

Trade

Introduction

Background to the Review of Annual Reports

- 2.1 The annual reports of the Foreign Affairs and Trade Portfolio agencies stand referred to the Joint Standing Committee on Foreign Affairs, Defence and Trade for any inquiry the Committee may wish to make, in accordance with the schedule tabled in the House by the Speaker.
- 2.2 At its meeting on 16 October 2002 the Full Committee resolved that:
- the Foreign Affairs Sub-Committee, the Defence Sub-Committee, Trade Sub-Committee and Human Rights Sub-Committee should develop separate or combined programs for the review of the 2001-2002 annual reports from government agencies responsible within their area of interest; and
 - the review programs should aim to result in the presentation of a report to Parliament in the Autumn sittings 2003.
- 2.3 The key elements of the guidelines for the reviews are:
- the reviews to be conducted by each sub-committee should focus on the performance of agencies in delivering products (that is, outputs) for the Government, rather than on seeking information updates on issues of interest;

- each sub-committee should select a limited number of issues (say 3, 4 or 5 issues) from annual reports within its area of interest – to allow for consideration in detail;
 - agencies should be advised in advance of the issues to be reviewed (ensuring that relevant officials attend the hearing, but, as a consequence, requiring that members not go beyond the selected areas of examination); and
 - ideally, all questions should be put on the day of the hearing.
- 2.4 The two annual reports relevant to the Trade Sub-Committee are the Austrade and the Department of Foreign Affairs and Trade reports for 2001-2002 plus the Foreign Affairs and Trade Portfolio Budget Statements 2001-02 and the Portfolio Additional Estimates Statements 2001-2002.
- 2.5 The Trade Sub-Committee examined four issues at its annual report review hearing, held 2 December 2002, two for Austrade and two for DFAT. The Austrade topics focus on key performance indicators (KPI) used to measure Austrade's effectiveness and the DFAT topics focus on two areas of sub-output namely, the Market Development Group and trade policy coordination and business liaison.

Structure of the Review of Annual Reports

- 2.6 This chapter of the report contains a summary of the key issues raised and discussed at the hearing.
- 2.7 The chapter is broken into two short sections, one for each department whose Annual Report has been reviewed. Each section is divided into three parts. The two areas of primary focus are examined initially, with some focus on related sub-issues. The third part of each will look at other issues raised during the course of the review.
- 2.8 For those readers interested in a complete record of the issues canvassed at the hearing, the full transcript will be available on the Committee internet site.

Australian Trade Commission

Background

- 2.9 As with most government organisations, Key Performance Indicators are the main instrument for gauging the effectiveness of the Australian Trade Commission (Austrade).
- 2.10 This review broadly looks at two aspects of Austrade's KPIs: those related to measuring client satisfaction with Austrade's work, and those related to measuring the export impact of Austrade's work.
- 2.11 Considering the complexity and intangibility of the effect of many forms of trade promotion, Austrade has developed a range of measures to assist in such assessment. A set of four outcomes and six corresponding outputs culminate in a subset of Key Performance Indicators intended to broadly measure Austrade's effectiveness.
- 2.12 Austrade's KPIs for 2001-02 were:
- Client satisfaction
 - The number of potential exporters provided with tailored assistance
 - The number of existing exporters provided with tailored assistance to enter a new market
 - Export impact – number of clients
 - Export impact – dollar value
 - Outward investment impact
 - Inward investment impact
- 2.13 Data collected on Austrade's activities were grouped into these areas to provide a comparative tool for evaluating effectiveness.
- 2.14 As noted in the introduction, the Committee focused its inquiry around two main themes: client satisfaction and export impact. Other issues that emerged during the course of the hearing will be discussed below.

Client satisfaction

2.15 Questions on client satisfaction, as a key performance indicator, were centred on the dimensions and reporting of client satisfaction data collected by Austrade. Members of the Committee discussed methods used by departments to measure effectiveness in particular areas.

2.16 Austrade explained the development of the current system for assessing client satisfaction:

In the early 1990s, we did a phone survey of every client whom we had worked with, to try to assess whether they had achieved any sales. In the late 1990s, the ANAO suggested that we were being overzealous – which was unusual for an ANAO report – so we worked on a new system of written verification. Nowadays, if Austrade works with a client and the client achieves a sale, the Austrader will say to the client, ‘I understand that you achieved the sale’ and will ask the client to fill in a written verification form...we have worked with ANAO to try to establish as robust a system as we can, and that is the system that has been put in place.¹

2.17 The Committee examined how this survey is audited to determine its integrity. Austrade submitted that the client satisfaction survey is based on interviews with 1 910 clients. 72% of clients responded, and 28% of respondents refused to complete the survey².

2.18 Various questions from Committee members determined that responses to the survey are spot audited - one in fifteen returned surveys are spot audited.

2.19 The Committee also found that every returned survey on a transaction over \$100 million³ is audited.

2.20 Negative results in the client satisfaction survey were also discussed. The Committee established that Austrade circulates these figures internally and designs much of its client satisfaction response based on these same figures.⁴

1 Austrade, Transcript, p 3.

2 Austrade, Exhibit 3, question 7.

3 Austrade, Transcript, p 4.

4 Austrade, Transcript, p 6.

- 2.21 Austrade performance in terms of geographic area or region was examined. This measure indicates the level of satisfaction Australian exporters to certain regions felt with Austrade's assistance:

Table 2.1 Austrade's performance by region

Northeast Asia	Southeast Asia	Europe	South Pacific	United States
85%	82%	80%	80%	77%

Source Transcript⁵

- 2.22 Performance measurement at post was seen as an issue related to overall performance. The Committee asked how Austrade measured the performance of its senior staff - an issue which led to an investigation of the performance incentives in the remuneration structure of Austrade.

- 2.23 In response to the Committee's question on whether or not in the last 12 months, any Austrade staff have had their employment terminated because they did not perform according to Austrade's objective measures, Austrade submitted that:

It has not been necessary for Austrade to terminate the employment of Australia-based staff in the last 12 months due to under performance. Austrade has formal policies and procedures to address instances of under performance in both Australian based and overseas employed staff. The objective of these procedures is to improve performance but where this is not possible, there is provision for the application of suitable sanctions, including termination of employment. Any staff member who receives an unsatisfactory rating is subject to the application of these procedures.

Staff who have received an unsatisfactory rating in the past two years have either voluntarily separated from Austrade or are currently subjected to the application of our procedures.⁶

- 2.24 Concerned that bureaucratic incentives to favourably report Austrade's performance might distort its incentive based pay structure, the Committee asked whether Austrade's pay system had a standard distribution or placed the majority of staff in the top quartile.

⁵ Austrade, Transcript, p 7.

⁶ Austrade, Exhibit 3, question 10.

- 2.25 Austrade responded that it does not apply a standard distribution to its annual performance ratings. The rating profile for the organisation (in 2001-02) against a five tier rating scale was as follows:

Table 2.2 Austrade staff performance rating

<i>% of staff</i>	<i>Tier</i>
1.5%	Tier 1
35.1%	Tier 2
56.2%	Tier 3
6.9%	Tier 4
0.4%	Tier 5

Source Exhibit 37

- 2.26 This staff performance rating profile is generally consistent with previous years' results.
- 2.27 The Committee also asked what happened to trade commissioners who were assessed as being in the lowest quartile.

If a trade commissioner received an unsatisfactory performance rating they would be subject to the application of our underperformance policies.

Satisfactory performance, although falling in the bottom quartile, is however an acceptable rating, often encountered in the first assessment period after accepting a new assignment or after promotion to a higher level. Repeated unsatisfactory assessment rating for trade commissioners would generally result in management intervention, in terms of counselling, coaching or training, to assist the employee to improve their performance to a higher level.⁸

Export impact

- 2.28 The second key performance indicator discussed by the Committee was export impact. Austrade was established to contribute to Australia's economic growth through export promotion. Within the seven KPIs two refer to export impact in terms of number of clients, and dollar value. These two dimensions of export impact were touched on repeatedly throughout the discussions.

⁷ Austrade, Exhibit 3, question 10.

⁸ Austrade, Exhibit 3, question 10.

- 2.29 The Austrade Annual Report gives the figure of \$15.35 billion for export impact, after defining the target amount as \$7 billion. The level of variation led to further Committee investigation of this issue.
- 2.30 The Committee focused on the impressive export impact figure of \$15.35 billion. It is broken down in the Annual Report into three categories broadly defined as 'lightly involved', 'medium involved' and 'heavily involved'. The level of involvement indicates what impact exporters believe Austrade assistance has had on their export efforts.
- 2.31 One question from the Committee sought to confirm whether in the aggregate figure of \$15.35 billion, value of goods exported with light Austrade involvement were counted equally with value of goods exported with heavy Austrade involvement. Austrade held that they were.
- 2.32 Acknowledging that assessing Austrade's export impact is inherently difficult, the Committee pointed out that every effort should be made to ensure ambiguity is avoided.
- 2.33 The targeted export impact value figure (\$7 billion) and export impact result (\$15.35 billion) was raised again in this light. Austrade representatives were asked how export impact target figures were set. The Committee enquired further and established that the previous year's target export impact value was \$5.3 billion and the result was \$9.3 billion. The preceding year's result was \$7.4 billion.
- 2.34 Austrade explained that setting targets was inherently difficult because of the nature of trade. It was quite common that some years had exceptionally large amounts exported, especially in wheat, which distorted the figures, making rigid targets unreliable indicators.
- 2.35 Such year to year fluctuations were normal and flowed from the large range of variables involved, all of which were out of Austrade's control.
- 2.36 The Committee was satisfied with this response.

Other Issues

Overlap of state export promotion agencies and Austrade

- 2.37 Although international trade is constitutionally a federal government preserve, most Australian states do have trade promotion agencies in various institutional forms and various overseas locations.

- 2.38 The Committee's main concern with this situation was that such duplication of services might not be worthwhile. If their work was complementary, then such duplication of agencies would be acceptable. If they are competing for the same clients, then the duplication would clearly be wasteful.
- 2.39 The Committee drew further attention to the point that this sort of competition between states and the Commonwealth was as potentially wasteful as bidding wars between states trying to attract inward investment.
- 2.40 In response to these concerns Austrade made two points. They were aware of the dangers of trade promotion competition and accordingly were making ongoing efforts to bring state agencies into a national strategy under the stewardship of Austrade. This is intended to have the effect of promoting cooperation between agencies rather than competition.
- 2.41 Secondly Austrade described the current objective of doubling the number of Australian exporters. Its job in striving to reach this objective is to engage with as many 'allies' as possible. These allies tend to be state trade promotion organisations.
- 2.42 The apparent tension between avoiding overlap of services, and engaging heavily with state trade promotion allies, was accepted as an ongoing challenge. The Committee was satisfied with Austrade's efforts to address this challenge through the 'national trade consultation' process.

Department of Foreign Affairs and Trade

Background

- 2.43 The two areas of interest in the Annual Report of the Department of Foreign Affairs Defence and Trade were:
- Trade development through the Market Development Group
 - Trade policy coordination and business liaison

- 2.44 The Department's representative provided a wide-ranging and substantial explanation of the Department's efforts in these areas at the start of the hearing. Accordingly this section will start each part with a summary of DFAT's initial presentation, followed by ensuing discussion. Some extra issues flowing from proceedings will be discussed at the end of this section.

Trade development through the Market Development Group

- 2.45 The Market Development Group (MDG) is supported by a secretariat in the Trade Development Division of DFAT. It coordinates the efforts of a number of portfolios and agencies on Australia's bilateral market access and market development priorities. The MDG focuses on high-priority, short-term opportunities identified in consultation with business.
- 2.46 The MDG has the participation of a range of portfolios including Austrade; the Department of Industry, Tourism and Resources; the Department of Communications, Information Technology and the Arts; the National Office for the Information Economy; the Department of Agriculture, Fisheries and Forestry; and the Department of Education, Science and Training.
- 2.47 The forerunner of the MDG, the Market Development Task Force (MDTF), was set up in 1996. It was internally reviewed in 1999 and 2001. The latter review resulted in several enhancements including the name change.
- 2.48 The criteria against which MDG sets its priorities are the following:
- Whether or not additional focus and coordination by the MDG contributes to practical outcomes
 - Whether activities contribute to the government's goal of doubling Australian exporters by 2006
 - Whether activities 'offer reasonable prospects of return' within 12 (and sometimes 24) months
 - Whether efforts have a minimum return of \$5 million or have an important symbolic value
 - Whether efforts match genuine industry priorities
 - Whether or not they are expressed in terms of clear outputs and outcomes.

- 2.49 More broadly in its activities, the MDG selects ten priority Asian and ten priority non-Asian markets.
- 2.50 Since 1996 the MDG (and MDTF) has contributed either directly or indirectly to the export success of some 202 priority initiatives, to an estimated value of \$3.04 billion.

Structural issues in the MDG

- 2.51 The Committee initially focused its discussion on the reason the MDG was so named and structured. The Committee was interested in examples of MDG work and what outcomes came from the MDG processes.
- 2.52 DFAT responded by describing the aims of the MDG, in the following terms:
- The aim of the program is basically to keep the bureaucracy focused on some important priorities. Having a review process applies pressure to posts, it applies pressure to desks to make sure they are maintaining their efforts on a particular project which has been identified as worthwhile. It provides as I said, coordination across portfolios...⁹
- 2.53 Of interest also were the reasons for changing the MDTF to the MDG. Further, the Committee was interested in who conducted the review which prompted the changes.
- 2.54 DFAT confirmed that the review which prompted the structural change was internal, though the full range of relevant departments were consulted.
- 2.55 In terms of structural changes DFAT explained that the MDTF worked at the secretary and deputy secretary level only. The MDG split responsibilities into two levels: one working at the secretary and deputy secretary level, focusing on macro and strategic issues; and a second group taking input from lower levels of the organisation, providing a more 'hands-on' perspective on the relevant issues.
- 2.56 Another change was extending the period for requisite outcomes from 12 months to 24 months. This allows the MDG more flexibility in its trade development efforts.

9 DFAT, Transcript, p 30

- 2.57 Greater MDG consultation with industry was another aim of the review process which led to the change to the MDG. DFAT explained the processes in place to formally and informally consult with industry.

Trade policy coordination and business liaison

- 2.58 DFAT's initial presentation stated that trade policy coordination takes place across almost all parts of DFAT. The Trade Development Division of DFAT is tasked with the coordination of the provision of advice to ministers on the implications for Australia of global and regional trade and economic issues. This includes formulating and coordinating departmental advice to ministers on Australian trade performance.
- 2.59 The Trade Development Division also represents the Department's participation in the International Economic Policy Group (IEPG). The IEPG is a high-level interdepartmental group which reviews economic and trade policy issues and includes representatives from the Department of Prime Minister and Cabinet (PM&C), DFAT, Treasury, the Reserve Bank of Australia (RBA), the Office of National Assessments (ONA) and Australia's Agency for International Development (AusAID).
- 2.60 The Trade Development Division was established in 1999 in the wake of the Asian financial crisis and it contributes to policy debate on topical international economic issues and coordinates policy responses among key participating departments.
- 2.61 The broad scope of DFAT work means that many divisions of the Department promote outreach activities. They conduct consultations with business and industry, state and territory governments, NGOs and community groups in all aspects of the government's trade policy agenda. This includes Doha Round World Trade Organisation (WTO) negotiations and other free trade agreements (FTAs).
- 2.62 With regard to FTAs, DFAT has sought public submissions on the FTA negotiations with Singapore, Thailand and the United States. It has also sought views on these documents from state and territory governments; and companies, industries and organisations whose interests may be affected. The input has been used in developing Australia's negotiating position. The Department is also undertaking a process of consultation in developing proposals for new bilateral trade and economic agreements with Japan and China.

- 2.63 The Trade Development Division also provides a free online information service entitled TradeWatch. TradeWatch provides Australian business with current information about trade and investment issues, and the Australian government trade efforts. These activities comprise the Department's trade advocacy and outreach programs.
- 2.64 As part of the Department's overall business liaison program the Trade Development Division manages two consultative processes for the Minister for Trade:
- The Trade Policy Advisory Council
 - The National Trade Consultations
- 2.65 The Trade Policy Advisory Council (TPAC) provides advice to the Minister for Trade on issues of trade, business development and investment issues. It comprises 14 senior business representatives from small, medium and large enterprises involved in different areas of activity, including: exporting services, manufactures, agricultural products and minerals. Members of the TPAC are appointed in a personal capacity and membership is reviewed every two years. Secretaries of the following departments are ex-officio members of the council: DFAT; Department of Agriculture, Fisheries and Forestry; Department of Industry, Tourism and Resources; and the managing directors of Austrade and the Export Finance and Insurance Corporation (EFIC).
- 2.66 The National Trade Consultations meet at ministerial and official levels. At the ministerial level, they provide for cooperation on trade and investment issues between the Commonwealth, state and territory governments on at least an annual basis. The Minister for Trade chairs the meeting, with the participation of his state and territory counterparts, and discussion focuses on significant trade policy issues and opportunities for practical cooperation between the Commonwealth and the states on trade and investment issues.
- 2.67 There are two other elements to the National Trade Consultations process. The first is an inter-sessional meeting usually held twice a year. It involves senior federal, state and territory officials, representatives of major industry associations and the Australian Council of Trade Unions (ACTU). The second is a series of meetings between heads of key industry associations and members of the senior executive of DFAT.

Performance indicators

- 2.68 The Committee questioned DFAT on key performance indicators in relation to trade policy coordination.
- 2.69 DFAT responded that although individual senior executive staff employment contracts had performance measures, the Trade Development Division as a whole did not report using performance measures.
- 2.70 DFAT referred the Committee to page 97 of the Annual Report. It details three 'quality indicators' and ten 'quantity indicators'. They represent an assessment, in conjunction with the table on page 99, of DFAT's efforts in delivering Output 1.1 (see p 30).¹⁰

Government coordination in trade policy

- 2.71 In response to questions on trade policy coordination, DFAT claimed that when preparing to negotiate a bilateral free trade agreement or particular aspects of the Doha Round of WTO negotiations, their interdepartmental Committees represented the 'whole of Australian government' very effectively compared to many other developed nations.
- 2.72 These claims prompted questions on the preparations the Trade Development Division was undertaking for the Doha Round.
- 2.73 The response to this question was given as follows:

We will be doing three principal things...We will [provide] analytical services to [the Office of Trade Negotiations] on particular issues arising in the round. We have a cadre of economists and trade analysts who can crunch an issue and give administrators advice on what the various outcomes might mean for Australia...The second area is that we have an outreach group which basically tries to put trade messages into language that most Australians can understand and relate to...The third [thing is for this] division to drive a message about the Round and what the Round currently needs, giving it political impetus.¹¹

10 Department of Foreign Affairs and Trade, Annual Report, 2001-02.

11 DFAT, Transcript, p 41.

- 2.74 The Committee followed up with specific questions on the availability of public information on the proposed Australia-Thailand FTA, reflecting questions on WTO negotiation 'requests'. The DFAT respondent indicated that there was a copy of the economic modelling commissioned to analyse the benefits of such an FTA, available on the DFAT website.

Other issues

Transparency of WTO negotiation 'requests'

- 2.75 The issue of WTO negotiation 'requests' was canvassed. Requests are the means by which WTO members negotiate issues in particular WTO negotiation rounds. Member nations may make a number of requests of other members. These requests then form the basis of negotiations between those particular member nations. The activity in focus here was the fact that these requests can, according to WTO rules, be kept confidential. For example, in negotiating with Australia, Germany could ask that its 'requests' be restricted or vice versa. The requestee is obliged to comply.
- 2.76 The Committee was concerned that such 'restricted' negotiations were taking place without public scrutiny.
- 2.77 The 'confidentiality protocol' was explained by DFAT in the following terms:

It is a protocol that applies across the board to documents that are provided by WTO members. It could be on any issue; it could be on NTBs [non tariff barriers]. The problem is that if we start picking and choosing which countries the protocol will apply to, then there is not protocol. The nature of the information that is provided will also change, because, if countries feel that documents cannot be treated in a particular way, they will change what is in the documents. It is not something that is entirely within our control.¹²

12 DFAT, Transcript, p 37

Bilateral trade agreements

- 2.78 The Committee was also interested in the value of pursuing bilateral trade concessions in the light of the WTO multilateral negotiation rounds. The question has been asked as to why single countries would bother negotiating with Australia when they were negotiating already in the WTO round.
- 2.79 DFAT assured the Committee that, considering the complex and multifaceted nature of trade protection and the WTO, there was and would likely continue to be non-tariff barriers worthy of addressing in bilateral agreements.
- 2.80 An example offered to the Committee was an effort to change Brazilian quarantine rules for Australian imports. DFAT invited a group of Brazilian quarantine officials to Australia for discussions on the issue. The talks resulted in the Brazilian government approving a series of dairy exports to Brazil, an outcome of immediate advantage to both sides.