *Entry requirements*, Australian Government, 2007, viewed 8 May 2007, <<http://studyinaustralia.gov.au/Sia/en/WhatToStudy/howtoapply/visarequirements.htm>>.

26 Ms S Blundell, English Australia, *Transcript of evidence*, 14 November 2007, p. 10.

It is like you wanting to go and study French in France and the French not letting you in because you cannot speak French already.<sup>27</sup>

5.30 Ms Blundell argued that there is a significant opportunity in the Chinese market effectively being wasted:

We are missing out on those students who are going to the US, to the UK—to New Zealand—to study at that level to build up their language skills before they come to Australia. In terms of yield, we are getting them for maybe 10 weeks of English when we could be getting them for 40 weeks of English. In terms of return on investment, it is a very poor strategy.

...

Especially when you look at the fact that China is getting the Olympics and the fact that the World Expo is taking place in China. They really need to improve their language skills.<sup>28</sup>

## Comparative cost of student visas

5.31 The fee charged to obtain a visa to study in Australia, while comprising a very small percentage of the total fees an international student will pay, was seen to be a factor in the attractiveness of Australia as a study destination. Specifically, Australian visa fees are significantly more expensive than our major competitors—the United Kingdom, the United States and New Zealand (see table 5.2 below).

Table 5.2 Comparative student visa costs

Country	Visa Application cost (\$AU)
Australia	\$490*
United Kingdom	\$258
New Zealand	\$124 in NZ \$176 outside of NZ
United States of America	\$161.00 plus \$124.00 SEVIS** fee for students

\* This amount includes the permission to work application fee of \$60 which the Department of Immigration and Citizenship will shortly incorporate into the overall visa application cost for all students.

\*\* In respect to the United States, exchange visitor and student information is maintained in the Student and Exchange Visitor Information System (SEVIS). All student visa applicants must pay a SEVIS fee toward maintaining this system.

Source Australian Vice-Chancellors' Committee, *Submission no. 55*, p. 1.

27 Ms S Blundell, English Australia, *Transcript of evidence*, 14 November 2007, p. 13.

28 Ms S Blundell, English Australia, *Transcript of evidence*, 14 November 2007, p. 13.



- 5.32 Representative of the Western Australian Department of Education and Training, Tom Grace, highlighted concerns, not only with the cost of visas, but also with the time taken to process them:

Of particular interest is that Australia has the highest student visa fees by far when compared with New Zealand, the UK and the US. Not only are the visas more expensive but the application process, especially the time taken to obtain a visa, does not compare with our competitors.<sup>29</sup>

- 5.33 While visa fees are a small part of the total costs paid by international students, Professor Ian Young of the AVCC explained that many of Australia's source markets are 'sensitive to upfront costs.'<sup>30</sup>

## Committee conclusions

- 5.34 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.
- 5.35 In terms of the ELICOS industry, there appears to be a good growth opportunities in the Chinese market, which are effectively being constrained by stringent visa requirements.
- 5.36 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.
- 5.37 The stringent English language visa requirement greatly restricts the number of Chinese students who can study English in Australia. The

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29 Mr T Grace, Western Australian Department of Education and Training, *Transcript of evidence*, 20 February 2007, p. 40.

30 Professor I Young, Australian Vice-Chancellors' Committee, *Transcript of evidence*, 1 March 2007, p. 48.

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.

- 5.38 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.
- 5.39 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**

- 5.40 **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.**

## Issues for private education providers

- 5.41 Private education providers are another important part of the international education industry. As outlined by Tim Smith of the Australian Council for Private Education and Training (ACPET), private providers account for a large share of Australia's international education market:

Of the overseas students studying in the English language, vocational and schools sectors, private providers account for over 70 per cent of the provision in 2006.<sup>31</sup>

## Rogue providers

- 5.42 One of the issues confronting this segment of the education industry is 'rogue' providers who compromise the industry's international reputation. The committee heard during its hearings that a small proportion of private providers mistreat international students by providing poor quality education and granting qualifications for the sole purpose of facilitating permanent residency. This practice, which is sometimes referred to as 'student trafficking', was detailed by Jeanette Allen of Services Skills Australia:

What they do is they group two, three and four diplomas and advanced diplomas into a two-year program so that they meet all the [government's] requirements, deliver the qualification in an institutional setting, and then the people get recognition or points to get into the country.<sup>32</sup>

- 5.43 Ms Allen also detailed the damage such practices do to the industry's reputation:

It does nothing for enhancing or growing the image of the industry as a viable industry and one in which the qualification carries some status.<sup>33</sup>

- 5.44 Tim Smith of ACPET argued that government authorities do not deal with rogue providers effectively:

What particularly concerns my organisation is that DEST will not act to deal with individual providers who are embarrassing the system.<sup>34</sup>

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31 Mr T Smith, Australian Council for Private Education and Training, *Transcript of evidence*, 14 March 2007, p. 46.

32 Ms J Allen, Service Skills Australia, *Transcript of evidence*, 14 March 2007, p. 31.

33 Ms J Allen, Service Skills Australia, *Transcript of evidence*, 14 March 2007, p. 31

- 5.45 In a submission responding to the claims of ACPET, DEST said that it will always act to protect the industry:

There is no evidence to support, and the Department strongly rebuts, claims that DEST may be reluctant to investigate or take action in regard to allegations against a provider for breaches of the ESOS Act and/or National Code. DEST instigates its own compliance and enforcement action to investigate those providers who may be in breach of the ESOS Act and/or its National Code. It will also investigate allegations that are accompanied by a minimum level of supporting information.<sup>35</sup>

- 5.46 While making this point, DEST did acknowledge there is an industry perception that it is reluctant to use its powers against rogue operators:

The ESOS Act evaluation did find a perception among industry stakeholders that whilst the enforcement powers under the ESOS Act are sufficient, that they are not used often or quickly enough.<sup>36</sup>

## Compliance costs

- 5.47 Private education providers also voiced concerns about the costs of compliance with education regulation. Tim Smith of ACPET spoke about regulation in general terms, stating:

The one point on which the universities, the public sector, the TAFE sector and us share a common point of view is that there is a perception and experience of over-regulation.<sup>37</sup>

- 5.48 Mr Smith also talked more specifically about a regulatory gap between private and public providers:

Private providers appreciate and accept the need for regulation. Our request is that the regulation apply fairly and evenly to all providers, public or private. In the overseas market there is a glaring disparity between the requirements placed on providers in the public and private sectors. Under section 22 of the Education Services for Overseas Students Act 2000, registered providers are required to belong to the tuition assurance scheme, or TAS, unless

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34 Mr T Smith, Australian Council for Private Education and Training, *Transcript of evidence*, 14 March 2007, pp. 51-52.

35 Department of Education, Science and Training, *Submission no. 56*, p. 6.

36 Department of Education, Science and Training, *Submission no. 56*, p. 7.

37 Mr T Smith, Australian Council for Private Education and Training, *Transcript of evidence*, 14 March 2007, p. 51.

exempted by regulation. Section 24 of the act requires non-exempt providers also to contribute to the ESOS national assurance fund which was established under part 5 of the legislation. Unfairly, public providers are exempt from making contributions under both of these sections.<sup>38</sup>

- 5.49 DEST told the committee that the exemption of public providers 'broadly reflects the relative risks attached to these providers in the event of a major default in their obligations to overseas students.'<sup>39</sup>

## Committee conclusions

- 5.50 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.
- 5.51 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.
- 5.52 The compliance burdens imposed on the education sector appear to be mostly related to quality assurance. A strong quality assurance framework is imperative for the sector and as such stringent compliance is justified. In terms of the apparent regulatory gap between private and public providers, the committee believes it is appropriate for public providers not to pay into the assurance funds. Public providers are funded and administered by state governments, or are in receipt of recurrent commonwealth funding, and therefore the risk is low that they will fail in their obligations to students.

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38 Mr T Smith, Australian Council for Private Education and Training, *Transcript of evidence*, 14 March 2007, p. 47.

39 Department of Education, Science and Training, *Submission no. 56*, p. 6.

**Recommendation 13**

- 5.53 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.

**Opportunities for growth and policies for realisation**

- 5.54 Evidence to this inquiry highlighted a number of opportunities to grow, or at least maintain, the international education industry. Some of the most important opportunities are discussed below.

**International education promotion**

- 5.55 The marketing of Australia as an education destination is an important factor in maintaining or growing Australia's international education market share. DEST's international branch, AEI, has a role in 'generic promotion and marketing' of the industry.<sup>40</sup> AEI markets the industry under the 'Study in Australia' brand. An important part of this brand is the Study in Australia website:

We have a website that is very well used. It is a portal in 12 languages that draws students in once they choose which country. It then goes into state and individual institutions.<sup>41</sup>

- 5.56 AEI has a presence in 26 locations across 18 economies supporting the goal of broadening the base of Australia's international education market. In addition to AEI's explicit presence, it also has a partnership arrangement with Austrade:

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40 Department of Education, Science and Training, *Submission no. 35*, p. 4.

41 Ms F Buffinton, Australian Education International, *Transcript of evidence*, 1 December 2007, p. 44.

Under the AEI/Austrade Partnership Agreement 2002/2005 Austrade undertakes promotion and marketing activities in Europe on behalf of AEI. The agreements are centrally coordinated by the Austrade office in Copenhagen.<sup>42</sup>

- 5.57 While not critical of the work done by AEI, a number of industry participants argued that Australia's international education marketing could be improved with better coordination between federal and state bodies, as well as the industry. Deakin University, for example, argued:

Evidently there are clear links between educational promotion and the broader projection of Australia, especially into our region, and Deakin therefore believes that greater coordination is required of generic marketing and promotional work for the export of Australian education services.<sup>43</sup>

- 5.58 Professor Ian Young of the AVCC shared similar sentiments:

From the point of view of promoting Brand Australia, it is important that we do not confuse the market. Promoting Australia on the one hand but promoting individual states on the other becomes confusing for a student. I do not want to denigrate any of the things that those groups are doing—they all mean well—but trying to get better coordination across those individual groups would be a very positive thing for the future of education in Australia.<sup>44</sup>

## Committee conclusions

- 5.59 Brand promotion, as discussed in detail in chapter 3, is an important factor in the future of services exports. This is particularly true in the competitive international education industry. AEI, the federal government's international education agency, has a presence in key markets around the world and has recently launched an impressive, 12 language promotion and information website. The industry generally agreed that AEI is doing a good job promoting a generic Australian education brand.
- 5.60 However, there was some industry concern about the fragmented nature of international education promotion. In addition to federal promotion through AEI, some of the states and territories run their own campaigns,

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42 Australian Education International, *International network*, AEI, Canberra, viewed 12 May 2007, < <http://aei.dest.gov.au/AEI/AboutAEI/AEICContacts/InternationalNetwork/default.htm>>.

43 Deakin University, *Submission no. 19*, p. 2.

44 Professor I Young, Australian Vice-Chancellors' Committee, *Transcript of evidence*, 2 March 2007, p. 47.

which can be seen as confusing for international students. Of course, at a federal level there is a common goal of trying to bring students to Australia. At a state level there is no common goal—there is, in fact, intense competition for international students. State and territory governments are understandably focussed on growing their own economies by attracting as many international students as possible.

- 5.61 Because of the individual interests of states and territories, there can never be just one body promoting Australian education. States and territories will always be in competition with each other to attract students, and, as such, governments will always continue their own promotion activities.
- 5.62 Having said this, there does appear to be scope for some degree of coordination between all the federal, state and territory agencies promoting Australian education. Each state and territory could, for example, promote the federal government's 'Study in Australia' brand alongside its own brand. By doing so the problem of confused potential international students could be avoided.
- 5.63 Recommendation 5 in chapter 3 proposes the establishment of a 'Brand Australia Council'—a structure aimed at encouraging communication and coordination between government promotion agencies. AEI, as a key promotion agency, would be an important part of this structure. It is possible that the Brand Australia Council structure could facilitate communication and coordination between AEI and state and territory agencies on Australia's generic education brand.

## **New methods of education delivery**

- 5.64 The competitive pressures facing the international education industry demand that the industry adopt new and innovative strategies. One of the strategies being implemented is to focus more on new methods of education delivery. Professor Ian Young of the AVCC provided a summary of some of the new approaches being adopted:

We are seeing Australian institutions now move more and more into transnational activities: partnership arrangements in various countries; offshore campuses in various countries; distance education-type elements; and providing courseware and software to countries.<sup>45</sup>

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45 Professor I Young, Australian Vice-Chancellors' Committee, *Transcript of evidence*, 2 March 2007, p. 50.



- 5.65 Professor Young also summarised the attitude needed by the industry to capitalise on new international opportunities:

There are any number of international competitors out there and it is critically important for us not to put the shutters up around the borders of Australia and expect everyone to come to us. We have to be part of it.<sup>46</sup>

### Offshore institutions and partnering arrangements

- 5.66 One of the most important new methods of education delivery is Australian education providers setting up institutions offshore or partnering new overseas institutions. The extent of this practice was discussed by Fiona Buffinton of AEI:

We also have a growing delivery of Australian education—what we term transnational delivery ... there are about 100,000 students undertaking Australian qualifications offshore, of which about 75,000 are in higher education and about 25,000 are in vocational education.<sup>47</sup>

- 5.67 The Department of Foreign Affairs and Trade (DFAT) argued that offshore opportunities for the industry are likely to continue as Asian nations look to extend their in-country education capacity.<sup>48</sup> Professor Young of the AVCC agreed that offshore delivery is likely to become increasingly important for Australian institutions:

One of the new and emerging elements of international education—and, indeed, I think this will be how it evolves in the future—is that Australia will do more things offshore than it currently does here. The current model, which is to bring students to Australia and educate them here and send them home, has a finite lifetime to it.<sup>49</sup>

### Distance education

- 5.68 Another method of offshore delivery is using IT to deliver courses electronically—often referred to as ‘distance education’. DFAT reported

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46 Professor I Young, Australian Vice-Chancellors’ Committee, *Transcript of evidence*, 2 March 2007, p. 45.

47 Ms F Buffinton, Australian Education International, *Transcript of evidence*, 1 December 2007, pp. 41-42.

48 Department of Foreign Affairs and Trade, *Submission no. 34*, p. 14.

49 Professor I Young, Australian Vice-Chancellors’ Committee, *Transcript of evidence*, 2 March 2007, p. 50.

that 'significant numbers of students study through distance education, where Australia is an international leader.'<sup>50</sup>

- 5.69 Similarly, the Department of Communications, Information Technology and the Arts told the committee that 'Australia has developed world leading capabilities in ICT-based distance education services.'<sup>51</sup>

### Exporting our expertise

- 5.70 As Asian nations build their own institutions there is an opportunity for Australia's education industry to export its expertise—to teach the new institutions how to operate effectively. Fiona Buffinton of AEI explained that the industry needs to embrace new institutions developing in our region:

As China and Malaysia develops, is it stand alone or is it in partnership with Australia or using Australian curriculum?<sup>52</sup>

- 5.71 There was some industry concern that vocational education training packages, which can be exported to countries developing education institutions, are freely available online. Service Skills Australia highlighted this concern:

At the moment all of our training materials, training packages and everything, are listed on what is called the national training information system and can be downloaded free to anybody, anywhere in the world.<sup>53</sup>

...

Australia's Training Packages and competency standards are a valuable and marketable export commodity and as such should not be freely available to offshore markets but treated as a saleable product.<sup>54</sup>

- 5.72 DEST explained that the purpose of having training packages available online is to make them available to all Australians:

The Australian Government's position is that training packages should be made available to industry and the Australian

50 Department of Foreign Affairs and Trade, *Submission no. 34*, p. 10.

51 Department of Communications, Information Technology and the Arts, *Submission no. 49*, p. 15.

52 Ms F Buffinton, Australian Education International, *Transcript of evidence*, 1 December 2007, pp. 41-42.

53 Ms J Allen, Service Skills Australia, *Transcript of evidence*, 14 March 2007, p. 28.

54 Service Skills Australia, *Submission no. 7*, p. 2.

community. This ensures the investment made by the Australian Government in funding the development of training packages allows access to industry and increases usage by both formal and informal users. It supports the domestic economic agenda by making available the key resources necessary to increase the skills of the Australian workforce.<sup>55</sup>

## Committee conclusions

- 5.73 International education is of most benefit to Australia when international students are educated in Australia. International students educated in Australia benefit many parts of the economy (the retail industry, for example), not just the education industry. There is always likely to be a willingness for students to come to Australia because of factors such as lifestyle, the enhanced prospects of migration, and a chance to improve English skills. However, it is likely that demand to come to Australia will slow as educational institutions are developed across Asia.
- 5.74 To protect against possible declining demand, the industry has implemented a number of new ways of exporting education, which should assist in maintaining a strong demand for the Australian industry. Australian institutions are setting up offshore or engaging in partnering arrangements with offshore institutions. These arrangements ensure that the Australian industry is able to provide face-to-face services both in Australia and offshore.
- 5.75 Another important strategy is offering more courses via distance education. Australia has been at the forefront of developing technology to support increasing demand for distant education.
- 5.76 The industry is also increasingly exporting its expertise to new institutions in the region. The Australian industry is well regarded in terms of quality and therefore infant institutions are looking to Australian providers for best practice guidance. There was some industry concern that having vocational education training packages available online does not support the export of Australian expertise—that is, international providers can easily access and implement Australian training packages free of charge. DEST explained that the packages should be online for the Australian industry and public. If evidence emerges that international providers are exploiting Australian training packages then there may be reason for DEST to reconsider its current approach.

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55 Department of Education, Science and Training, *Submission no. 56*, p. 2.

## International education and tourism

5.77 Study tourism is important for both the education industry and tourism industry. Many students who come to Australia to undertake a short-term course—such as an English language course—combine their trip with leisure tourism experiences. Sue Blundell of EA discussed the importance of study tourism to the ELICOS market:

Of the 100,000-plus enrolments to study English, there is about a fifty-fifty split between those on student visas and those on other temporary entry visas, and most of the latter fall into the category of study tourism.<sup>56</sup>

5.78 In addition to short-term arrivals, students who come to Australia to undertake long-term university or vocational qualifications are also likely to take a holiday at some time during their stay. Long-term students can also be visited by friends and family, again adding to the tourism industry.

5.79 There are other forms of study tourism beyond international students and their families, as explained by DEST: 'school visits and educational tours are significant export activities.'<sup>57</sup>

5.80 While it is evident that study related tourism is important to Australia, there is little known about the true extent of this market. Sue Blundell of EA spoke about the fact no data are available on the contribution of study tourism:

One indicator of the lack of leadership in this area is the fact that we actually lack national data on the true size of study tourism and the contribution that it makes.<sup>58</sup>

5.81 The Department of Industry, Tourism and Resources outlined the government's current involvement in the study tourism market:

Tourism Australia (TA) continues to promote Australia as a destination for education/study tourism. The TA website includes a number of interactive tools for students, teachers and parents.

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The Australian Government has produced a brochure *Study and Explore Australia*, which encourages students to combine learning English with tourism activities and experiences such as visiting

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56 Ms S Blundell, English Australia, *Transcript of evidence*, 14 November 2007, p. 11.

57 Department of Education, Science and Training, *Submission no. 35*, p. 13.

58 Ms S Blundell, English Australia, *Transcript of evidence*, 14 November 2007, p. 11.

wildlife sanctuaries, rainforest walks, horse riding and scuba diving.<sup>59</sup>

- 5.82 There was a view that there could be more government coordination in targeting and understanding study tourism. This view was expressed in the context in the context of the ELICOS industry by Sue Blundell of EA:

At present we believe there is no coordinated government approach to this significant area of service industry export growth which already accounts for more than 50,000 people a year. We submit that a more coordinated approach by all relevant departments and agencies would facilitate further growth in this area.<sup>60</sup>

- 5.83 DEST, however, cautioned against linking tourism and education too closely:

There is a strong argument that linking tourism with education too closely could seriously undermine the current high level of quality and protection provided by the Australian Government.<sup>61</sup>

## Committee conclusions

- 5.84 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.
- 5.85 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.
- 5.86 Provided that Australia's education industry continues to be supported by the current stringent quality assurance framework, there is no reason to

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59 Department of Industry, Tourism and Resources, *Submission no. 21*, p. 18.

60 Ms S Blundell, English Australia, *Transcript of evidence*, 14 November 2007, p. 11.

61 Department of Education, Science and Training, *Submission no. 35*, p. 13.

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**

- 5.87 **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.**

## Other services industries raised in submissions

- 6.1 The previous two chapters examined Australia's two largest services exports – tourism and education. In the course of its inquiry the committee also received evidence on a number of other services industries. This chapter does not discuss every services industry in the Australian economy – only those industries on which the committee received specific evidence.
- 6.2 Generally speaking, the industries examined below are very important in the domestic economy, but have a comparatively smaller role in terms of exports. Having said this, trade in each industry is growing and is likely to continue growing into the future.
- 6.3 This chapter will provide a broad summary of the evidence received on the issues and opportunities for each of the 'other' service industries. However, the committee will not make recommendations on every challenge or opportunity facing every individual industry. To do so would require a more detailed examination of each industry than has been possible during this inquiry.
- 6.4 The committee's recommendations in chapter 3 of this report apply to the sector as a whole, including the industries highlighted in this chapter. In particular, recommendation 4 draws attention to the need for a greater focus on services trade liberalisation. As will be evident in the ensuing discussion, trade barriers are a recurring theme and are constraining export growth in all service industries.

## Financial services

- 6.5 Financial services comprise an important and steadily growing industry in the Australian economy. The industry has benefited from growth in other parts of the economy as well as from the positive global economic conditions enjoyed in recent years.
- 6.6 The financial industry posted a growth rate of 6 per cent for the year ending March 2007, following over ten years of good growth. The industry contributed around \$69 billion to the economy in 2005-06.<sup>1</sup>
- 6.7 The ABS reports that exports in the financial industry amounted to \$1.7 billion in 2006, suggesting that while the domestic industry is thriving, there is room for growth in Australia's export trade in the industry.<sup>2</sup>
- 6.8 The financial services industry, like many other Australian industries, argues that the total income earned from the provision of financial services to overseas customers would exceed the ABS data on exports (see discussion on services sector statistics in chapter 3).

## Issues for the industry

- 6.9 The primary barrier facing exports of financial services is the level of access to foreign markets such as China and India. Unlike manufacturing or agricultural exports, trade barriers in services are generally not explicit tariffs or quotas, but usually come in the less direct form of regulations and licensing constraints. This issue was highlighted in the submission of the Victorian government:

Key issues facing financial services exporters at the moment are competition and access to overseas markets, including non-tariff barriers to trade.<sup>3</sup>

- 6.10 The Investment and Financial Services Association (IFSA) raised the difficulties generated by foreign regulatory regimes and suggested the harmonisation of Australian regulations with similar jurisdictions overseas. It also argued that the liberalisation of non-tariff barriers—such as restrictive regulatory regimes—should be a priority in bilateral and multilateral trade negotiations.<sup>4</sup>

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1 Australian Bureau of Statistics, *Australian national accounts*, cat. no. 5206.0, ABS, Canberra, 2006.

2 Australian Bureau of Statistics, *Balance of payments*, cat. no. 5302.0, ABS, Canberra, 2006.

3 Victoria Government, *Submission no. 38*, p. 10

4 Investment and Financial Services Association, *Submission no. 14*, p. 3.



6.11 The second issue of concern to the financial services industry is the level of complexity in the tax system. Both the Axiss and IFSA submissions argued that, while the government has gone some way to simplifying taxation requirements, it is an area of reform that still holds great potential benefits to the industry.<sup>5</sup>

## Opportunities for growth and policies for realisation

6.12 Several groups noted that Australia has a number of important advantages which can be marketed to expand the export of financial services, namely:

- sophisticated financial markets;
- world-class telecommunications and information technology markets and infrastructure;
- a low cost, highly skilled and multilingual workforce;
- democratic, well-regulated and stable environment;
- strategic time zone; and
- quality of life.<sup>6</sup>

6.13 These advantages provide the Australian financial services market with somewhat of a 'head start' in the global market. Combined with Australia's proximity to Asia, they create an environment with great potential to support a significant export trade in our region.

6.14 According to IFSA, Australian financial services providers have a number of specialities which are attractive to international clients. These specialities include:

- pension and superannuation products and services;
- retirement income products and services;
- asset administration and service capability;
- custody services;
- investment research and strategy;
- asset allocation;

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5 Axiss, *Submission no. 22*, p. 6; Investment and Financial Services Association, *Submission no. 14*, p. 3.

6 Axiss, *Submission no. 22*, pp. 7-8

- investment product development such as infrastructure private equity and alternative investments;
- life insurance risk;
- securitisation of property and infrastructure developments;
- asset securitisation of property and software developments;
- financial services IT and software developments; and
- financial services education.<sup>7</sup>

6.15 It was noted in evidence that markets in Asia, in particular, offer significant growth prospects for the Australian financial services industry. While these opportunities do exist, Axiss – the organisation charged with marketing Australia as a financial services hub – does not have a presence in the Asian region.<sup>8</sup>

## Committee conclusions

- 6.16 Financial services are a healthy and important \$70 billion industry. Exports in the industry, however, remain comparatively modest.
- 6.17 As relationships develop with Asian neighbours the export of financial services is likely to expand – particularly in the speciality areas listed above. Superannuation and retirement savings is an area where Australian financial service providers have distinct expertise.
- 6.18 The Australian government can aid this process of expansion by continuing to simplify the taxation system; encouraging regulatory harmonisation with major trading partners; and by placing a higher priority on the non-tariff barriers facing the financial services industry in trade negotiations.

## Legal services

- 6.19 The ABS completed a focussed study on Australian legal services in 2002, but there has been little official data collected since. Those figures indicated that in 2001-02 legal practices in Australia contributed \$7.8 billion to GDP and employed around 94,000 people. Total income for the industry increased by 10.8 per cent on average between 1998-99 and 2001-

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7 Investment and Financial Services Association, *Submission no. 14*, p. 3

8 Mr G Johnston, Axiss Australia, *Transcript of evidence*, 14 March 2007, p. 37.

02, although this was attributable to a significant increase in income per barrister and solicitor, rather than an increase in employment or number of firms, both of which remained relatively stable over the same period.<sup>9</sup>

6.20 Exports of legal, accounting, management consulting and public relations together totalled \$747 million in 2006, suggesting that the export sector of legal services comprises a small part of the domestic industry.<sup>10</sup>

## Issues for the industry

6.21 All of the submissions that focussed on legal services highlighted non-tariff trade barriers as the most significant issue constraining the growth of legal services exports. Australian legal firms often have difficulty providing services to clients operating in other countries, particularly in the Asian region. In some cases Australian lawyers are required to 'fly in, fly out' or provide services from Australia.

6.22 The submission of Mallesons Stephen Jaques highlighted a number of areas where Australian legal firms face trade barriers:

- structural issues – some countries prevent sharing of profit, prohibit partnerships between local and foreign lawyers and impose residency requirements;
- barriers to entry – restriction on firms setting up in-country;
- ease of business – different requirements country to country on when and whether registration is required;
- use of name – applications required for all firm names changes;
- taxation – difficulties in claiming money from relevant authorities;
- remittance of profits – some Asian jurisdictions do not allow the remittance of profit after payment of local tax; and
- disclosure obligations – ability to share the risk of a transaction and propose competitive fee arrangements based on clients' requirements is limited by disclosure obligations.<sup>11</sup>

6.23 The Victorian government noted that Australia, unlike many countries, is very open to allowing foreign firms to operate here:

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9 Australian Bureau of Statistics, *Legal practices, Australia, 2001-02*, cat. no. 8667.0, ABS, Canberra, 2003.

10 Australian Bureau of Statistics, *International trade in goods and services*, cat. no. 5368.0, ABS, Canberra, 2007.

11 Mallesons Stephen Jaques, *Submission no. 18*, pp. 2-4

Australia has made a binding, nonreciprocal offer under the General Agreement on Trade in Services (GATS) to provide foreign lawyers with access to the Australian legal services market. However, this has not necessarily been reciprocated and barriers to entry for legal services still exist in a number of markets.<sup>12</sup>

- 6.24 Some submissions raised concerns over the 'brain drain' phenomenon involving the loss of talented lawyers to overseas firms, particularly in the United Kingdom and United States. Aside from the obvious attractions of working internationally, evidence suggested that recent graduates are also moving overseas to avoid paying HECS debts. Robert Milliner of Mallesons Stephen Jaques asserted that HECS is a factor, but not the definitive factor:

The advantage is that they do not have to pay back their HECS if they go over there, whereas if they stay here they do... [However] I do not think that [HECS] is the primary driver; it is just a factor. There is no doubt that the primary driver is a mixture of generational issues and opportunity. There is phenomenal opportunity. If you go to London and say that you have worked at Mallesons for the last three years, you will get a job straight away. There is an explosion of growth. UK firms are reporting growth rates of somewhere between 15 and 22 per cent over the last six months.<sup>13</sup>

- 6.25 The committee heard that a more substantial export industry in legal services would not only bring financial benefits, but also allow Australian law firms to offer workers 'global careers', providing them with an additional incentive to remain in Australia.<sup>14</sup>

## Opportunities for growth and policies for realisation

- 6.26 The export of legal services is complicated by the fact there are different legal systems around the world. Australian companies tend to focus on countries founded on common law principles such as the UK, India, Hong Kong and Singapore. The committee heard that it is, for example, difficult for Australian lawyers to work in the US:

In different jurisdictions in the world the prevailing legal system is a different system of law. If we are to practise in the US, we need to be trained, qualified and admitted as US lawyers. Mallesons

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12 Victoria Government, *Submission no. 38*, p. 15.

13 Mr R Milliner, Mallesons Stephen Jaques, *Transcript of evidence*, 14 November 2007, p. 8.

14 Mallesons Stephen Jaques, *Submission no. 18*, p. 4.

Stephen Jaques tend not to do a lot of business in the US. We tend to do it more in the English law countries—common-law countries—such as the UK, Hong Kong and associated countries. The US is not a target market for us.<sup>15</sup>

- 6.27 Mallesons Stephen Jaques told the committee that it expected high levels of work in China and India as these economies allow foreign entrants. Robert Milliner of Mallesons Stephen Jaques discussed the prospects in China and India:

We are very keen to get a leg into the Chinese market. India is virtually encircled by UK and US law firms waiting for some concession from the Indian government, which I think is less likely to occur than it is in China.<sup>16</sup>

## Committee conclusions

- 6.28 The legal services industry is a significant domestic industry but underdeveloped in terms of exports. There appears to be scope for exports of legal services to increase appreciably.
- 6.29 Australian law firms currently face a number of barriers to trade in attempting to export their services, including structural differences, licensing obstacles and barriers to entry. This is compounded by fundamental differences in legal systems across the world. Given the limited number of ‘common law’ countries, it is important that non-tariff trade barriers are resolved in order to allow Australian firms to access those markets.
- 6.30 As China and India increasingly allow foreign law firms to operate in their jurisdictions, the opportunities for Australia’s legal services industry will further expand.

## Engineering services

- 6.31 There are little data available on the size and composition of the engineering industry, largely due to the diverse nature of engineering. Most engineering activities are included in data for other industries, for

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15 Mr R Milliner, Mallesons Stephen Jaques, *Transcript of evidence*, 14 November 2007, p. 7.

16 Mr R Milliner, Mallesons Stephen Jaques, *Transcript of evidence*, 14 November 2007, p. 8.

example construction and business services, both of which are significant industries enjoying strong growth.<sup>17</sup>

- 6.32 The ABS completed a focussed study on consultant engineering firms, one component of the engineering industry, in 2003. This is the most recent relevant data available on the industry. The study indicated that the consultant engineering services industry was growing rapidly, expanding at an average rate of 12.2 per cent between 1996 and 2002. Consultant engineering companies generated income of around \$9 billion and employed 65 000 people in 2001-02.<sup>18</sup>
- 6.33 The engineering export industry is still relatively small in Australia, with exports of architectural, engineering and other technical services totalling \$1.3 billion over 2006.<sup>19</sup> However, the increasing mobility of labour has seen a growth in the number of engineers working overseas, with almost 70 per cent of respondents to the latest Engineers Australia survey reporting that they have worked overseas at least once in the last two years.<sup>20</sup>

## Issues for the industry

- 6.34 Engineers reported a multitude of non-tariff trade barriers which affect the growth of exports. Engineers Australia noted that regulations which effectively restrict exports 'are usually aimed at domestic policy objectives rather than trade policy objectives.'<sup>21</sup>
- 6.35 Engineers face many such regulatory requirements that effectively act as trade barriers, including:
- Mandatory requirements for membership of professional associations;
  - Non-recognition of Australian qualifications;
  - Inability to gain registration for employees;
  - Education and experience that differs from Australian standards;
  - Registration linked to residency or citizenship;

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17 Australian Bureau of Statistics, *International trade in goods and services*, cat. no. 5368.0, ABS, Canberra, 2007.

18 Australian Bureau of Statistics, *Consultant engineering services, Australia*, cat. no. 8693.0, ABS, Canberra, 2003.

19 Australian Bureau of Statistics, *International trade in goods and services*, cat. no. 5368.0, ABS, Canberra, 2007.

20 Engineers Australia, *Submission no. 18*, p. 25.

21 Engineers Australia, *Submission no. 18*, p. 19.

- Inability to gain registration for company; and
  - Registration of firms where directors must be engineers.<sup>22</sup>
- 6.36 The trade limiting effects of many of these regulations are often incidental to domestic policy goals. As such, the governments imposing them may be more amenable to negotiation than they would be to lowering, for example, more deliberate barriers applying to goods.
- 6.37 A second issue constraining growth in the industry is the shortage of engineers. There was ample anecdotal evidence that the resources boom has created a substantial demand for engineers affecting other industries' ability to source them.

### Opportunities for growth and policies for realisation

- 6.38 Australian engineers are in demand worldwide reflecting the fact there is a global shortage in the profession. Of course, both China and India are currently undergoing rapid urbanisation which is accompanied by rapid growth in demand for engineering services.
- 6.39 Australia's capacity to export engineering services may increase if or when our mining boom eases.

### Committee conclusions

- 6.40 Expansion of the trade in engineering services is currently constrained by a range of non-tariff barriers such as differences in licensing and certification of engineers. In some case these barriers may be an unintended side-effect of regulations servicing domestic policy goals, rather than an explicit attempt to protect the domestic industry.
- 6.41 It is therefore important that the Australian government encourages the consideration of these non-tariff barriers at future trade negotiations. Similarly, it would be helpful for the government to consider the impact of its own engineering licensing regulations on international trade and align domestic certification with international standards where they exist.

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<sup>22</sup> Engineers Australia, *Submission no. 18*, p. 18.

## ICT services

- 6.42 The information and communications technology (ICT) industry is regarded as imperative to Australia's productivity growth. The implementation of IT products and services has dramatically improved the productive capacity of many businesses.<sup>23</sup>
- 6.43 An increasing proportion of ICT income is generated in companies that are not ICT specific. While around 90 per cent of income generated in the industry is still done so by ICT specialist companies, this share is decreasing—down from 95 per cent in 2000-01.<sup>24</sup> This suggests that a growing proportion of ICT services are undertaken by firms whose primary business is not ICT, which may be due to a blending of industries or a diversification of firms.
- 6.44 The ICT industry as a whole is exhibiting healthy growth, with the total value added to the economy growing from around \$29 billion in 2000-01 to around \$35 billion in 2004-05.<sup>25</sup>
- 6.45 Data on ICT services, as opposed to the ICT industry (including manufacturing), is limited. However the ABS estimates that in 2002-03, ICT services contributed around \$25 billion gross value to the economy. This represents around 3.5 per cent of total industry gross value added, and 72% of total ICT gross value added.<sup>26</sup> In 2006 exports of 'computer and information services' were \$1.4 billion.<sup>27</sup>

## Issues for the industry

- 6.46 The Department of Communications, Information Technology and the Arts (DCITA) submission emphasised the importance of increased broadband connectivity both as a necessary pre-condition for Australia's ICT industry, and as key infrastructure that has the potential to generate broad productivity increases across the economy. DCITA added:

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23 Department of Communications, IT and the Arts, *ICT and Australian productivity*, p. 18, 2005.

24 Australian Bureau of Statistics, *Information and communication technology*, cat. no. 8126.0, ABS, Canberra, 2002 and 2006.

25 Australian Bureau of Statistics, *Information and communication technology*, cat. no. 8126.0, ABS, Canberra, 2002 and 2006.

26 Australian Bureau of Statistics, *Australian national accounts: information and communication technology satellite account*, cat. no. 5259.0, ABS, Canberra, 2006.

27 Australian Bureau of Statistics, *International trade in goods and services*, cat. no. 5368.0, ABS, Canberra, 2007.



Accelerating the adoption and effective use of broadband across Australia will improve our international competitiveness, including by connecting us with key international markets and facilitating exports. The widespread diffusion of broadband technologies has the potential to revolutionise the way services are delivered in a range of sectors including health, education and research.<sup>28</sup>

- 6.47 Instantaneous communication around the world is now essential for services industries, not just ICT services. Australian industries face the added disadvantage of great distance separating them from lucrative markets in Europe and North America. In order to compete, it is important that Australia's broadband infrastructure is comparable to the technology in those markets. DCITA cited the government's *Broadband Blueprint* as an important step to achieve adequate broadband infrastructure.<sup>29</sup>

## Opportunities for growth and policies for realisation

- 6.48 Submissions from Federal, Victorian and Western Australian government agencies highlighted areas in which Australia has been successful in developing ICT services and products. Some of these areas include:

- Telecommunications services;
- Niche software and services for mining, defence and other industries;
- Wireless communication services and technology;
- Remote area communications;
- Bioinformatics;
- ICT-based games; and
- Health and education applications.<sup>30</sup>

- 6.49 As the worldwide market for these specialised services continues to grow, the success of Australia's highly developed ICT industry depends upon continued innovation and research and development (R&D). DCITA noted the importance of ongoing R&D to ensure Australia remains at the forefront of technological advances:

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28 Department of Communication, IT and the Arts, *Submission no. 49*, p. 9.

29 Department of Communication, IT and the Arts, *Submission no. 49*, pp. 9-10

30 Department of Communication, IT and the Arts, *Submission no. 49*, p. 15; Austrade, *Submission 26*, p. 7; Western Australia Department of Industry and Resources, *Submission no. 15*, p. 9; Victoria Government, *Submission no. 38*, p. 12.

Increasing government investment in ICT research and development (R&D) in combination with a renewed emphasis on commercialisation opportunities will also boost Australia's capacity to contribute to new and emerging supply chains.<sup>31</sup>

- 6.50 The department noted the government's \$250 million commitment to National ICT Australia, a world-scaled ICT research and training institute. Further, the DCITA submission noted the ICT incubators program which provides a range of assistance to early stage ICT businesses with the goal of accelerating their growth.<sup>32</sup>

### Committee conclusions

- 6.51 ICT is a \$35 billion industry in Australia that is imperative to the nation's productivity growth. ICT services are the largest component of the industry. Exports of ICT services are a small component of total industry output.
- 6.52 One of the key factors in the future expansion of ICT services is increased broadband speeds. Increased broadband speeds facilitate the provision of ICT services domestically, but also internationally into export markets.
- 6.53 Continued ICT R&D will be important into the future to ensure the industry continues to offer cutting edge services and products.

### Science services

- 6.54 The science industry is defined as research and development, design, production, sale and distribution of laboratory-related goods, services and intellectual capital used for measurement, analysis and diagnosis.<sup>33</sup> Much of the economic activity involved in the industry is classified as part of other industries and as such limited data are available on the industry.
- 6.55 Science Industry Australia (SIA) reported that in 2002-03 Australia's science services industry generated an estimated income of around \$3 billion and employed 39,000 people. Exports of science services—a relatively small niche market—were estimated to be \$110 million. SIA also reports that the industry is growing at an annual rate of 10 per cent.<sup>34</sup>

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31 Department of Communication, IT and the Arts, *Submission no. 49*, p. 15.

32 Department of Communication, IT and the Arts, *Submission no. 49*, pp. 15-16.

33 Science Industry Australia, *Submission no. 6*, p. 1.

34 Science Industry Australia, *Submission no. 6*, p. 2.

## Issues for the industry

- 6.56 SIA raised concerns over the red-tape involved in requests for R&D assistance. While it was agreed that scrutiny and accountability is a necessary component of government assistance, the organisation questioned whether the Australian Tax Office and other government agencies had at times been excessive in their documentation requirements. It was reported that, in some cases, larger corporations had concluded that the compliance costs of obtaining R&D assistance outweighed the financial benefits it provides.<sup>35</sup> R&D assistance is discussed in greater detail in this committee's report on Australia's manufacturing sector.
- 6.57 The science industry is highly knowledge-intensive, and in a workforce where almost 50 per cent has a university degree, it is important that there is enough skilled labour to meet demand. SIA reported that surveys of the science industry indicate that the industry has shortages of laboratory technicians, technical trades, chemists, mechanical and software engineers, sales and management staff.<sup>36</sup>
- 6.58 The science industry also reported that trade barriers are a significant constraint on export growth. Laboratory and technical services must comply with global regulations and standards in addition to local ones. It was suggested that the European Union is particularly hostile to trade in science services.<sup>37</sup>

## Opportunities for growth and policies for realisation

- 6.59 SIA reported that there are encouraging signs of growth in exports of laboratory and technical services. Having established themselves in Australia and New Zealand, Australia's leading laboratories are expanding their operations into Asia (51 per cent of science services exports), EU (19 per cent), New Zealand (12 per cent) and North America (2 per cent).<sup>38</sup>
- 6.60 Once again, trade liberalisation was cited as the most important policy to realise global opportunities. The harmonisation of regulations for laboratory services in particular would go some way to facilitating further trade in the science industry.

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35 Science Industry Australia, *Submission no. 6*, pp. 6-7.

36 Science Industry Australia, *Submission no. 6*, p. 8.

37 Science Industry Australia, *Submission no. 6*, p. 7.

38 Department of Industry, Tourism and Resources, *Survey of Australia's science industry 2004* as cited in Science Industry Australia, *Submission no. 6*, p. 7

## Committee conclusions

- 6.61 Science services comprise a relatively small but important industry in the Australian economy. It is successful by international standards but, like many industries in Australia, is currently suffering from shortages of skilled labour. While Australian laboratories have begun to expand into international jurisdictions, the industry faces a number of non-tariff barriers obstructing further expansion.
- 6.62 A harmonisation of these regulations acting as trade barriers would smooth the transfer of science services across borders—an important activity in an industry that benefits greatly from international collaboration, knowledge-transfer and specialisation.
- 6.63 R&D support from the Australian government is central to the continued success of the science services industry. The government's R&D support mechanisms are reviewed at greater length in this committee's report into the manufacturing sector.

## Construction services

- 6.64 The construction industry is one of the fastest growing in the economy, with gross value added increasing by 10.8 per cent on the year to March 2007. The industry contributed \$62 billion to economy in 2005-06, accounting for 8 per cent of GDP. In contrast to this, exports in the industry remain small, at \$129 million in 2006.<sup>39</sup> The construction industry is a significant employer in the economy, employing around 965,000 people in February 2007.<sup>40</sup>

## Issues for the industry

- 6.65 As an industry that is strictly regulated with standards that differ significantly throughout the world, construction companies face complex barriers in exporting their services. Australian personnel qualifications and certifications may not be recognised in foreign countries, and businesses may have difficulty remaining competitive in an environment with unfamiliar regulations and building specifications.

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39 Australian Bureau of Statistics, *Australian national accounts*, cat. no. 5206.0, ABS, Canberra, 2006.

40 Australian Bureau of Statistics, *Australian labour market statistics*, cat. no. 6105.0, ABS, Canberra, 2006.

- 6.66 Standards Australia reported that while a small number of international benchmarks have been established (in quality management, for example), they are not widely utilised throughout the world.<sup>41</sup> This group highlighted the importance of Australia adopting international standards, not just in construction, but in all industries:

Should Australia decide to isolate itself from international standardisation activities, Australian practices will quickly evolve to be out of touch with the world market and we would risk stifling opportunities to export not just our goods but also our services ... For a relatively small economy like Australia, with minimal leverage, there is little scope to expect the international market to bend to suit our practices. If Australia wishes to trade either goods or services, it needs to take account of the practices and requirements in the target markets.<sup>42</sup>

- 6.67 A number of groups commented that the demand for labour in the mining industry is drawing significant resources from other industries. Construction is an industry that is particularly impacted as it suffers from direct competition for labour with the mining industry.

## Opportunities for growth and policies for realisation

- 6.68 The submission of the Cooperative Research Centre (CRC) for Construction Innovation highlighted the potential benefits of innovative construction services and products. Not only does innovation assist in Australia's construction industry becoming globally competitive, it provides a significant domestic benefit, improving productivity, safety and efficiency. Innovative services are, of course, also exportable to the world.<sup>43</sup>
- 6.69 Environmentally sustainable construction has been identified as a major new area of innovation with strong prospects for the Australian construction industries. The CRC has developed a number of innovative products that aim to assist the construction industry in targeting this market.<sup>44</sup>
- 6.70 The Western Australian and Victorian governments both outlined a plan to target the Chinese market, which clearly has a growing demand for construction services. The WA Department of Industry and Resources suggested that China might also begin to develop a demand for

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41 Standards Australia, *Submission no. 4*, pp. 4-5

42 Standards Australia, *Submission no. 4*, p. 2

43 CRC Construction Innovation, *Submission no. 1*, p. 3.

44 CRC Construction Innovation, *Submission no. 1*, p. 3.

environmental management services to counteract rapidly increasing levels of pollution.<sup>45</sup>

- 6.71 However, the CRC argued that China presents the greatest threat to the international competitiveness of Australia's construction industry. Cheap labour and economies of scale combine to make Chinese construction companies significant players in the region. The CRC's submission emphasised the role of innovation in combating this competition and maintaining a high-quality industry that capitalises on Australia's comparative advantages.<sup>46</sup>

### Committee conclusions

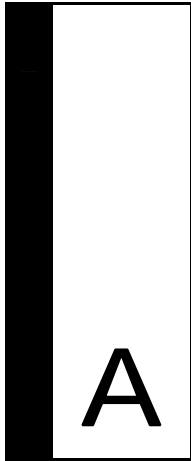
- 6.72 The construction industry is growing particularly well, adding \$62 billion to GDP in 2005-06. However, exports in the industry are constrained by differing standards in overseas jurisdictions. As a fundamental aspect of construction operations, significant time and training is required to adjust to differing regulations. The standardisation of these regulations would go some way to opening up the market for international construction services.
- 6.73 Niche markets such as environmentally sustainable construction offer growth opportunities for the industry. The urbanisation and development of China and India are potentially significant markets in this area.

The Hon Bruce Baird MP  
Chair  
31 May 2007

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45 Western Australian Department of Industry and Resources, *Submission no. 15*, pp. 13-14.

46 CRC Construction Innovation, *Submission no. 1*, p. 3.



## Appendix A – Submissions

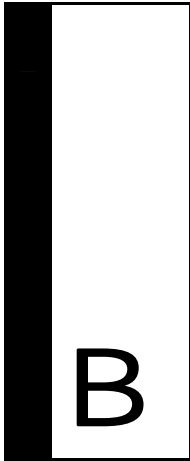
<b>No.</b>	<b>Provided by</b>
1	Cooperative Research Centre for Construction Innovation
2	Tortoise Technologies
3	Australian Tourism Export Council
4	Standards Australia
5	Institute of Management Consultants
6	Science Industry Australia
7	Service Skills Australia
8	Australian Bureau of Statistics
9	English Australia
10	Western Australian Hospitality and Tourism Industry Training Council
11	International Women's Federation of Commerce and Industry
12	Queensland Tourism Industry Council
13	Griffith University, Service Industry Research Centre
14	Investment and Financial Services Association
15	Western Australian Department of Industry and Resources
16	Australian Hotels Association
17	University of South Australia

- 18 Mallesons Stephen Jaques
- 19 Deakin University
- 20 New South Wales Government
- 21 Department of Industry, Tourism and Resources
- 22 Axiss Australia
- 23 Restaurant and Catering Australia
- 24 Sacks Australian International - Lawyers
- 25 CONFIDENTIAL
- 26 Austrade
- 27 Tourism and Transport Forum
- 28 Infrastructure Partnerships Australia
- 29 Department of Transport and Regional Services
- 30 The Treasury
- 31 Northern Territory Government
- 32 Hotel, Motel and Accommodation Association
- 33 Tourism Western Australia
- 34 Department of Foreign Affairs and Trade
- 35 Department of Education, Science and Training
- 36 Western Australian Department of Education and Training
- 37 Qantas
- 38 Victorian Government
- 39 Law Institute of Victoria
- 40 Australian Chamber of Commerce and Industry
- 41 Tourism Australia
- 42 Tourism Training Australia
- 43 The Association of Australian Convention Bureaux
- 44 Australian Services Roundtable
- 45 Department of Industry, Tourism and Resources (supplementary)
- 46 Tourism Australia (supplementary)



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- 47 Department of Education, Science and Training (supplementary)
- 48 Engineers Australia
- 49 Department of Communications, Information Technology and the Arts
- 50 National Tourism Alliance
- 51 Western Australian Department of Education and Training (supplementary)
- 52 Australian Vice-Chancellors' Committee
- 53 Department of Industry, Tourism and Resources (supplementary)
- 54 Western Australian Hospitality and Tourism Industry Training Council (supplementary)
- 55 Australian Vice-Chancellors' Committee (supplementary)
- 56 Department of Education, Science and Training (supplementary)

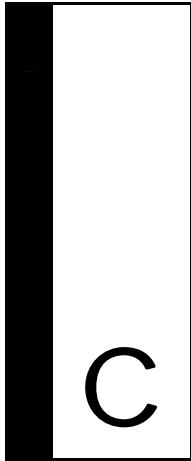




## Appendix B – Exhibits

No.	Description
1	CONFIDENTIAL
2	Presented by the Department of Transport and Regional Services <i>Auslink White Paper.</i>
3	Presented by the Gold Coast Tourism Corporation <i>Goldman Sachs JB Were, Macquarie Leisure Trust Group - to benefit from the Gold Coast sunshine, 19 October 2006.</i>
4	Presented by Tourism Australia <i>Access Economics, The economic value of tourism for Australia: A post - September 2001 stock-take and update, May 2002.</i>
5	Presented by Tourism Australia <i>The Hon. Fran Bailey, Minister for Small Business and Tourism, Australian tourism to star in worldwide program, Media Release, 16 October 2006.</i>

- 6            Presented by Tourism Australia  
*Tourism Australia, Reaching the world: Tourism Australia's global programs.*
- 7            Presented by the Department of Industry, Tourism and Resources  
*Department of Industry, Tourism and Resources, A fair go for tourists: compliance information for the tourism industry in Australia.*



## Appendix C – Hearings and witnesses

### **Tuesday, 14 November 2006 - Sydney**

#### **English Australia**

Ms Sue Blundell, Executive Director

#### **Investment & Financial Services Association**

Mr John O'Shaughnessy, Deputy Chief Executive Officer

Mr Martin Codina, Senior Policy Manager

#### **Mallesons Stephen Jaques**

Mr Robert Milliner, Chief Executive Partner

### **Wednesday, 15 November 2006 - Sydney**

#### **Austrade**

Mr Lloyd Downey, Manager, Education, Arts and Business Services

Mr Lino Strangis, Manager, Industry Policy

#### **Australian Hotels Association**

Ms Peta Irvine, Accommodation Manager

#### **Australian Tourism Export Council**

Mr Matthew Hingerty, Managing Director

Mrs Anna Rattray, Industry Development Manager

Mr Brett Wilson, Consultant

**Department of Industry, Tourism and Resources**

Mr Philip Noonan, Head, Tourism Division

Ms Helen Stokes, Manager, Industry Capability Team, Tourism Division

**Hotel Motel and Accommodation Association**

Mr Peter Olah, National Affairs Manager

**National Tourism Industry Training Committee**

Mr Bill Galvin, Chief Executive

**Qantas Airways**

Ms Jane McKeon, General Manager, Government and International Relations

**Restaurant and Catering Australia**

Mr John Hart, Chief Executive Officer

**The Association of Australian Convention Bureaux**

Mr Mike Cannon, Executive Director

**Tourism Australia**

Mr Karl Flowers, Tourism and Aviation Economist

**Tourism New South Wales**

Mr John Bates, Group Manager, Strategy and Alliances

**Tourism and Transport Forum**

Mr Owen Johnstone-Donnet, Deputy Managing Director

Ms Joyce DiMascio, National Manager, Tourism and Major Events

Mr Peter Staveley, National Manager, Infrastructure, Investment and Planning

Ms Kate Davidson, National Manager, Research

Dr Mark Dimech, National Manager, Aviation and Education

**Tuesday, 21 November 2006 - Brisbane****Brisbane Airport Corporation**

Mr Cameron MacPhee, Airline and Cargo Commercial Manager

**Cooperative Research Centre in Sustainable Tourism**

Dr Perry Hobson, Director, International Centre of Excellence in Tourism and Hospitality Education

**Department of Industry, Tourism and Resources**

Dr Peter Tucker, General Manager, Industry Sustainability Group, Tourism Division

Ms Helen Stokes, Manager, Industry Capability Team, Tourism Division

**Gold Coast Tourism Corporation**

Mr Pavan Bhatia, Chief Executive Officer

Mr Steven Holle, Director, Corporate Relations and Development

**Griffith University, Service Industry Research Centre**

Dr Liz Fredline, Senior Research Fellow

Associate Professor Gayle Jennings

**Queensland Tourism Industry Council**

Mr Daniel Gschwind, Chief Executive

**Caravan, RV and Accommodation Industry of Australia**

Mr Ronald Chapman, Former Chief Executive Officer

**Tourism Australia**

Mr Karl Flowers, Tourism and Aviation Economist

**Friday, 1 December 2006 - Canberra****Austrade**

Mr Lino Strangis, Manager, Industry Policy

Mr Lloyd Downey, National Manager, Education, Arts and Business Services

**Department of Education, Science and Training**

Ms Fiona Buffinton, Group Manager

Mr Peter Mulligan, Director, Strategic Policy and Coordination

**Department of Foreign Affairs and Trade**

Mr Nicolas Brown, Assistant Secretary, Trade and Economic Analysis

Ms Lorraine Fietz, Acting Assistant Secretary

Mr Graeme Meehan, Deputy Head, China Free Trade Agreement Task Force

Mr Brendan Pearson, Assistant Secretary, Services and Intellectual Property

Mr Ric Wells, Head, China Free Trade Agreement Task Force

**Department of Industry Tourism and Resources**

Mr Phillip Noonan, Head, Tourism Division

Dr Peter Tucker, General Manager, Industry Sustainability Group, Tourism Division

**Invest Australia**

Mr Barry Jones, Chief Executive Officer

**The Treasury**

Mr Graeme Davis, Manager, Macro Dynamics Unit, Macroeconomic Policy Division

Mr John Hawkins, Manager, Business & Liaison Unit, Domestic Economy Division

Dr Steven Kennedy, General Manager, Domestic Economy Division

Ms Maryanne Mrakovcic, General Manager, Industry, Environment and Defence Division

Mr Troy Sloan, Manager, Industry Policy Unit

**Tuesday, 20 February 2007 - Perth****Western Australian Department of Education and Training**

Mr Tom Grace

**Western Australian Hospitality and Tourism Industry Training Council**

Ms Anthea Kilminster, Executive Officer



**Tourism Council Western Australia**

Mr Ron Buckey, Chief Executive Officer

Mr Scott Cogar, Director

Mr Ian Laurance, Director

Mr John Longley, Director

Mr Ian Simmonds, Director and Vice President

**Tourism Western Australia**

Mr David Etherton, Executive Director, Industry Development and Visitor Servicing

**Thursday, 1 March 2007 - Canberra****Australian Competition Consumer Commission**

Mr Michael Kiley, Acting General Manager, Enforcement and Coordination Branch

Mr Nigel Ridgway, General Manager, Compliance Strategies Branch

**Friday, 2 March 2007 - Canberra****Australian Chamber of Commerce and Industry**

Mr Gregory Evans, Director, Industry Policy and Innovation

Mr Peter Johnson, Policy Advisor

**Australian Vice-Chancellors' Committee**

Professor Ian Young

**Engineers Australia**

Ms Leanne Hardwicke, Director, National and International Policy

Mr Rolfe Hartley, National President

Mr Peter Taylor, Chief Executive

**Science Industry Australia**

Professor Mark Baker, Committee Member

Dr Hadrian Fraval, Member

Dr Jim Gonis, Executive Council Member

Dr John Pulsford, Member

**Wednesday, 14 March 2007 - Sydney****Australian Council for Private Education and Training**

Ms Ruth Browne, Victorian Executive Member

Ms Jennifer Hannan, New South Wales Director

Mr Alan Manly, State Committee Member

Mr Timothy Smith, National Executive Director

**Australian Industry Group**

Dr Peter Burn, Associate Director, Public Policy

**Australian Services Roundtable**

Dr Vince Fitzgerald, President

Mr Peter Richardson, Vice President

**Axiss Australia**

Mr Gary Johnston, Executive Manager

Mr Mark Sewell, Senior Manager, Policy

**Service Skills Australia**

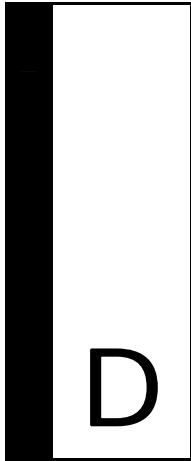
Ms Jeanette Allen, Chief Executive Officer

**Thursday, 15 March 2007 - Melbourne****Australian Tourism Export Council**

Mr Matthew Hingerty, Managing Director

**Department of Industry, Tourism and Resources**

Mr Phillip Noonan, Head, Tourism Division



## Appendix D – Government assistance programs relevant to the services sector

<b>Scheme</b>	<b>Administered by</b>	<b>Industries</b>	<b>Type of assistance</b>	<b>Aim of program</b>
Australian Education International (AEI)	DEST	Education	Predominantly promotion. Quality assurance frameworks, language training for international students.	Grow a sustainable future for Australia's international education industry.
Australian Tourism Development Program (ATDP)	AusIndustry	Tourism	Grants	Promote tourism development in rural Australia
Axiss	Axiss	Global financial services firms and education	Grants, advisory services and data provision	Position Australia as a global financial services centre in the Asian time zone
Building Entrepreneurship in Small Business (BESB)	AusIndustry	Small Business	Indirect assistance (training and mentoring, field officers etc)	Encouraging entrepreneurship by supporting improvement to Australia's small business operating skills
Business Entry Point (business.gov.au)	DITR	All	Indirect (information)	To bring all government requirements and assistance programs together in one place
Business Ready Program for Indigenous Tourism	AusIndustry	Tourism	Indirect (business mentors)	Address key barriers to Indigenous tourism businesses - management, business and strategic planning skills

<b>Scheme</b>	<b>Administered by</b>	<b>Industries</b>	<b>Type of assistance</b>	<b>Aim of program</b>
Export Market Development Grants (EMDG)	Austrade	All SMEs	Grants (up to 50% of promotion expenses)	Encourage SMEs to develop export markets
Indigenous Capital Assistance Scheme (ICAS)	DEWR	All Indigenous businesses	Access to financial support and subsidises interest rates and bank fees	Increases employment opportunities for Indigenous Australians by providing access to commercial finance and culturally appropriate support services
Indigenous Self Employment Programme (ISEP)	DEWR	All indigenous small businesses	Start up for small businesses, indirect (advice and support), training and loans.	Assist Indigenous Australians to establish their own small business
Indigenous Self Employment Programmes (ISEP)	DEWR	All indigenous small businesses	Indirect (advice and support), training and loans	Assist Indigenous Australians to establish their own small businesses
Indigenous Small Business Fund (ISBF)	DEWR	All indigenous small businesses	Grants (funding for the development and expansion of Indigenous businesses and enterprises)	Assist Indigenous people to learn about business, develop good business skills and expand their business
Industry Cooperative Innovation Program (ICIP)	AusIndustry	Requires a consortium of at least three businesses, any industry	Grants	Foster innovation projects that enhance the productivity, growth and international competitiveness of Australian industries. Focuses on meeting strategic industry needs
Information Technology Online (ITOL) Program	DCITA	All businesses, particularly SMEs	Grants	To accelerate the national adoption of collaborative e-business, especially by SMEs
Innovation Investment Fund (IIF)	AusIndustry	Venture capital fund managers	Grants	Develop venture capital funding industry
Pooled Development Funds (PDF) Program	AusIndustry	Small and medium-sized enterprises	Tax benefits for funds and shareholders. Indirect assistance to SMEs by providing incentives for investment	Grow SMEs by increasing the supply of equity capital
Regulation Reduction Incentive Fund (RRIF)	AusIndustry	Local government (with benefit to small and home-based businesses)	Grants to local governments, indirect assistance to small business	Reduce regulatory compliance burdens for SMEs

<b>Scheme</b>	<b>Administered by</b>	<b>Industries</b>	<b>Type of assistance</b>	<b>Aim of program</b>
Small Business Field Officers Program (SBFO)	AusIndustry	Small business	Indirect assistance (referral and general advisory services)	Foster the growth of small businesses
Tourism Australia	Tourism Australia	Tourism businesses	Promotion	Foster a sustainable tourism industry in Australia and increase economic benefits from tourism
Tourism and Conservation Initiative	DITR	Tourism businesses	Grants	Boost nature-based tourism while increasing capacity to protect and conserve the environment.

