



COMMONWEALTH OF AUSTRALIA

## Official Committee Hansard

# HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON ECONOMICS, FINANCE AND  
PUBLIC ADMINISTRATION

**Reference: Current and future directions of Australia's service industries**

WEDNESDAY, 14 MARCH 2007

SYDNEY

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**HOUSE OF REPRESENTATIVES**  
**STANDING COMMITTEE ON ECONOMICS, FINANCE AND PUBLIC ADMINISTRATION**  
**Wednesday, 14 March 2007**

**Members:** Mr Baird (*Chair*), Dr Emerson (*Deputy Chair*), Ms Bird, Mr Ciobo, Ms Grierson, Mr Keenan, Mr McArthur, Mr Secker, Mr Somlyay and Mr Tanner

**Members in attendance:** Mr Baird, Ms Bird, Dr Emerson, Ms Grierson, Mr Keenan and Mr Secker

**Terms of reference for the inquiry:**

To inquire into and report on:

Where the service export sector now sits in Australia's export (and import competing) environment, focusing on, but not limited to:

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

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**Committee met at 9.31 am****FITZGERALD, Dr Vincent William John, President, Australian Services Roundtable****RICHARDSON, Mr Peter John, Vice President, Australian Services Roundtable**

**CHAIR (Mr Baird)**—This is the House of Representatives Standing Committee on Economics, Finance and Public Administration. Today's hearing is for the inquiry into the current and future directions of Australia's service export industries. The inquiry was referred by the Treasurer, the Hon. Peter Costello, on 3 May 2006. To date the committee has received 52 submissions, copies of which are available on the committee's website. While Australia is currently enjoying the riches of the much publicised resources boom, the eventual stabilisation of commodity prices will change the complexion of the economy. The committee is therefore currently investigating the state of two of our other dominant trade sectors: manufacturing and services. Today's hearing focuses on the role service exports may play in sustaining Australia's economic growth when the resources boom subsides.

We will be hearing from representatives of the Australian Services Roundtable, the Australian Industry Group, Service Skills Australia, Access Australia and the Australian Council for Private Education and Training. I welcome representatives of the Australian Services Roundtable to today's hearing. We have received from you a written submission to this inquiry. I wonder whether you would like to make an opening statement and we will then proceed to questions.

**Dr FitzGerald**—Thank you very much. I should start by saying a little about what the Australian Services Roundtable is. The roundtable has something approaching 80 members. If you look at the back of our submission—and you do not need to do that now—you will notice that about 40 per cent of the members are industry associations representing a segment of the broad services sector. One aspect of the services sector that stands out is its sheer diversity because it is, after all, the elephant in the room—the biggest part by far of the Australian economy. The Australian Services Roundtable also has a number of public sector agencies as members, including two departments of state. Both of them, however, are state level departments: the Department of Innovation, Industry and Regional Development in Victoria and the South Australian Department of Trade and Economic Development.

One of the issues that I might return to later is the fact that there is no single focus in the federal government at the departmental level on the service sector. The only department that looks at the service sector as a whole in a systematic way is the Department of Foreign Affairs and Trade. I have to say, though, that we do not duplicate what individual industry associations that work on particular segments of the service sector do; we tend to concentrate on sector-wide issues, and trade negotiation is an obvious one of those. So it is natural to have the Department of Foreign Affairs and Trade as a regular interlocutor, if you like, but it is not terribly long ago that we also had the industry department taking an interest in the sector as a whole and issues to do with it.

In fact, I first became associated with a precursor of the roundtable—namely, the Australian Coalition of Service Industries, which was founded back in the early 1990s. One of the very useful things that was done in partnership with government at that stage was the joint funding by industry and government on a fifty-fifty basis of a series of research papers on the service sector

which did a great deal at the time to map the sector and the various things that it did and discuss some of the emerging trends like, at that stage, the advent of IT, multimedia and things that that would open up and it looked at some of the export activities. So, apart from government and the absence of at least a department as such as a member at the Commonwealth level, you can see that the spread of firms that are members cover a very wide range of activities. There is certainly strong representation from the professions.

I am a consultant and an economist by original training and John is an architect. There are architecture firms, engineering firms, standards and quality assurance firms, law firms—represented by Andrew behind us—and so on. You can see those. We have Qantas as a member, which is a very major player in travel. We have firms in things like home services, trade and environment solutions and financial services, of course. There are people in design in its various aspects right across the service sector. So the activities of the group focus on trade particularly at the moment, but we get into domestic regulation and other things that impede our ability to do business. That is who we are.

**CHAIR**—That is fine. I suppose what we want to get at is not so much how big the services sector is, because we certainly are aware of that.

**Dr FitzGerald**—Yes.

**CHAIR**—We are also able to draw on government statistics in relation to that. What we want to get at is your perspective on what the impediments are to the services sector in relation to growth and export trade. In making our recommendations to government we want to see a strong economy, not only in the resources sector but also in manufacturing and services. What factors should we be highlighting in our report?

**Dr FitzGerald**—I would be very happy to talk about those things momentarily. I think it is useful just to say a word quickly. You mentioned statistics and so forth. The fact is that, despite being such a large part of the economy, and I will not repeat the statistics—

**CHAIR**—It is very well set out.

**Dr FitzGerald**—It is very well set out. But one of the things you will notice is that the standard industry classification that is used in national account statistics and the like dates from an antediluvian era when many of the service activities that we see now did not exist. You get a much more modern picture of the different activities within the sector if you look at the list of service sector activities which are recognised in the General Agreement on Trade in Services.

**CHAIR**—Is it on page 5?

**Dr FitzGerald**—Yes, it is on page 5 in the General Agreement on Trade in Services in the WTO. There are things that were not conceived of when the other industry classification was nailed down—things like audiovisual services, information technology and computer services, as distinct activities, and the notorious one is tourism. Tourism was not recognised as an industry in the standard industry classification.

**CHAIR**—That is right.

**Dr FitzGerald**—Yet everyone knows what tourism is, so it is an important issue, we think, to have better information on the service sector as it really is, not trying to force fit-it into that old—

**CHAIR**—I suppose it cuts both ways, because the tourism industry always like to have a broad sweep, so they want to put all restaurant and catering in there. There is no doubt that a big component is related to tourism, but quite a lot is not. It is always the way you define it. But, traditionally, ABS statistics have not recognised the significance of some of the newer industries, particularly tourism. I know that was always one of the complaints.

**Dr FitzGerald**—Yes. Anyway, we do think that getting better information and research, which used to be funded until the services branch—it was called, I think, ‘emerging industries and services’ in its last manifestation—was folded up five or six years ago. Surveys are being done by the ABS that focus on activities as now understood, but it is a very slow cycle of work and it is focusing on some areas which you would not have at the top of your list if you were looking at export potential. So that is an issue—even though that does not directly answering your question, which I will come to.

Just before I leave the subject, the other thing worth mentioning is that the way the bureau measures exports completely leaves out two of the major modes—namely, commercial presence. In other words, when an architecture firm, or even a consulting firm a little larger than ours—we do not have any offshore offices yet, although we do work offshore—is getting enough work in China, for example, to set up an office there and you somehow get around the regulations, hire some local Chinese architects and sell your services in China, that is so-called mode 3. That is not picked up at all and it is quite large. The law firms, many of the professional services firms—and not just those but others right across the sector—carry out much of their activity offshore in that mode. That is recognised in the WTO negotiations as a form of trade but not in the national count. The other one is mode 4, which is where you go offshore and do some work and you are paid offshore and come home. That is not picked up either. In fact, not even all of mode 2, which is the tourism and exports, is picked up. When a Chinese student flies in here, that is picked up and, when they pay their fees at the university, I think that is picked up. When they go down to the local McDonald’s and buy a hamburger, that is not picked up as an export, even though it is economic for us.

**CHAIR**—That still comes back to the tourism argument we had before.

**Dr FitzGerald**—That is right.

**CHAIR**—You have to decide on an arbitrary basis what percentage is related to that.

**Dr FitzGerald**—Yes, but my point is that we really ought to remember that services are different from goods in this movement offshore in particular. Forget the arguments about how much of the restaurant business is tourism, and ditto selling stuff to foreign students. But there is still quite a big issue in counting, as is done for trade negotiations purposes, the two modes, which are really the major modes in which our sector of services sells its services—that is, commercial presence and going there to do a piece of work and coming back again—and those are not picked up. So, really, if there is a focus on promoting export of services, we at least should be trying to do more in capturing information in those modes.

**Ms BIRD**—The commercial presence would be very important in education.

**Dr FitzGerald**—Yes, absolutely.

**Ms BIRD**—Because most of the universities are now establishing a presence.

**Dr FitzGerald**—Something like 100,000 students are now being educated—the figures are probably out of date now—with the likes of Monash and other major education providers not only bringing students in but also establishing campuses offshore. I think something like 100,000 students are being educated offshore. That is part of our export of education services as understood for trade purposes.

**CHAIR**—I was listening to your key recommendation to look at our national accounts and the way in which the classification is made.

**Dr FitzGerald**—We probably cannot do much about that, but with regard to the work that the ABS has been doing slowly to look at activities as they are commercially understood by survey methods, we certainly think it is worth investing more into that to do it more quickly and with a bit more of a sense of what the priorities are, rather than starting with fairly low—

**Mr SECKER**—You are saying that it is hard to measure; I think it is on page 8 of your submission. How do we get over that problem? If you cannot measure it, it is pretty hard to put into accounts, isn't it?

**Dr FitzGerald**—It is hard to measure things like the indirect benefit to Australia of foreign students when they spend money within Australia, but it is not difficult to measure by survey methods. It is no more difficult than some other things that are measured to poll all the Australian services firms that have offshore offices and get statistics on the revenue they generate in those offices, the employment in them—how much is expats, how much is Australians, whatever you want to know.

**Mr SECKER**—You can measure that if they have an overseas office, but if they have not and they are doing work such as the work you gave as an example, where you go overseas and work, how do you measure that?

**Dr FitzGerald**—Again by survey methods.

**Mr SECKER**—So you think we should be putting more money into surveys to get a better idea of where it is working?

**Dr FitzGerald**—There is a program of such surveys. We are saying that we do need more information on that—to pick up that part of our service export activity that is not being measured now.

**CHAIR**—Do you think you get enough assistance from Austrade? The services sector was set up originally for the agricultural and manufacturing sectors. Now that the situation has changed I wonder to what degree Austrade has changed with the change in the economy.

**Mr Richardson**—Perhaps I could answer that question. I think that Austrade is of limited value to most of the professional services. Our problem working overseas—and we would be doing about a quarter of our business offshore at the moment—

**CHAIR**—Are you accounting or legal?

**Mr Richardson**—Architecture, so we are a tiny part of it. In fact, architecture is a little distorting because it is so deregulated, but I will come to that in a moment.

**CHAIR**—Where do you have offices?

**Mr Richardson**—We have offices in the Middle East and in China, but we are also working in Singapore and Malaysia. Perhaps I should just make a comment about it. I spoke at a conference that DFAT organised last year for the free trade agreement in China, and I tried to articulate what were the issues for Australian architects in China. Like all these things in services, it is incredibly difficult to do. All people and services are focused on what they are doing, not the broader picture, which is probably typical of everything, but it is a serious issue. If you asked my 20 partners what their problem was in Dubai they would just say, ‘We are not getting paid quickly enough’, but they have not actually analysed what all the other issues might be.

**CHAIR**—It is normally the government they used to blame.

**Mr Richardson**—If you take just us as an example in China, if you talk to the Chinese about it, as I said, we have a totally deregulated situation. As far as I know, the only requirement in Australia to use an architect on a building is in New South Wales to design an apartment building. There is no requirement for an architect to design a building in Australia. So we have a totally deregulated situation in terms of whoever wants to come to Australia to work. Indeed, we have a situation where some governments encourage the use of international architects in Australia. If you go to China, for example, they have a fixed fee regime which they try to apply. Now, of course, that is a disaster for a foreign consultant working at our rates on their construction values. So that is a very difficult issue. How do you get the Chinese to change their whole regulatory system to not have fixed fees but to have a totally deregulated system?

So until the Chinese have a deregulated system it will be quite difficult for us to have any sort of notion of a free trade arrangement with them with respect to architectural services. They also have a whole lot of rules, a host of rules, most of which we do not understand and most of which they do not apply. But I suspect that they would apply them when they felt like it. In other words, they are a sort of concealed thing. If they want to bring the stick out to beat you, I am sure that in the longer term they can. They have regulations about how you can operate in China, how long you have to reside there and that sort of thing—we have none of that here—and they have very limited protection for intellectual property. In fact, I worked with the Cox group. There is a Cox firm, which has got nothing to do with us, operating in Shanghai.

**CHAIR**—Is that right?

**Mr Richardson**—Yes. There is also a Woodhead firm, the name of another major practice in Australia, operating in China which has nothing to do with Woodhead. There are always the

difficulties of repatriating funds from China because they do not have a floating currency. You cannot cash in those being here in Sydney, so you have to go through a process to repatriate the funds. Those are just some of the sorts of issues that we have to deal with day to day in providing our services offshore.

**CHAIR**—It is interesting.

**Mr Richardson**—I think some of those things apply to foreign architects working in Australia, but most of them do not.

**CHAIR**—Do you think we can fix that through an effective free trade agreement or is it all too hard?

**Mr Richardson**—I think it highlights to me the difficulty, and this is not necessarily a roundtable position. That is why we need a lot more focus and research on how to resolve these issues and what the services sector actually is. If you look at all the things that I have talked about, you see that there is no way in the world that a free trade agreement will help us repatriate funds. The free trade agreement is not going to float the Chinese currency.

**CHAIR**—No.

**Mr Richardson**—The free trade agreement is not going to change all of the architectural regulatory business in China, just as I suspect we would not change ours for the Chinese. So I find it very difficult, in reality, to see how that free trade agreement would help us. But that may be different for the lawyers, it may be different for the accountants, it may be different for the builders and it may be different for all the other people who are operating in that world.

**CHAIR**—Effectively, we are looking at how we can improve the situation and that is where you have to help us to work through that area.

**Dr FitzGerald**—If I could give a slightly more optimistic view, first of all, as is pretty obvious, the barriers to exporting our services are not at the border; they are regulatory. The one exception that we encounter, for example, in Japan is the difficulty of getting sensible visas that allow you to do business there for any length of time without going through the whole rigmarole again. That is an issue with a number of countries, and Japan notoriously. I would have thought that that was the sort of issue where it is possible to make progress in a bilateral negotiation, as we are in the early stages with Japan.

On the other hand, things like domestic building regulations obviously are too remote from trade negotiations—they are in a different ministry and everything else—to have much hope of doing anything about them. But there are regulatory barriers that are susceptible to some progress through trade negotiations with a lot of effort. For example, in professions other than our two, consultancy is even more deregulated, in both countries, here in China than architecture. The main difficulty is getting paid, not domestic building regulations and the like.

**Mr Richardson**—There are tax arrangements that could help that within Australia. If the tax situation recognised that these things take longer, that would be of great assistance to most professionals.

**CHAIR**—What is the average time that it takes to get it back?

**Mr Richardson**—Nine months maybe.

**CHAIR**—Really? Is that the norm?

**Mr Richardson**—It can be, yes.

**CHAIR**—What is the norm here for architectural services?

**Mr Richardson**—Three at most; sometimes later, but rarely.

**Mr SECKER**—What is the problem with the tax system?

**Mr Richardson**—It is simply that you are paying your tax on money that you have not received.

**Mr SECKER**—Why would you when it has not come through your books?

**Mr Richardson**—Yes, it does

**Dr FitzGerald**—It is due and payable.

**Mr Richardson**—We work in an accrual situation rather than a cash situation. Consequently it is quite a burden, or it can be quite a burden.

**Mr SECKER**—You cannot go cash because of the size of your business?

**Mr Richardson**—If you are owed \$5 million for a big project in Dubai and it is on your books then you are paying your tax quarterly on the assumption that that money is going to come through.

**Mr SECKER**—So what is stopping you from being on a cash system is the size of your business?

**Mr Richardson**—Yes.

**Mr SECKER**—Because we have limits. Is it \$5 million annually?

**Mr Richardson**—Yes.

**Mr SECKER**—And then you have to be accrual?

**Dr FitzGerald**—We are a bit above that.

**Mr SECKER**—I suspect that you are way above that.

**CHAIR**—I think that is an interesting point.

**Ms BIRD**—I would like to ask a few questions arising from my reading of your submission. I thank you for the submission first of all. One of my gripes in this process has been the fact that I really do not think many of our major organisations have come to terms with the services industry. The other week we heard from ACCI. They had a 14-page submission on the service industry and a 43-page submission on the manufacturing industry. I think that sort of reflects where we are at in this country, and I do not think that that is sustainable. Whereas I found your submission extraordinarily useful in giving us a picture of where the services industry was. So I thank you for that. I just want to ask two small questions arising from your membership which is of interest to me. You have a significant presence in South Australia.

**Mr Richardson**—Yes. South Australia is one of those state governments that takes services as an industry, and particularly as an export industry, quite seriously. We have a program that we participate in with them. You can read more about that in this little brochure, which I will give you if you like, called *Exporting South Australian Services*. There is a steering group for services exports on which our executive director, Ms Jane Drake-Brockman, sits. By the way, much of the credit for the submission, if not nearly all of it, is due to her. She has had a detached retina operation and barely has any vision back so she had to be excused today. She is a member of that steering group, as is Andrew Stoler, another director of the roundtable and also a director of a thing called the Institute of Trade in Adelaide. So there is a very active partnership between that state government and service sector representatives to promote exports. There are some nice little case studies in this brochure of South Australian based firms that have done well in services overseas.

**Ms BIRD**—So that reflects the fact that the South Australian state government are quite aggressively pursuing the services sector?

**Mr Richardson**—Yes.

**Mr SECKER**—They started this some nine or 10 years ago.

**Mr Richardson**—To a lesser extent some of the other states, like Victoria—which, by the way, is the other state where there is a state government department among our membership—are doing similar things. But I guess the South Australians have a clearer focus than even the Victorians. My home state is Victoria and they are doing a pretty good job. Getting back to your question about Austrade, some of the Austrade programs are useful for smaller services firms.

One of the remarkable things is that while most firms counted as individual firms in Australia are in the services sector—80 per cent or something thereabout of all firms in Australia—only a few per cent of those are involved in exports because most of those 500,000 or 600,000 firms are really very small firms and they are very localised. So of the 23 per cent or thereabouts of exports that is services, obviously that three per cent who are doing that exporting is the big end of town in the services sector.

Austrade is particularly helpful to that long tail of potential exporters who are not yet involved in export, the other 90 per cent of smaller firms. For example, there is one activity that my own firm has been involved in. We have been working to generate interest around the Asia-Pacific

region in best practice infrastructure regulation, which is part of our own consulting practice, and running forums for regulators in places like China, India and Indonesia, who are potential customers not only of our firm but also of some of the law firms and others who are part of that activity. We have had assistance from both state governments and Austrade in some of that exploratory activity. So the assistance given to the service sector through Austrade is not to be sneezed at, although traditionally it was goods exports that it was very focused on. Certainly, you can always improve things and lift the focus of services there, but it is not that they are not doing anything. It is partly the fact that much of the services sector at the small end is not as focused on exports as goods firms are.

**Ms BIRD**—I had an interesting example in my local area of a little boat hire business called Boab Boat Hire. It has just five guys, but they have an internet presence. They were suddenly targeted by China, which wanted them to locate offshore to do the boat hire business, or even to have a base here. These five poor guys just went, ‘Whoa!’ It was like this giant suddenly turned around and said, ‘I am interested in you.’ I have to say that Austrade was very helpful to them. I can see the sort of example that you mean because it is a huge market. The five guys were saying, ‘We want to be successful, but this is a quantum leap, not a progressive one.’

**Mr Richardson**—The example that you have just given is a very good one because one of the developments in the world that has made that long tail of small services firms potentially exporters is IT, the internet. There is an enormous amount of mode 1. The advertising of your services is now not just to interstate or within your state audiences. You have B&Bs that are bringing in people from New Zealand and further afield through their internet presence. That is only a short step, as in the case of your boat hire firm, from thinking about doing it somewhere else. So the conditions are there, with the internet in particular. The uptake of that in the last few years has been very rapid.

**Ms BIRD**—That leads me to my next question. I understand that our internet provision in Australia is very slow, particularly compared to some countries like Malaysia and so on. Do your members make any comment on our telecommunications infrastructure and whether that is creating some challenges for them?

**Mr Richardson**—To a degree, but it is a bit out of my area of expertise. I can only torment people with emails.

**Dr FitzGerald**—Most of our members are based in the major cities. Even though our broadband speeds are not best practice yet—and, by the way, Telstra is not a member but it works with us on some things and some of the other telecommunications providers; I am not sure whether we have many among our membership—but it is not a top issue. It is on the list.

**Mr Richardson**—I do not think there is any doubt that the challenge for Australia is that a place like China is building completely brand new infrastructure in its new cities. We have nothing like it and we see no possibility of it. In fact, without starting to build some of our cities again, I am not sure how we would catch up. On the issue of assistance, one of the complications when you are working offshore is getting advice about the environment you are now working in. If you go to one of the big accountancy firms, they tend to send you to the place rather than have the advice here. So, if you are working in Singapore and you are working with someone, they

will tend to suggest you get your advice in Singapore. Of course, what you actually want is the advice here about how to operate and so forth, not about how to operate in Singapore.

**CHAIR**—Maybe that is the type of thing that Austrade could assist with?

**Mr Richardson**—Correct. In my opinion it would be very helpful for smaller business to have some guidance about the jurisdictions they are going into from an Australian perspective. Otherwise, you go to one of the big firms and they are fine and they are doing the job, but they are not quite focused on the thing that I am talking about. That is a really interesting problem.

**Ms BIRD**—Just to follow up on that, I found an interesting example. I wanted a publication put out in my region of people based in my region trading overseas so that if somebody else gets a contact saying, ‘We want you to come to Malaysia,’ they know local businesses who are trading in Malaysia and could go and talk to them and ask: ‘What was your experience?’ and so on and so forth. There is nothing in federal government funding programs that supports that sort of network at a regional level.

**Mr Richardson**—That transfer of knowledge.

**Ms BIRD**—I think that sort of communication is really important. This is my last question to you. The other thing I noticed missing to some extent is medical services.

**Dr FitzGerald**—I am sure we have somebody in health services.

**Ms BIRD**—I am wondering whether it reflects that the industry is not doing that yet.

**Dr FitzGerald**—I recall when back in the mid-1990s the Australian Coalition of Service Industries was carrying out a research program. We produced a series of something like 15 or 16 papers. One of them was on medical services and even at that time there were people doing things. There are some services that you can easily do. For example, my son is a radiologist and he is also a bit of a computer nerd—it goes together, I suppose. He bought himself a very high resolution monitor to use at home and, given sufficient bandwidth, he can have the hospital transmit the image and he displays it in high resolution on his home computer rather than having to hop out of bed, get in his car, drive out to the west and see it on a screen there. If you can do that across suburbs, you can do it across continents.

There are obviously other kinds of medical services that can be carried out over quality communications. Video conferencing technology, if it is of high quality—so that the experience of interaction, asking questions and picking up the body language and so on can be rich enough—is obviously something that can be done over distance. In health and education particularly, there is less sensitivity about trade in post-secondary education. To some extent, there is a business in educating kids at school, but there would not be a country that does not have reservations about how far they are prepared to allow foreign participation in the delivery of those services, and health is very much the same. So, in trade negotiation terms, if we are looking for access to, say, medical services in Asia, are we prepared to have Filipino nurses come and work here?

**CHAIR**—We do.

**Dr FitzGerald**—The answer is: we do. But modes 3 and 4 in those areas are very sensitive, obviously, and that limits how we can reciprocate in trade negotiations. But certainly there is plenty of potential for the delivery of those services.

**CHAIR**—There is potential. My friend and colleague Mr Secker is about to ask questions, but in places like Dubai, where they are setting up a major medical centre for the Middle East, we have Australian doctors and Australian medical experts there. We also have the other issue of people coming out here for medical treatment. So I think it is quite an interesting area. Perhaps at some stage it might be good to have the AMA talk to us.

**Mr SECKER**—We have been concentrating on trade issues, which are all very important but they will be harder to fix by our government and our committee. I want to come to what we can do locally. I noticed in your submission, firstly, that you would like a parliamentary secretary for your industry. I would like you to enlarge on that. Why stop at a parliamentary secretary; why not have a minister? This is a very large sector. You talked about world's best practice regulation, and I note that sometimes a regulation can add costs to the industry. I do not know whether you can find a happy balance for that. Where can we improve in the area of world's best practice in our regulations? Secondly, I refer to skills shortages in your area. Could you address those two key points, given that the suggestion relating to a parliamentary secretary or a minister probably will be supported?

**Dr FitzGerald**—You get a focus on the question of regulatory reform partly by realising the problems we encounter elsewhere in trying to do business. After all, this committee is focused on exports, all regulatory. You say, 'If there are regulatory barriers perhaps we ought to be looking at our own regulation.' It is difficult to generalise given the sheer range of industries that we are involved in. I guess we can only give examples from different sectors, but we certainly welcome the fact that there is an inquiry to look at regulation in business and efforts not just in the Commonwealth domain but also in some of the states to put it under the microscope and make sure that it is efficient and does its job with the least compliance burden and the least restriction on doing business. Peter, do you have some examples of regulatory reform within the engineering sector in Australia?

**Mr Richardson**—The federal system creates an issue obviously, as it does in the United States of America and as it is now starting to appear to do in Europe, if it is going to be Europe. In my opinion, anything we can do to simplify that or indeed to have a standard registration or whatever across the country, we should do. In reality I do not think it has a huge impact. From my professional perspective it does not have a huge impact on the way we practice. The fact that a lot of us are registered in six or seven states is silly but in one sense it does not matter. I suspect that we are a tiny tip of the iceberg with respect to how all that works. As I said, our profession is so deregulated that it does not matter. We have mutual recognition things. If we can have perfectly good mutual recognition things why do we not have the same thing, for example? It is a nonsense really. So that is in relation to the professional side.

**Dr FitzGerald**—Our sector consulting is well below the radar, fortunately; we are not subject to specific regulation and we really do not want to be. I noted some of the people you will be talking to later in the day, like Axiss financial services. There has been a huge increase in regulation in financial services over the last 10 years, with instances like HIF. The fact that so many of us, or nearly all of us, have money in superannuation certainly warrants having

regulation that is effective. But one can question whether the balance between effectiveness and compliance cost is overkill.

**Mr SECKER**—We get that complaint all the time.

**Dr FitzGerald**—If you speak to the mining sector, which, by the way, is a big consumer of services, statistics are quoted in the submission that something like 20c in the dollar of our goods exports is embedded services, and services to mining is quite a big sector. But the process of approvals to go through to develop a new mine, including all the infrastructure support is absolutely unbelievable. If you are talking about impediments to export you have to start with impediments to doing business here. If you have an efficient business environment here you are better placed to do it elsewhere. But it is very hard to generalise. It is good to have an agency like the Productivity Commission doing a comprehensive survey because, from our individual perspectives, it is a bit hard to give you a comprehensive picture since it is not right up there as a burning issue for most of our members in our roundtable discussions, which are mostly focused on regulation over there rather than regulation here.

**Mr SECKER**—And what about the area of skills training and shortages?

**Dr FitzGerald**—Skills training is just a general issue. I do not think the service sector is very much different to other sectors. As you know, there is a raging skills shortage in Australia, particularly in the resource states, and that is dragging skills away from the rest of the country. But, if you go through the major publicly funded service sectors, you will find that health is notoriously and chronically short of all the categories in its workforce—nurses, doctors, paramedics and so on. There are shortages of teachers in parts of the country.

**CHAIR**—Do you want to turn that into a recommendation?

**Dr FitzGerald**—I guess in our submission we simply wanted to add to the view that if you think of this country's comparative advantage it is in moving up the value chain of services, just as in everywhere else, and that puts the focus on what investments we are making in education and training. But that is not specific to our sector; that is a general prescription for Australia's competitiveness.

**Ms BIRD**—I would like to ask a question in relation to that. Do your members make any comments to you about qualifications? I hear a lot from people who have professional university qualifications to which they are not attracted to adding further qualifications because they usually got them under a no-HECS system, and mature persons are looking at doing further university qualifications and not picking up a debt. Do people make that comment to you at all? I get that quite a bit from the professions.

**Mr Richardson**—In my profession it is very hard to know because to work as an architect, apart from calling yourself an architect, you do not have to be an architect. So it is quite a strange sort of situation.

**Ms BIRD**—You really are deregulated.

**Mr Richardson**—We are. As a consequence, the number of people who are actually registered architects across our practice and across Australia would probably be horribly small. It does not stop us from doing our work. But that is just in our profession; it is not necessarily elsewhere.

**Ms BIRD**—To be honest it has been mainly the medical and education areas that I hear it from.

**Dr FitzGerald**—If you focus on the medical area there has always been a tension, as far as I have observed, between the professions. Perhaps there are underlying turf protection issues, but there are genuine issues, for example, of trying to correct the quality of training of surgeons. The surgical colleges are not keen to have expanded numbers of people training.

**CHAIR**—We bring in a lot of health professionals from other countries. In my six-week allocation to the United Nations last year there was quite a big issue about how developed countries were stripping the trained medical workers out of the developing countries and the implications for their situations.

**Mr Richardson**—It is a very fluid situation. We have about 120 people in our Sydney office, and I would say that we have people from at least 20 different countries working in our office. So you get an incredible migration of people in the profession, which is fantastic. But it is not clear to me, and I think some research needs to be done, whether we are producing enough architects, for example, to service our own market. I do not think anybody would have predicted five or six years ago that the 10 major firms would be doing 25 per cent of their work overseas.

**CHAIR**—That is true.

**Mr Richardson**—I do not know. We will find staff wherever we can. It is not in a structured way; we are not big enough to be structured about it.

**Mr SECKER**—It is an interesting profession in that we do not use a lot of architects in Australia compared to other countries. Even for building houses we are way below what other countries are doing. You might be interested to know that I am using an architect for a house I am building.

**Ms BIRD**—You must be rich.

**Mr Richardson**—I hope you are having an excellent experience.

**Mr SECKER**—I am. He is a very good bloke to deal with.

**Mr KEENAN**—I wonder whether you would take up what Mr Secker was talking about so that we can get more information out of you if we can. You explicitly state within your submission that there are substantial areas of microeconomic reform that we need to look at in Australia. I am just trying to get an idea about where those areas are and what you think the government needs to do.

**CHAIR**—That is a very good point.

**Dr FitzGerald**—I guess part of that is that systematic examination of regulation we were talking about before. As I said, it is a bit hard to generalise about that but it is very useful that the Productivity Commission and some other outfits are systematically mapping that space. But if you look at some of the service sector activities that support not just the rest of the service sector but the whole economy, like the infrastructure industries, there is still unfinished business—for example, in electricity markets. You have two major states, New South Wales and Queensland, that have government entities in the market and arguably making the terms of doing business a little less clear-cut for the commercial players in the rest of that market.

Gradually those infrastructure markets are moving forward in getting a well understood marketplace in which people can do business on normal, competitively neutral terms, but there is still more to do. You could go on to telecommunications. We talked before about the impediments, or we talked about the fact that we do not yet have the quality of telecommunications, specifically broadband telecommunications, that even some of the much less developed Asian countries like Korea have.

**Mr KEENAN**—Do you see that as a regulatory failure?

**Dr FitzGerald**—In part it is. The debate between the ACCC and Telstra obviously has something to do with it, but I am not saying that it is a regulatory failure. But obviously the regulatory environment, as Telstra says, is unsatisfactory to it. The other players in that industry also say that it is unsatisfactory to them that Telstra has the position it has.

**Mr KEENAN**—They both have a totally different pursuit, of course.

**Dr FitzGerald**—Having regard to what we were saying earlier about how the fact that the internet and telecommunications are okay in Australia but they are certainly not up with the best, there are industries where that increasingly will be an impediment to being as good as we could be. There are regulatory issues. Basically, microeconomic reform is just a code for moving to better practice regulation that is bound up in that. I do not want to speak off the top of my head too much, but if you look at the whole field of microeconomic reform there is still that unfinished business in the area that competition policy was meant to address, but there is also a recognition that increasingly it has to look at human capital issues, which is not just professional development at the advanced end but also what we are doing about participation in the workforce, particularly by older people as the population ages as a whole.

A series of issues like that are on the COAG agenda. We do not have anything special to say about those but the service sector is by far the largest employer. It is also one of the places where you would expect the gains from improving those things to show up. I checked my car in at the airport this morning at the Qantas valet. I was running late, so I could not use the cheaper car park across the road. One thing you notice there is that that particular employer—the subcontractor I think is Hertz, although it says Qantas—has a policy of hiring older people. There are people aged 45, 50 and 55 who are experienced, mature and have people skills—just the sort of people we like in the service sector. So there is that participation of older people. So there are micro reform issues, like removing impediments to continuing in work, which our sector would probably benefit more from than sectors where you have to be younger and fitter to move goods or something.

**CHAIR**—Like politics?

**Ms BIRD**—Which one do we fall into?

**CHAIR**—At least the younger and fitter.

**Mr KEENAN**—I think you really hit the nail on the head in a sense. If there is one area that we need to look at where we can probably extract more productivity it is in regulation and regulatory burden. The example you referred to earlier about mines seeking dual approvals from state and federal governments and things like that probably is a very good area for this committee to have a look at.

**Mr Richardson**—I heard a tale of woe yesterday which I frankly did not understand, about trying to do something in the energy world in Victoria and getting conflict between different states because different parts were coming from different places. I really did not understand it, but it sounded stupid.

**Mr KEENAN**—Yes.

**Ms GRIERSON**—I am sorry for being late and excuse me if these questions have been covered. Just tell me whether they have been covered and I will not proceed with them. The trade deficit of 2004-05 in the service sector is very puzzling, given the mining and energy boom and knowing how much our consultants in mining and engineering are travelling. Is there any analysis of why that happened or what impacted on that?

**Dr FitzGerald**—Partly it is to do with the fact that I referred to earlier, that a large part of what is really export of services is not picked up—that is, so-called modes 3 and 4. Mode 3 is where you establish your office in China, India, or wherever it is and sell your services through that office. That is not picked up in the statistics.

**Ms GRIERSON**—So it is not counted and that is a trend?

**Dr FitzGerald**—Some people think there could be as much as twice the service exports in that sense that are not counted in the conventional statistics. I have consulted personally overseas and John has done heaps of work overseas. Our firm, which is small, has done some. I do not know whether, when I am working for a few weeks in Thailand and I am paid by the Thai government, slowly, and I pay my hotel bills and all that sort of thing, whether that is picked up. So there is that issue.

**Ms GRIERSON**—Is that an ABS issue?

**CHAIR**—When we have finished this segment we have someone seconded from Treasury who is working with us. We might ask him informally to brief us straight after this session. You might want to stay for his advice on that.

**Mr Richardson**—We will.

**Dr FitzGerald**—The other thing is there are areas of services where traditionally we have a big deficit. There is enormous consumption of cultural and entertainment services which account for a big part of our deficit in services with the United States. I am still puzzled at one figure that is quoted in here as to why we have a significant services deficit with Switzerland, since Swissair has gone out of business and I do not think that it is original enough to bank there, but some are.

**Ms BIRD**—Those that are have big amounts.

**Mr Richardson**—You will probably find that it is our banks that bank there.

**Dr FitzGerald**—Traditionally we imported a lot of insurance services. I think only QBE is a significant player in the reinsurance market in Australia. So much of our reinsurance has to be placed in Northern Hemisphere markets. The other parts of the financial sector we have purchased a lot of services from offshore. Obviously we do not all travel on Qantas. Therefore we pay a lot of carriers, anything from Emirates to Singapore Airlines to JAL to whoever. There is quite a lot of outward tourism from Australia.

**Ms GRIERSON**—Does it at all reflect the impact of overseas companies gobbling up service provision in Australia—there would health services and education services? Does it also reflect an imbalance because of a scaling-up of those external based service providers to the service industry?

**Dr FitzGerald**—The fact that a foreign company comes in here and operates its services does not affect the trade statistics directly, unless it imports services from—

**Ms GRIERSON**—I am talking more about imbalances.

**Dr FitzGerald**—It affects the ownership and who gets the dividends, I suppose, but if they hire Australians and sell the services in Australia or from Australia, it is just the same from the point of view of our trade statistics as if they were Australian, except for the ownership. However, I should make the point that it is very difficult to get developing country people involved in trade negotiations to accept this. Experience and evidence would suggest that, unlike liberalisation of trade in goods, where there typically are significant losers—if you open up textiles in Australia obviously we have to give up making rubber thongs and things like that, and whoever is making them may lose their jobs—liberalising services in developing countries has actually caused an expansion of their services sectors with foreign know-how, technology and money coming in. Even for an advanced country like Australia, it does not have any detrimental effect for our trade performance to have foreign companies.

**Ms GRIERSON**—Are we missing out then on overseas markets because these people are also better at bundling services and marketing them in other countries?

**Mr Richardson**—It depends, doesn't it? For example, I think our engineering firms have been remarkable. I have a horrible feeling that it is terribly sectoral how it works one way or another.

**Dr FitzGerald**—For example, if you have an Australian subsidiary of a foreign financial institution—and I have a bit of knowledge of one of those—there are obviously parts of the globe that they preferred other divisions of their empire to service, although they did allow us to do Asia. It is very hard to generalise. From the point of view of a major global group, it is really the quality of their Australian operations that determines whether they will be given a go to service other parts of the world.

**Ms GRIERSON**—You used the engineering example. I think they stand out in bundling services and giving a holistic approach now to solutions; therefore, their service provision has such depth. I do not think other sectors have even captured the opportunity of bundling together that expertise and having a total service provision for their sector.

**Mr Richardson**—We suspect that but we need to do some research on it. They are having difficulty finding enough engineers to do the work that they are winning.

**Ms GRIERSON**—Absolutely, but a local firm just hired two pure mathematicians. I have never heard of an engineering firm hiring two pure mathematicians. I just see it as a real shift in the way they are delivering their service, which is making them so competitive and so desired overseas. The team will be working on overseas projects as well all the time. I just think that there must be a model that other service providers can adopt. If you are a health service provider or an education service provider you are doing a service, but maybe you do not have a holistic approach to how you could value add to that and, therefore, make a lot more money and export a lot more.

**Dr FitzGerald**—When we were doing some work on education reform someone once said to me, ‘It is the teachers, stupid.’ I think there is a little gem of truth in that that can be generalised; namely, it is the quality of our people in industries like engineering. Look at the financial services sector. Australia is renowned globally for producing smart, lateral-thinking young investment bankers—who work for Macquarie Bank and others I suppose, but also in boutiques. There is something about the problem-solving, innovative sort of approach that can be fostered in a good team of young professionals. That seems to work very well at producing teams which are recognised well outside our shores as being among the best for some kinds of things.

**Ms GRIERSON**—So there are things that we are very good at—some of the things we are both talking about. What are the potential markets that you think we have neglected or should be looking at for the future?

**Mr Richardson**—I do not know, to be honest. I use as an example our work. I think most Australian architects’ work in China is now diminishing, because over the last 20 years they have created a profession which did not exist in 1985. After the Cultural Revolution there was hardly an architect in the country. Now they do not need as many people from overseas, because they are doing it themselves. So this issue of education is really fast moving.

**Dr FitzGerald**—In education they are building the most modern broad-acre university developments. They have partners from North America and so forth. Our business in education exports, particularly in that part of the world, which has been a big customer, will face severe domestic competition over time one would imagine. The world basically has to be your oyster.

There are plenty of opportunities in Europe and North America for service providers. It is not just China.

**Mr Richardson**—There are barriers in Europe.

**Dr FitzGerald**—India will be a market for some service providers. We are certainly looking there in our little firm. We think it has more prospects than China for some areas of our work, but we have not actually made a dollar there yet. It is hard to generalize; the opportunities can be anywhere.

**CHAIR**—Thank you very much. We appreciate you coming today. We thank you for the comprehensive nature of your briefing and your understanding of what we are about.

**Mr Richardson**—Chair, if there is anything that you wish us to come back on from the questions, we can do that.

**CHAIR**—Yes, through the secretariat, that would be great; we really appreciate it.

**Proceedings suspended from 10.39 am to 10.42 am**

**BURN, Dr Peter, Associate Director Public Policy, Australian Industry Group**

**CHAIR**—I now welcome Dr Burn from the Australian Industry Group to today's hearing. Although the committee does not require you to give evidence under oath, I should advise you that these hearings have the same standing as proceedings before the parliament. Would you like to make some comments before we proceed to questions?

**Dr Burn**—Thank you, I have some comments of a very general nature to make. First, we were delighted to receive an invitation to appear before this inquiry. We have many members in a variety of service industries, including transport and logistics, labour hire, and ICT. We have members across a wide range of industries and, even where they would not describe themselves as belonging to the services sector, a large part of their business is in fact in service provision.

As in all developed countries, the service sector in Australia continues to grow in relative importance both in terms of its share of GDP and its share of employment. It is perhaps even more than other industry sectors very diverse in nature. Australia's service exports grew very strongly over the last two decades of the previous century. This growth has been interrupted over more recent years, largely as a result of the broader impacts of global developments on the Australian economy.

To some extent at least service exports face the same pressures that this committee is familiar with from your work in relation to manufactured exports. In short, the rapid development of emerging economies, particularly China, is fuelling a boom in commodities and has pushed up world prices for a wide range of non-rural commodities. Australia, as an exporter of many of these, has benefited from these higher prices but, at the same time, has seen a rise in the value of the domestic currency. This has truncated export opportunities in non-booming sectors and it has exposed import-competing industries to more intense competition. The mining boom has also pushed up the demand for internal resources, particularly labour, and this has taken up a very large part of the slack in the labour market and, particularly in markets for skilled labour, has created shortages.

In the case of the manufacturing sector, an additional factor creating pressure is the impact of low-cost products from a variety of emerging economies, again particularly China—the impact on global prices on the pattern of world production. This does not seem to be as big a factor for the services sector as a whole, or at least not yet. The services sector seems to be becoming more trade exposed. Of course, some industries within the services sector have been trade exposed for a long time, but it seems to be increasing with greater opportunities for global outsourcing and other developments for many service industries.

In our group's view these pressures facing the non-booming sectors has underlined the case for a more proactive approach to industry policy in Australia. Having said that, I immediately add that we do not support either a defensive or a picking winners approach to industry policy. We take on board all the arguments about the misallocation of resources and the importance of a level playing field. What we mean by a more proactive industry policy involves making sure that the ingredients are in place for the winners to pick themselves. In our view this includes increasing—

**Ms BIRD**—That is a good description.

**Dr Burn**—Thank you. That phrase was also in our manufacturing submission. In our view this includes increasing workforce skills; improving business capabilities, including the development of exports skills; fostering and encouraging innovation; making the tax system more competitive; having flexibility in the design of work and of workplace relations; investing in wealth-creating infrastructure; improving the regulatory framework; and making sure government at and between all levels works efficiently.

**CHAIR**—We agree with all that.

**Dr Burn**—These sorts of policies would assist Australian business in all sectors to become more competitive and they would avoid the considerable hazards of either a defensive approach to industry policy in which we seek to protect ourselves from competitive forces or the picking winners strategy with all of its pitfalls.

**CHAIR**—That is all good. We agree that—in the main, this is a fairly economically dry committee. We have some of those general parameters and obviously issues such as taxation, regulatory reform, IR and so on as all part of the mix. In relation to this committee and what it should be looking at for the services sector that is not happening now, what specifically do you think we should be zeroing in on in this report?

**Dr Burn**—I do not know that the services sector needs special attention.

**CHAIR**—Maybe that is the answer.

**Dr Burn**—I can see that there are difficulties at the moment, and there are always difficulties for business. You probably have to look at the construction sector and the mining sector at the moment for industries where, although they are not putting their feet up, it is not that difficult for them. But everything else is tough and generally things are tough. Skills is the number one issue across the whole thing.

**CHAIR**—Skills training or shortage of skills overall?

**Dr Burn**—Shortage of skills in general. Training is a partial solution to that.

**CHAIR**—Should we be bringing in more people?

**Dr Burn**—I think there is a case for even further increases in skilled migration.

**CHAIR**—Referring to the general settings that the government has created, do you think there is anything more specific that could be done? Do you think enough is being done by Austrade? Do you think that extra concessions should be given or not? Are we in a situation where we should let the marketplace decide and we should get out of the way in terms of regulation?

**Dr Burn**—I think we can augment what the market does. This applies to the services sector as much as it applies to the manufacturing sector. Particularly for a lot of small businesses, there is a big gap in their managerial skills across a range of business capabilities. We think that there is

a case to say that, as we publicly invest in workforce skills, we could also invest in business capabilities.

**Ms GRIERSON**—Entrepreneurial management skills are terribly important. Learning does not stop or it should not stop. But is there a case for a learning credit approach for small business so that they can tap into that sort of training, or is there a case for incentive policies to assist with that? So many small businesses are being held back for that reason. Eventually they may grow to the point where they can talent-scout and find the right people themselves, but often when they are in that growing phase they are depending on their own abilities.

**Dr Burn**—There probably is a case for something like that. I do not really know what that sort of scheme would look like, but there could be some sort of assistance. For most small businesses the problem is that they do not have the time.

**Ms GRIERSON**—They do not have the time for that formal approach either—formal courses—but something else perhaps?

**CHAIR**—Are you looking, say, at TAFE courses, on-the-job training, an in-house MBA? Where should the emphasis be?

**Dr Burn**—We have done a lot of thinking about the business capabilities, mainly in the context of the manufacturing sector, which is where we were focusing our attention. But the problem may apply more broadly. What we had envisaged, or what we have worked on, is the idea that it is very difficult to generalise about what capabilities a business needs. What we have tended to do in the past is come up with a good idea and say, ‘We need to focus on X, or supply chain management, or export development, or something like that’, and that may well fit some businesses and it may not.

So our approach has been, what is probably more useful is for an initial diagnostic process to be undertaken with someone to go in, have a look at the business with the owner, talk through it and say, ‘Do you know that what you ought to do is think about dropping your whole export strategy? It has not got a future. Have you thought about that? Just take a different line to it. Maybe that is the appropriate thing. You should concentrate on the domestic market.’ Or the opposite might occur. ‘Have you thought about exporting?’

There are such a wide variety of government programs at both the Commonwealth and state levels that can be tapped into and people could say, ‘That is what you need. Are you aware that Austrade does X?’, or, for example, ‘Are you aware that the Victorian government is big on biotech innovation?’—I do not know how you would miss that—but that sort of thing. But is there a specific area? No.

**Ms GRIERSON**—I am thinking of things like R& D incentives to grow your business to a point where it is not just R&D; it may be those other things that you need an incentive for, as you say, just to have that sort of audit of your performance and therefore the training that matches to it. So we have R&D-type incentives to grow businesses but it is based on R&D usually; it is not necessarily based on learning or the new learning that a company or a firm might need to purchase or invest in. I just think that we should narrow the parameters to the sorts

of incentives we give to grow companies and business. There is nothing like cash flow and tax to grow a business to its success, but I do not think we tend to think very laterally about it.

**Dr Burn**—Sure. I think we are coming from the same position on that. There is some case for some government stimulation of these things.

**Ms GRIERSON**—Yes. I do not have the answers either.

**Mr KEENAN**—I would be interested in getting a little more information about where your association sees the reform agenda going from now on. A lot of work has been done. Where do you see the greatest area of unfinished business?

**Dr Burn**—It is not usually so absolute, but the greatest area of unfinished business is an area which is barely tapped yet. It is the area of federal, state, local cooperation and coordination. Everyone has been talking about it for 106 years and there are certain interest groups at play that will not let go.

**Mr KEENAN**—They are called states.

**Dr Burn**—Everyone has a perspective on where the problem is.

**Ms BIRD**—Try local government too.

**Dr Burn**—Some people even blame the central government. I think that is a very big area. It is a huge area. Government efficiency, regulatory overlap, infrastructure planning, regulation across a range of utilities such as water and energy, that is really the federal, state, local dimensions to a very important range of areas.

**CHAIR**—That is true.

**Dr Burn**—But that of course does not put an end to it. That is not the whole problem with all areas. There are other areas.

**Mr SECKER**—Does that mean you would take national competition policy further?

**Dr Burn**—Yes, and I think there is a good case for saying that one of the great things about the previous national competition approach, which we have not yet picked up in the national reform agenda, are the incentive payments, or some assurance about the incentive payment mechanism between the Commonwealth and the states which is recognised by international agencies as a big plus about our national competition policy approach which has not been picked up in the NRA.

**Mr KEENAN**—With the area of federal-state relations it is not one that has been raised that heavily with the committee that I can recall. The only description I have ever seen from business for fixing that generally involves much greater centralisation. Would that be a fair assessment about where the industry group would be coming from?

**Dr Burn**—No, but I think that is a correct summary. That tends to be the solution. Often there might be a variety of reasons for that. But we put forward an approach which says that that is not necessarily the right solution. The right solution depends on the circumstances of the area under examination. We see virtues in the federal system. There has been some very good work by the Productivity Commission in this area to say that there is a great benefit from having different approaches within the country and different jurisdictions can learn from these different approaches.

We do not know the right answers. Sometimes the more remote, the less effective the governance. Sometimes uniformity is not the right answer. So I think that there could well be an approach basically on a national competition policy format to say, 'These are the areas and this will be the systematic examination of how we will fix these areas.' So you could say, 'Let us look at health next. What is the right answer for health, or what are the answers for health?' You could work through the whole area. It is a big program, but big programs do not get done unless you start them.

**Mr KEENAN**—That it is an excellent point. The answer is that there are definitely advantages to be gained through a federal system. I think the idea that there should be more standardisation is not necessarily always the best prescription, although obviously it is in some cases as well.

**Dr Burn**—There is also potential for harmonisation to gain the benefits that are often seen to come from uniformity.

**Ms BIRD**—I would like to raise one issue with you which I also raised with my local AiG group. To me, what we are struggling with as a government involved in this whole process, is working out how we can smooth out the bumps. In the 1980s we had a massive decline in manufacturing and just about everybody stopped training at premises. Now we are all screaming that we cannot get enough tradespeople. Part of that is how much you can predict accurately about where an economy's opportunities will go. That is partly what we are looking at here with the services sector.

For me, part of the dilemma in what you are saying is that if we just continue to leave it up to the market—we will now have a whole lot of people pulled into the mining-manufacturing sector—and there is a downturn we will have lost the edge we were getting on the services sector. That is partly reflected I think in that drop in your 2004-05 figures for the services sector index. Obviously, I do not believe that we should completely leave that to play itself out. The government needs to smooth out some of that. So if there is one area in which government could legitimately play a useful role, am I correct in taking from what you are saying that that would be in skills and education development?

**Dr Burn**—I think that there is a role for government in that area but I am not too sure about how that helps in the smoothing out that you are talking about. The biggest problem is that internally we keep competing for a limited number of resources. We do not want to anticipate, and least of all the mining companies anticipated, the boom we are going to get from commodities. Had they done so we might well have been able to manage that a bit more, and there would have been less of a frantic construction boom going on in those sectors because

there would have been a more gradual approach. But no-one was predicting it, so it is very hard to do that.

**Ms BIRD**—It is a positive problem when it is a boom. When the opposite happens it falls back on government because suddenly we are picking up the unemployment payments and all that sort of thing. So we need to say where those opportunities could be, if that happens.

**Dr Burn**—Sure. I guess skills is a big area because by having higher levels of skills you are creating more opportunities for people. You do not necessarily have to know—

**Ms BIRD**—And more transportability?

**Dr Burn**—Yes. So that is what you are doing. This flows about the ingredients for success so that things can more quickly fill in that gap when there is a recession or a slow down.

**Ms BIRD**—That clarifies the issue for me, thank you.

**CHAIR**—In summary, you were sitting here through the last debate with the services group. You are the first person to highlight the question of state-federal responsibilities, which I think is significant. You brought it up as a priority and raised the question of how much assistance is needed for the sector and perhaps looking at the overall macro settings that we have in taxation, regulatory reform and IR. Is there anything else you would like to highlight in the nature of the report?

**Dr Burn**—There is nothing in addition to what I have already said. I recognise that I am operating at a very general level.

**CHAIR**—Yes, I understand that.

**Dr Burn**—I think that particularly for the services sector the key thing would be that you would have to isolate, when it relates to skills and business capabilities, because of its nature.

**CHAIR**—That is interesting.

**Dr Burn**—The other side of it is that the services sector is a very big spender on R&D. Forty per cent or something of our total R&D is spent by the services sector. I was very surprised to see this just the other day when I was reading it in a different context. So clearly that is an area where there is scope to improve innovation. Businesses themselves are putting up their hands in a big way in the services sector to say, 'We are investing in that aspect of innovation.' Mind you, the services sector is much more than 40 per cent of the total economy.

**CHAIR**—Yes, that is right. Thank you for coming today. We appreciate your taking the time. If there are other issues that seem to you to be important would you contact Andrew of the secretariat and we will follow it through. We would appreciate your insight into those issues.

**Dr Burn**—Thank you.

[11.15 am]

**ALLEN, Ms Jeanette, Chief Executive Officer, Services Skills Australia**

**CHAIR**—Although the committee does not require you to give evidence on oath, I should advise you that these hearings are legal proceedings of the parliament and have the same standard. We have received from you a written submission for this inquiry. Would you like to make an opening statement and then we will proceed to questions.

**Ms Allen**—I found it difficult writing this submission because the terms of reference were very broad. However, the services industry is a foundation or a fundamental part of the tourism sector, and I think that sector is under-represented.

**CHAIR**—The tourism industry is under-represented?

**Ms Allen**—No, the services that make up the industry. The tourism industry is lumped in as an industry, but it is made up of all the services that fundamentally are provided to tourists when they enter the country. There is a lack of recognition of those services as separate industries.

**CHAIR**—That was said by one of the other groups this morning.

**Ms Allen**—Right. Things like retail personal services, and hospitality even though it is more broadly lumped with tourism. Some of the others are not.

**CHAIR**—I was involved in the tourism industry for several years. We always thought that the retail sector did very little in promoting tourism to attract tourists to Australia, yet is such a big recipient. But, anyway that is going back in the past.

**Ms Allen**—All I would say to that is what large companies say to me when I talk to them about training: ‘Our primary business is not training. Our primary business is retailing or providing a service to a customer.’ Tourism is a by-product, if you like, of the quality of the service that is given. It provides support and foundation. Tourism services would not be there if it were not for the other services that back up. Would you come to Australia if you did not have all of the other things that make the visit enjoyable?

But I am not here to talk about that side of it. I want to talk about the mobility of workers in service industries, both when coming into Australia and going out of Australia, and the lack of recognition that we have for the vocational qualifications of people in these areas. We have all sorts of reciprocal arrangements and recognition of higher education qualifications. If a person has a bachelor’s degree, there is a certain level of recognition. If a person has a grade 12 school exit, there is a certain recognition of that. **CHAIR**—And for the maitre d’ of a restaurant.

**Ms Allen**—But if you have a certificate II or III or a diploma in a vocational area, they are not regarded with any real value.

**Mr SECKER**—Is that because other countries do not have the same sort of diplomas or certificates in training that we have, or is it that we just do not look at it?

**Ms Allen**—No, it is not. We are working with approximately 800 other countries at the moment, mapping our vocational qualifications. Trying to find some avenue or pathway for formal recognition of that process through our government sector is virtually impossible. We have international education areas that look after higher education and schools. We look after overseas students coming to Australia to study. But when people ask about where they go or who they talk to about recognition of our qualifications in another country and having that recognised in some way so that the mobility of even working holiday makers is enhanced—

**Mr SECKER**—Is the problem more that we do not recognise overseas qualifications, or is it the other way round?

**Ms Allen**—No. They will recognise ours, but I think that because our system is so complex, you cannot deal with one group. When I deal with other countries, I deal with a qualifications authority that has the ability to do that, or issue a licence and recognise the skills. When people come to Australia I can map it and tell them if it is equivalent, but I cannot authorise. They need to talk to somebody in government, but I cannot give them who it is they need to talk to.

**Mr SECKER**—Will an employer look at the CVs of the employees, whether they are backpackers or not? They might say, 'I see you have had a bit of experience. We will give you a try,' or is that not working?

**Ms Allen**—That works to a certain level. But if you are qualified in a particular area, for example, you are a hairdresser and you want to work in New South Wales, they will not recognise you unless you have a qualification that they recognise. The issue is not so much whether people can get a job. I have had temporary staff, backpackers, working in my office as administrative assistants who are qualified engineers. It is not just in the service industries; it is across fields. These people could gain enormous experience working in their chosen field in another country, and vice versa for Australians working in other countries, but we do not encourage that. Basically, they all get a job in a bar or a job in a retail outlet. But what we are suggesting is that if we recognise these qualifications, we would promote their skills and potentially keep them in the industry for which they are trained. That is the general idea.

There are a whole lot of offshoots of that. There are people migrating to Australia. We are talking about setting up offshore assessment centres at enormous cost, whereas if we had a recognition process through at least the skilled areas in VET, vocational education and training, we would reduce the cost of those assessments enormously because we already know the skills they have that are equivalent to what we need. We do not have to reassess.

**Mr SECKER**—Do you say engineers from overseas are not recognised here?

**Ms Allen**—I am not saying they are not recognised. I am saying that they are not encouraged to work in that industry that they are from.

**CHAIR**—I suppose the original idea was to encourage young tourists to come out to work and travel for a while and not necessarily take up a full-time job because it was originally a limit

of three months and now it is six months. I suppose the concept was different in terms of not bringing in skilled people. Nevertheless, proceed.

**Ms Allen**—Among the temps we have had one chap for four months. He is here on a working holiday. He finishes today. The point is that he has been here for four months and he has contributed to the work, but he is not working in an area in which he has been trained. He is just filling in time. He could have been more productively engaged and perhaps even learned something while he was here. We have to recognise that we have a global mobile work force. We recognise that only in certain areas instead of recognising the global community we have. We have approximately 40,000 Australians in the United Kingdom working primarily in bars, but most of them are skilled in other areas.

**Mr SECKER**—The same thing happens when we go overseas.

**Ms Allen**—Yes. But we are leaders in these areas.

**CHAIR**—If they want to apply to be a skilled migrant, they can go through that process and their qualifications are assessed. But what you are saying is you want an easy way so that when some people come here under a backpacker scheme, they can slide into doing some other work. It could well be that we do not have a shortage in certain areas and Australians might not necessarily like the idea of having an influx of people from overseas to compete in those areas.

**Ms Allen**—In the service industry generally we have huge shortages.

**CHAIR**—That is true, but is it not mainly in the unskilled areas where there are maitre d's, waiters and waitresses.

**Ms Allen**—But they are not unskilled.

**Mr SECKER**—Semi-skilled.

**Ms Allen**—They still benefit from having a qualification. The industry is trying to lift the image of the service industries from being regarded as unskilled. They are not unskilled. They are very skilled and their skills are very transferable to other areas: 85 per cent of people who have their first experience with work begin in the service industries. Service industries provide them with employability skills, with their work ethic and with their understanding of what work is all about. The skills that they get are not necessarily technical skills or higher order skills, but they are certainly provided. That is why Australians are so well regarded overseas—because of our work ethic.

**CHAIR**—It is not too much trouble for the average person who comes out on a working holiday visa to get a job in a restaurant. If it were not so, two-thirds of Bondi restaurants would be un-staffed. You are not talking about those, are you?

**Ms Allen**—No.

**CHAIR**—You are really talking about what?

**Ms Allen**—Cooks, hairdressers, managers—the sort of person who has real skills in an industry for which they need some recognition. When they come out and say, ‘I’m a cook and I’ve worked in India’, for example, that does not mean anything unless—

**CHAIR**—They can do it at the other end because cooks and hairdressers are in the skills shortage areas.

**Ms Allen**—They are.

**CHAIR**—They can apply.

**Ms Allen**—They can apply. We have in the vicinity of 3,500 Indian students doing cookery courses in Australia with registered training organisations here. They will use that for entry to Australia and have no intention of working in the industry. They could not if they wanted to because the quality of the training they are getting will not allow it. There are enormous issues centred on the way we assess and recognise those skills now. More than anything else that goes to the issue of what we are on about, but there are broader issues.

**Ms BIRD**—On page 2 of your submission you make the point:

Australia’s Training Packages and competency standards are a valuable and marketable export commodity and as such should not be freely available to off shore markets but treated as a saleable product.

Is there is a problem there you could outline for us?

**Ms Allen**—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. We now have arrangements offshore to deliver Australian qualifications offshore as well. As I understand it, the only requirement is that they have to be partnered with an Australian registered training provider.

**Ms BIRD**—That is not the problem in itself.

**Ms Allen**—It is the access.

**Ms BIRD**—It is the access that we provide to those sorts of things. That is a good point because, as we have heard consistently, developing nations produce their own VET sector and universities and so forth but they will not necessarily want to come here. If they know our packages are good, they may buy them and then buy the expertise to support them.

**Ms Allen**—That goes with them, yes.

**Ms BIRD**—It is not good if we are giving it away, free, on the internet. That is the point you are making.

**Ms Allen**—That is right, yes.

**Ms BIRD**—Good, thanks. On page 4 you talk about the significant degree of commonality of skill needs across the service industry sector. I am assuming that we are fairly well progressed on across-industry modules in training that are recognised, or are we still stuck in these industry bands? If you are working in a team in tourism, is it recognised as a model when you later go to the retail sector? Are we doing that sort of thing, or not?

**Ms Allen**—We are working on it. It is probably more complex than it appears on the surface. Working in a team in a retail environment can be quite different to working in a team in a tourism facility. If you dig down, the underpinning skills are probably the same, but the contexts in which those skills are utilised vary significantly. The pressures that people work under vary significantly. What the industry says is that that context is absolutely essential to being competent. If we are going to assure that people are competent when they have finished a training program, they need to be able to apply those skills in a context. If the competency development ensured that they were able to transfer those skills and gave them opportunities in training to develop those skills and be assessed across a range of contexts, that might be different.

**Ms BIRD**—My background is TAFE. It seems to me sometimes that industry is its own worst enemy in that it is so prescribes what has to be in training for its specific needs that it costs the person who has done that training transferability to another job in another sector. That is a bit short-sighted for those industries because it also means that they cannot pick up people. It is an area in which we need to do a lot more work including the delivery of some of that stuff into our secondary sector because, as you say, some of those skills should be base grade skills on which you can build a context.

**Ms Allen**—I agree.

**Ms BIRD**—If we are going to talk about making our kids job-ready, they are some things we could explore. Other than kids doing a vocational education and training subject in their Higher School Certificate, how much of this sort of push down into the school sector is going on?

**Ms Allen**—There are tens of thousands of students doing certificate II in hospitality and retail in schools, but the industry and some TAFE providers feel that they are not getting quality training; that predominantly in the kitchen and cookery areas, the hospitality area, they work in a domestic science kitchen so they have no experience whatsoever in a commercial kitchen. When they first go into a commercial kitchen, they cannot operate: they just have no idea, and the training they have done means nothing. The industry's issue is that they have trouble feeling confident about the outcomes of that training. In the review package they are currently pushing through some requirements for the assessors of those qualifications. They are being stopped or held up by a state or a particular state training authority.

**Ms BIRD**—It is always that dilemma. As you identify in your submission, part of the problem is getting young people to see retail and hospitality as career options, not as temporary: 'This is how I'll earn a bit of money while I do something else.' One good way to do that is to pick them up at a young age, when they are in year 9 or year 10 and thinking, 'I might like to be a cook' or 'I might like to be in sales.' It is good to deliver it in the schools. There would be nothing worse than to say to kids, 'Oh, that was all rubbish and it was not worth doing.' To some extent employers should recognise that they are not getting a fully trained person. Employers still have

a training responsibility, but they have someone from the school who has said, 'I actually want a career in this area.' It is a real balance.

**Ms Allen**—Let us issue them with an industry entry level qualification. Let us issue them with a partial qualification.

**Ms BIRD**—Yes. On the same page you make the point about part-time casual work. Does your organisation have any ideas on how we overcome the casualised nature of the work and the churn that you refer to?

**Ms Allen**—I do not have any solutions for that. It works both ways. If we have quality outcomes and people see a career opportunity, and working conditions and opportunities within the industry are there, then you are more likely to hang onto people. But people, particularly the Y generation now, will see a long-term opportunity as five years. Unless they are gaining significant personal or financial reward within that period, they will not stay. They will move on and look for another opportunity. It is the industry, the training, the skills development and lifelong learning and all that sort of thing that contribute to the whole thing.

**Ms BIRD**—In one of the earlier presentations a gentleman was talking about a car rental service at the airport that specifically targets mature age workers. Do you think the services sector, in particular the retail and hospitality sectors, are doing enough to identify and attract mature age workers? I am thinking of women at the post child-raising stage who often are fearful that they have no current skills, or mature age workers who might just want to do casual work in a semi-retirement mode. Is building up the required qualification base going to be a problem for them in accessing the mature age worker base?

**Ms Allen**—I do not think at that level it is qualifications that we want: I think it is short, sharp skills, easy access to those skills, and far more partnerships between industry and providers in making those skills available. At the moment they can train under one program, but there is no link to employers who are willing to take them on as a result of that training. Partnerships have to be made a part of program development so that we have industry players who are participating. Then we promote them and we write it up and we tell good news stories about it. At the moment we do not hear enough about that.

**Ms BIRD**—The example I was thinking of is that if you want to do bar work you have the responsible service of alcohol certificate.

**Ms Allen**—The RSA certificate.

**Ms BIRD**—It actually is quite expensive to pick up these days. It is not the sort of thing where you can just say, 'Oh, I'll just enrol in TAFE. I am a mature age worker.'

**Ms Allen**—But you should be able to.

**Ms BIRD**—Yes. Perhaps we need to look at some of those areas as well.

**Ms Allen**—RSA is a really interesting one because we have eight states and territories that all have different requirements for recognition of RSA. We have particular industry organisations which want to keep it that way because it suits them.

**Mr SECKER**—You have touched already on something we have had other submissions about: hospitality and tourism is not regarded as a long-term industry. It is not a good perception. Is there something that you can do, or are doing, or perhaps that we can do to get over that perception? It is not an easy one, is it?

**Ms Allen**—No, it is not. Our role is the development and maintenance of the training packages and competency standards. In that respect we work with the industry to make sure that we have qualifications right up to advanced diploma. But then I guess there is the undermining of those qualifications by providers who, as I mentioned, will issue 3,000 overseas students with those qualifications. 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 CRICOS requirements, deliver the qualification in an institutional setting, and then the people get recognition or points to get into the country. 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. It is to do with VET, vocational education and training, generally as well. It is not just tourism.

**Mr SECKER**—So you think the system is being abused?

**Ms Allen**—Yes, I do.

**Mr SECKER**—How do we get over that? Again, it is not an easy situation.

**Ms Allen**—We have regulation on regulation on regulation, so I do not know that more regulation is the answer. State training authorities who monitor and register providers are in a very difficult position because they are concerned about legislation and litigation. If they try to deregister a provider, they encounter litigation about being unfair. While the standards we use to audit and register RTOs are okay in their own right, they need support behind them that says they have the strength of their convictions; that if you do not perform, you do not just get a note saying non-compliance, but you actually have to stop. It is like taking somebody's driving licence away. There are no questions about that; you take it away. We do not do that with training providers.

**Mr SECKER**—In South Australia, I am a bit concerned that the state training authority there has stopped funding casual workers, for example, at Subway, so the Subway people are now going to Western Australia to get their training. Somehow they are doing that. It just seems to me that you can go too far in one way as well. The casual sector is a very important part of the industry.

**Ms Allen**—There are all sorts of issues around casualisation and the difference between casualisation and part time.

**Mr SECKER**—Yes. This is part time.

**Ms Allen**—Yes. Part time is fine. We should be allowing funding, but in South Australia they have taken funding away from a certificate II in retail.

**Mr SECKER**—Yes.

**Ms Allen**—And hospitality, and that there are ongoing issues. The industry is working toward coming up with some options to address that. But that comes back to the lack of recognition of those industries as skilled labour. While they are not skilled in the sense of high intellect or anything like that, the foundations that they provide are not attainable anywhere else. Let us support them. Those two industries still employ the majority of workers in Australia. There are nearly two million people working in retail alone.

**Ms GRIERSON**—I take up the point that you have some worries about standardisation and consistency in training, but I have some concerns about the absolute mismatch between what you are trying to achieve and what actually happens in industry. I cite the example of nursing. You might train as a nurse and then you go into nursing, and there is an accreditation process for your whole institution and you are part of that. Your skills are maintained and hopefully tested. You talk about an RSA for a young person, yet they work in a hotel that actively allows drug sales, drinks spiking and people being really drunk and is therefore dangerous.

**Ms Allen**—Yes.

**Ms GRIERSON**—You do not want regulation of industry or the service sector, but there are no standards imposed to retain people's skills, apply those skills and implement those skills. Do you have a view on that?

**Ms Allen**—I am not sure that the skills—

**Ms GRIERSON**—In industries such as retail, I have seen it over and over that young people are discouraged from retail because they are bright young things, and there is a culture that does not want bright young things. There are already older people.

**Ms Allen**—In retail?

**Ms GRIERSON**—Yes.

**Mr SECKER**—The consumer wants it.

**Ms GRIERSON**—The consumer does, yes.

**Ms Allen**—I think the quality retailers want it. Just as we always hear about the squeaky wheels, we always hear about the bad providers and the bad employers. We had the issues with Hungry Jack's a couple of years ago.

**Ms GRIERSON**—That is the other thing I would have mentioned—labour practices. There are some workplace practices there that are appalling.

**Ms Allen**—Yes.

**Ms GRIERSON**—People who are being turned out of institutions and training places like yours expect to be treated in certain ways, only to find it does not happen.

**Ms Allen**—That is exactly right. I do not know that greater regulation of the training will make a difference there.

**Ms GRIERSON**—No.

**Ms Allen**—I think the industry needs to be answerable for those things.

**Ms GRIERSON**—That is right. I am suggesting that there should be some standards that have to be maintained—not just laws and whatever applies, but some type of standard.

**Ms Allen**—By the same token, all we read is the press picking up a story like that, running with it and putting these awful headlines out. But if they hear about a good employer or a good practice and quality provision, you do not get it. You might get two lines on a back page.

**Ms GRIERSON**—But you will get it in sales return and in retention of your staff or retention of quality staff.

**Ms Allen**—But that does not improve the image of the industry.

**Ms GRIERSON**—That is right.

**Ms Allen**—And that is what we are trying to do. We want those bright young things. I am involved with the Young Retailer of the Year. When we interview the kids who get involved with that, they are outstanding. Most of them fall into retail by accident, which is a shame. I am on the board of WorkSkills Australia.

**Ms GRIERSON**—That is a great program.

**Ms Allen**—We promote skills training across 45 different industry sectors.

**CHAIR**—Part of it in the retail sector is that there are no courses.

**Ms Allen**—No.

**CHAIR**—I know the people at Manly Tourism who have the Sydney International College of Business. They have been trying to set up a retail sector. It is going very slowly.

**Ms Allen**—We have a training package in retail with qualifications from certificate I right through to diploma. There are courses available and have been since 1997 under a training package. The school came to see us about it, once, and we have not seen or heard from them since.

**Ms GRIERSON**—I will ask this last question because I raised it before. If you are a service provider and you have a business, you can still access R&D grants, innovation grants and

incentive programs, can you? You can claim investment and training as a cost to your business against your income and taxation, et cetera, but there are no great incentives any more for people to invest in training. Do you have any policy suggestions regarding that?

**Ms Allen**—We keep talking about small business and the ability of small business to invest in training. We need to become innovative in the way we allow people to access training. We currently have a number of programs that provide incentive payment for taking on an employee under training in different ways, but there are rules around that: you cannot do it if it is this, and you cannot do it if it is that, and so it becomes too hard.

**Ms GRIERSON**—People just do not bother.

**Ms Allen**—This one-size-fits-all approach to programs and incentives to encourage small business must be examined in terms of providing greater flexibility and greater judgment on the part of the people administering it in accepting that something is appropriate.

**Ms GRIERSON**—That is very helpful, thank you.

**CHAIR**—Is there something more you would like to say?

**Ms Allen**—No. I think I have probably said enough.

**CHAIR**—Thank you very much for coming today, which we really appreciate, and for your submission, which is excellent.

**Ms GRIERSON**—Following that, may I ask that we approach the Department of Education, Science and Training and ask what they do about protecting our product, our modules and so forth, as well as the issue Ms Allen raised about those being on web sites and freely downloaded.

**CHAIR**—We can, sure.

[11.47 am]

**JOHNSTON, Mr Gary, Executive Manager, Axiss Australia**

**SEWELL, Mr Mark Francis, Senior Manager, Policy, Axiss Australia**

**CHAIR**—Welcome. I am sure you are aware that, although the committee does not require you to give evidence under oath, the proceedings before the committee have the same standing as do proceedings before the parliament. We have received a written submission to this inquiry. We invite you to make an opening statement and then we will proceed to questions.

**Mr Johnston**—I think we made the submission some months ago.

**CHAIR**—I am sure it is still valid.

**Mr Johnston**—Yes. I thought it might be useful to speak a little about the structure of Axiss and how we do our business. We are a team of 15 here in Sydney. We are the financial services division of Invest Australia. I know that our chief executive officer, Barry Jones, appeared before the committee in December. We have a dedicated person in New York and we have recently also put someone into London. Our role is to promote Australia as a regional financial services hub and as part of a global network of financial services hubs. We have been in existence since 1999. We work on a number of fronts. One is through our research. We put a lot of emphasis on the production of research. It is our marketing collateral. We have found over time it is often the most useful contribution we can make in helping firms to cross the threshold and establish or expand an operation here in Australia.

We attend conferences and sponsor conferences both onshore and offshore. We work closely with Treasury. We still formally report to the Treasurer twice a year. We work closely with Treasury as the key policy-making body, but we also work closely with the RBA, ASIC and APRA. We have also made a much greater effort in the last year or two to work more closely with the New South Wales and Victorian state governments as well as the many industry associations that have sprung up around financial services.

**Mr SECKER**—Is it fair to say that you would be more concerned with the big picture and probably the big end of town rather than the local little insurance broker?

**Mr Johnston**—No. It is an interesting internal debate that we have: who should we be targeting—the big end of town or the small end of town? How important is real investment in terms of capital investment in this country by a financial services firm and the numbers employed? Philosophically we approach this in a slightly different way from other areas of Invest Australia. We believe that in financial services it is very important to have a whole-of-canvas approach. We are interested in new products, new processes, new technologies and new business cultures. We are very interested in a start-up, but we are also delighted when we can get a very large firm, like Lehman Brothers, to recommit to Australia, which it has done in the last couple of months.

**CHAIR**—I had a little bit of exposure to your activities when I was in New York and saw Invest Australia. At that stage there were two people there who were out there trying to attract the investment in Australia of some of the key financial operators in the United States. Do you see that as your number one role, attracting financial operators into this market?

**Mr Johnston**—We do, and we have been reasonably successful at that. One way or another we seem to bring 10 new firms to market here in Australia. To date the United States has been our happiest hunting ground, although, as I said, we recently put a person into London to work full time on financial services. We will be interested to see how that evolves. The large US investment houses and banks tend to be very US-centric. We have been able to engage them and bring them directly to market, but often we have been most effective in working through their London domiciled operations. That is because it is typically the London domiciled operation which has responsibility for the global network and particularly this part of the world. In part that underpinned our decision to put someone into London.

**CHAIR**—Are you doing that in terms of showing the vibrancy of the Australian market? They had never heard of it before? I just wonder in the financial sector why the free market would not work and why they would not just look at the opportunities in a reasonably strong economy and say, ‘Let’s be down there,’ just to get a fix on it.

**Mr Johnston**—I think that is a very good question. It is one that is asked widely. You would think that financial services is a global industry. You would think that people would have a global understanding or perspective on the industry. I am amazed, particularly in the United States, how insular are their views of the market.

**CHAIR**—Twenty per cent only have passports in the United States.

**Mr Johnston**—Yes, or something like that. What I have given you in terms of our publications is just a sample of some of our more recent publications. For example, one is on the insurance sector and another, which is our current best seller, is the smaller blue publication on the hedge fund sector in Australia.

**CHAIR**—You probably think this would be a very cheeky comment to make, but is it possible that you could re-collect these documents and send them to our electorate office?

**Mr Johnston**—Of course.

**CHAIR**—From the point of view of this committee can we focus on the impediments to investment in Australia? Is there something that we could be recommending and doing in terms of our role as a parliamentary committee?

**Mr Johnston**—I was heading in that direction. These sector-specific publications are very useful when you have engaged with someone and have the basic story out there, but our primary or best marketing tool is this benchmark or gold book, as we call it. So to answer your question, the biggest impediment is the lack of knowledge, still, about the Australian financial services industry and the opportunity. People think of Australia and they think it is mining and agriculture and maybe a bit of 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.

They may have heard something about our compulsory superannuation system and they may have a view that that is rather odd or ‘What is that about?’ and they may have, if you like, a political or cultural perspective on that. Our compulsory superannuation system is the key driver in our telling the story about financial services in Australia. We are able to tell them that we have \$1 trillion in funds under management in Australia—it is 1.2 now—and they say, ‘Are you serious?’ We can tell them that we have five or six large funds, both public and private, which now have in excess of \$50 billion under management and, in the case of the retail funds like Colonial First State, over \$100 billion under management. That gets their attention. The biggest impediment is still getting the word out—the lack of knowledge, the information asymmetries.

**CHAIR**—My last question relates to resources. I saw your two guys huddled up in bench-top areas in New York whereas Austrade, the Consulate and the United Nations had significant resources. We have them in only a couple of places. Are we under-resourced?

**Mr Johnston**—We have muscled up recently. I now have a team of eight doing business development here in Australia and two people offshore. Of course we could always do more with more.

**Mr SECKER**—How are you funded?

**Mr Johnston**—We had separate funding until about 12 months ago. Now our funding has been folded into the Invest Australia budget. We have a separate line within Invest Australia funding.

**CHAIR**—Do you think you should you have someone in Asia?

**Mr Johnston**—It is something we need to think about. We are able to draw on the Invest Australia network in Asia, so we have three or four people in Invest Australia in greater China, including Hong Kong. By happenstance if you like, the head of the Japanese office, the Invest Australia person, has an investment banking background. Certainly we are starting to generate a lot of interest out of Asia in the Australian story and the opportunities for investment in Australia.

**Mr SECKER**—Is your emphasis more on investment in Australia rather than on investing Australian money overseas?

**Mr Johnston**—Again, that is a very good question and one that generates a fair bit of internal discussion. If you look narrowly at the Invest Australia charter, it is simply that—to attract new foreign investment into Australia, and in my case into the financial services sector, and to create additional jobs in that space. But the internal dialogue that I have with my colleagues is that perhaps financial services are different. It is an industry where portfolio players should be seen in some sense as more tangible, having real quality or merit in an economic sense. So portfolio players are important and scale is critically important.

I am part of a working group chaired by Jeremy Duffield of Vanguard Investments Australia. He is also the deputy chair of IFSA, the Investment and Financial Services Association, the retail funds management association. I encourage you to talk to Jeremy. He is very visionary. What this group is doing through IFSA and their sister agencies or industry associations in the region is reaching out to them and trying to harvest money from the region to be brought back and managed here in Australia. In the case of Axiss and the financial services team, our emphasis is on attracting new investment, but also we are very conscious of the importance of building volume in our markets, building scale in our markets, and recognising the importance of portfolio players.

**Mr SECKER**—If you are going to be an Asian financial centre, you will need to have both layers, will you not?

**Mr Johnston**—We certainly will. Up until now the Australian funds management industry has been preoccupied with the domestic industry and with the enormous growth in superannuation funds. For example, last year the pool of funds grew by \$140 billion and in the December quarter alone by \$50 billion. It is growing at a compound annual rate of around 10 or 11 per cent. You can understand why the domestic industry has been very focused on the opportunity here and why, where we have attracted new entrants to the market, they have come to eat at our table and perhaps have not looked at what was happening in our region.

**Ms GRIERSON**—I want to explore the issues slightly differently. I notice in your list of ‘Why Come to Australia?’ you have the skilled work force issue. Is your sector reflecting what we are hearing from others about looming skills shortages and do you have any views on what government should be doing with that?

**Mr Johnston**—We have a very large financial services work force in Australia, 400,000, which is larger than either Singapore or Hong Kong.

**Mr SECKER**—That is an interesting statistic.

**Mr Johnston**—We also have enormous depth in terms of our tertiary and TAFE-based training capabilities in financial services. That is something not to be underestimated. We try to work with the universities in keeping abreast of what is happening. The short answer to your question is that there are severe skills shortages in some areas of the market in financial services at the moment. Information technology, IT, is one area where there are strong shortages. We hear from time to time about shortages of people working in the mid office or back office areas with basic accounting or technical-type skills, those sorts of areas. In part it simply reflects the strength of the economy at the moment and the more general picture.

**CHAIR**—Do you have any trouble bringing people in?

**Mr Johnston**—No. We seem to do very well, particularly with executives. There is now a well-established facilitation of executives being able to come into this country. Also the recently announced changes to capital gains tax for non-resident individuals have helped considerably. The United States Free Trade Agreement, the FTA, will help with the two-way flow of executives and more highly skilled people. You often hear stories about the diaspora—you know, Australian financial services people going offshore and not returning. Our understanding is that a

typical period of time away is about three years. Of course there are people who have gone away for the rest of their career.

**Ms GRIERSON**—Which is probably value-adding, anyway.

**Mr Johnston**—It is because they come back having been exposed to new business colleges.

**Ms GRIERSON**—And networks.

**Mr Johnston**—And networks, and they are networks that we draw on as well. So there are many friends of Axiss offshore that help us do our work. We are looking for opportunities to expand that network in Asia in particular.

**CHAIR**—Are you bringing in IT people from the subcontinent?

**Mr Johnston**—There is an interesting story there. The short answer is yes, but, as you would be well aware, there is a debate about offshoring and the loss of jobs to places like India but also—

**Ms BIRD**—Security issues?

**Mr Johnston**—Security issues, but also loss of jobs. What is not widely appreciated is that most of the large Indian information technology, IT, companies, both in terms of IT development and providing services to clients, have fairly significant operations in Australia. Two or three of the largest have operations in Australia. If you like, it is reverse offshoring. They are offshoring some of the more high value-added and some of the more technically intensive work to Australia.

**Mr KEENAN**—I know that as a general rule the Australian financial services sector of the industry has been a tremendous success story. What sort of feedback are you getting from people offshore about some of the impediments they might see about investing in Australia—the sorts of things that we might look at in a policy sense?

**Mr Johnston**—There are some old chestnuts around the taxation arrangements in Australia, but that is being reviewed closely by the government. It is under constant review. The challenge is to find a balance between protecting the revenue base and encouraging the free flow of funds.

**Mr KEENAN**—I understand that. I am not asking you this to criticise.

**Mr Johnston**—No.

**Mr KEENAN**—I am just wondering what sort of feedback you might get from people you are talking to.

**Mr Johnston**—That is one issue. The other is—

**Mr SECKER**—Personal taxation rates?

**Mr Johnston**—Everyone whinges about that.

**Mr SECKER**—Yes.

**Mr Johnston**—And they get no sympathy from me, given the opportunities that they have had. The rewards in the financial services sector are obviously considerable. We get a fair bit of grief about licensing requirements and some confusion about having APRA, the Australian Prudential Regulatory Authority, as a prudential regulator and ASIC, the Australian Securities and Investment Commission, as, if you like, the consumer regulator, or having oversight of financial products that are offered.

What is interesting is that, as they go through the hoops to get the Australian financial services licence or a banking licence, there is a bit of groaning and moaning. Once they have a licence, once they have met the regulatory compliance standards, they start to use it as a marketing tool. They say Australia is a very well regulated economy. It is global best practice.

**Mr SECKER**—It has a global reputation.

**Mr Johnston**—Yes. There is a need to continue to review the regulatory framework. There is still a lot of work going on in terms of digesting some of the disclosure requirements in offer documents that are provided to the public. This has been a real challenge for the industry, for the regulators, and for Treasury. The government has set out to offer principle-based law which would invite plain English documentation. Within the industry there has been pressure: ‘What do you mean? This is the principle, that we should provide adequate disclosure? What do you mean by adequate?’ We end up with black letter law and we end up with offer documents which are not 10 or 20 pages in plain English, but are 80 pages.

They are the two issues that are most commonly raised. I have spoken about skills shortages. There is some question about the availability of skilled workers in this country in financial services at the moment but we have not seen an explosion in remuneration. People seem to be managing, but ideally we need more people coming through the system, including, importantly I think, the TAFE system. You hear stories of graduates who have been put back through TAFE programs to develop particular sort of mid office, back office, type skills, technical skills.

**Ms BIRD**—In one of the other pieces of evidence we raised the capacity to provide joint delivery of tertiary education at both TAFE and university; to, in effect, enrol in one course and pay for one course, but do part of it in each, whichever is relevant. It sounds to me like that would be particularly pertinent to the sort of thing you are talking about.

**Mr Johnston**—Yes, particularly in having employer-ready graduates. When people think of financial services, they think of Macquarie Bank, they think of Goldman Sachs—

**CHAIR**—Superannuation funds?

**Mr Johnston**—They think of big salaries, but so much of the work that is done is about—

**Ms BIRD**—Para-professional type of work.

**Mr Johnston**—Yes, compliance. Custody is a very labour-intensive industry. That is the engine room of funds management, if you like. We need to work harder at ensuring that people come to the market with skills that they can actively apply.

**Dr EMERSON**—In terms of your objective, it seems to me that it comes down to fostering wealth creation by Australians, but not necessarily within Australia. That raises questions of whether you are encouraging exports from Australia or encouraging investment in Australia. I think it just highlights the fact that we are very globalised and a lot of these definitions are losing some meaning. I make that remark to ask about the growth in superannuation assets, in particular. You said it is now \$1.2 trillion, so it has gone up since I last looked, which was not long ago, when it was just over a trillion. But there are projections that by 2017 it will be about \$3.6 trillion.

**Mr Johnston**—That is a very high end investment number.

**Dr EMERSON**—Is it? Right.

**Mr Johnston**—There are numbers that range from about 1.7 I think to 1.5. I think that is a common number.

**CHAIR**—It depends on how many ruts we hit in the stock market.

**Dr EMERSON**—Yes.

**Mr Johnston**—Yes. The 1.2 may have developed even this morning. We might be down to 1.1 or something bizarre.

**Dr EMERSON**—I hope not.

**Mr Johnston**—There was a shake-out overnight in US market rates.

**Dr EMERSON**—Does that not raise the issue of where these funds will be invested? It would be a wonderful coincidence if the best place to invest all these funds were in the tiny island continent of Australia. How much of your job is to facilitate or break down the barriers for the investment of, say, Australian superannuation savings in other countries, particularly in the region?

**Mr Johnston**—The industry is doing that itself. It is voting with its feet. We have a mantra that is a few weeks old, the trillion, trillion, trillion story. We are now a \$1 trillion economy in terms of gross domestic product, GDP. The free-flow capitalisation of the Australian stock market is \$1 trillion and we have \$1 trillion in funds under management. There is a tension there. If you go back and look at how funds were managed or how portfolios were built, probably to be fair it would be like 10 or 15 years ago. You would have a large chunk of Australian equities, a large chunk of Australian government debt, a small exposure to international equities or debt, and then cash or cash-like products.

**Dr EMERSON**—And that would be called the balanced fund.

**Mr Johnston**—Yes. These days, increasingly, superannuation funds want global exposure and they want it for a number of reasons. One is because they want diversification of their portfolio; two, they are seeking yield; three, there are views out there that the Australian equities market is reasonably priced these days, as in not underpriced, and maybe there are opportunities elsewhere. Those funds are being invested offshore or in offshore assets. What would be great is if we do not end up with those funds being actively managed offshore. It would be nice if they were actively managed here. We have a very sophisticated funds management sector here in Australia. There is no good reason why that cannot handle it.

**Dr EMERSON**—Does your organisation have a role in that? It seems to me that the way your responsibilities are defined is to get more financial institutions established in Australia, and that is great.

**Mr Johnston**—Yes.

**Dr EMERSON**—But it seems equally that wealth creation for Australia can involve Australian fund managers investing in Asia, and Austrade or Invest Australia or Axiss having a role in doing that.

**Mr Johnston**—Yes.

**Dr EMERSON**—It seems to me that that is where so much of the growth will be.

**Mr Johnston**—I agree. That is why Axiss has so willingly embraced the work that is being led by IFSA, the Investment and Financial Services Association, and Jeremy Duffield and Vanguard. There are now something like 30 members of that committee. We have already done roadshows, if you like, to Taiwan and Seoul. We are heading to Tokyo at the end of June. China is on our target list in the not-too-distant future. At the moment we have something like \$1 trillion in funds under management. We cannot get a reliable estimate, but our guesstimate is that, of that \$1 trillion, between \$25 billion and \$50 billion is sourced from offshore. That is the challenge in the managed funds sector.

I can contrast that on a much smaller scale. In the hedge funds space we have a \$60 billion industry, but two-thirds of those funds are deployed in regional and global strategies. Australian hedge funds managers are sitting here and investing in these global and regional markets. But the other members of the IFSA working group include Colonial First State, AMP and Perpetual Investments. These are home-grown Australian fund managers.

**Dr EMERSON**—Would you be in a position to give us some sort of indication, perhaps not today, of the sorts of impediments that that industry is experiencing in trying to establish itself in the region?

**Mr Johnston**—Certainly, yes.

**Dr EMERSON**—You can? They might think there are some.

**Mr Johnston**—Yes. Perhaps I can speak to other members of the working group and we could give a presentation to your committee.

**Dr EMERSON**—My final question is about outsourcing or offshoring—I am not sure which we are talking about here. You are saying that there is some insourcing.

**Mr Johnston**—Yes.

**Dr EMERSON**—Or onshoring.

**Mr Johnston**—Yes.

**Dr EMERSON**—Does it make sense to have a two-way flow? In that regard, you speak about back office functions and the difficulty of finding Australians to do those jobs. Would it make sense that those jobs go to the subcontinent and the subcontinent comes to Australia to establish or to try to access the top-end skills? I have just read *The World is Flat*, so you will have to forgive me.

**Mr Johnston**—I see. I am not hesitating in answering your question; I am just reflecting on my own professional experience. As you can tell, I have been around for a long time. I cut my teeth at the Industry Commission. We were having very much this same sort of debate—public involvement in the manufacturing sector—when it involved agriculture. There is no question that the economic reforms that we have seen over the last 20 or 30 years, where we have opened up this economy and seen jobs go offshore in many of the traditional sectors, has eventually been of enormous benefit to Australia in terms of our ability to sustain a strong and healthy growing economy and to be active in markets where we are globally competitive. Personally I have no problems with the offshoring that is going on to places like India and the Philippines. As a global citizen, I think it is something we should welcome.

In terms of where Australia's future lies we are now a services-based economy and we want high value-added services. They are the sorts of jobs that I think we want, but it is difficult to digest and handle—both as a social, although that is your business, and a political issue. But so long as standards of customer service, risk management, protection of intellectual property and protection of individual consumers' identities are maintained, and so long as anti money-laundering type issues are being adequately addressed through control systems and compliance systems, that is something that we should not be too concerned about.

**Mr SECKER**—It is interesting that you mentioned your Industrial Commission background and agriculture. There is a view around that we could seriously increase the wealth of Australia by developing our north. You also say that the superannuation funds are looking more to invest overseas in higher yields. I do not think we can develop the north without using the immense financial resources we have now. What would be needed to get those sorts of investments in the north to happen?

**Mr Johnston**—If I can speak in terms of financial services, I probably have not given a representative characterisation of what is happening in that space. We have all heard of the growth in infrastructure investment in public-private partnerships and the Macquarie Banks in this country. I think that is a very important development in financial services. Again, it is being underpinned by the growth in superannuation assets. That will provide a base for some of that development. They are not only looking for global equities and global fixed income: they are also looking to invest in direct property, they are looking to invest in infrastructure, and in what

are widely known as alternative asset classes, including something which is quite in the news at the moment, private equity, hedge funds and venture capital. I think there will be a pool of capital that could underpin that sort of development. I should declare my interest: I am a Queenslander. I know where the future lies.

**Mr SECKER**—And what about managed investment schemes? There has been quite a bit of publicity—some good, some bad—about managed investment schemes. What do you see as their role?

**Mr Johnston**—My answer is that they are a legitimate part of the landscape in Britain.

**Ms GRIERSON**—When I go on some of our delegations, I have observed people working in Japan. You meet at the embassy with all the people who are doing business throughout Asia and you know how highly regarded our financial services sector is. We are good at intellectual property, we are good at legal systems, we are good at accountability, we are good at audit functions and governance, and we have a strong reputation. But I guess I fail to understand your operations in some ways. You are promoting our ability to do that, but what would be your indicators of you doing your job very well? How would you measure whether Axiss itself is impacting and how it is impacting?

**Mr Johnston**—I have KPIs—key performance indicators.

**Ms GRIERSON**—I hope you have.

**Mr Johnston**—We are very accountable. It is measured, as I said, by bringing new firms to market here in Australia and creating additional jobs here in Australia. We have also talked about our efforts to promote Australia as a centre of excellence for financial service provision. For example, the work that we have done in the hedge fund space in the last 12 or 15 months shows in the publication that is the first attempt at an overview of the hedge funding industry in Australia. Either by hard copy or electronically, we have distributed 25,000 copies of that publication in 15 months globally.

**Ms GRIERSON**—So who is your audience? Who is it informing? It is informing the wide financial services sector all around the world?

**Mr Johnston**—Yes, and potential investors.

**Ms GRIERSON**—Into that sector?

**Mr Johnston**—Yes.

**Ms GRIERSON**—I was listening to the deputy chair's comments. You are a link to government. Do you have any policy directions that you try to value-add or fulfil in terms of venture capital in Australia—attracting not just into organised investment funds, et cetera, but into more risky areas that have that element of investment in the future in sustaining new ventures or innovation or whatever? Do you have a policy role in that way?

**Mr Johnston**—We have a formal policy role in terms of our outreach to the industry. We report to a committee called the regulatory advisory committee, which is a deputy's level committee comprising Treasury, the Reserve Bank, APRA, ASIC, the Australian Taxation Office, ATO, and the Australian Bureau of Statistics, the ABS. We meet with them twice a year. Typically we invite key industry speakers. We focus on issues that are current at the time so that our policy makers and our regulators have that exposure. In terms of, if you like, the venture capital, start-up and the private equity end of the spectrum, we sponsor the annual conference. For example, our money is often used to fly in a keynote speaker for that conference. At the moment we are working on a publication on venture capital and private equity which will be something like the hedge fund publication.

**Ms GRIERSON**—Are there more funds flowing into that? It always has been a bit of a problem for locals to find that next step to be able to grow or invest in export. Have you seen growth in the interest in venture capital in Australia?

**Mr Johnston**—We have.

**Ms GRIERSON**—With the Asian recession, we lost a lot and we have had to work hard to build that up again.

**Mr Johnston**—Yes. All the attention at the moment is focused on the private equity end of that spectrum, but there is a healthy venture capital industry here in Australia in spaces like biotechnology, for example. Again I would encourage you to speak to AVCAL, the Australian Private Equity and Venture Capital Association.

**CHAIR**—We might do that.

**Mr Johnston**—Yes, you should.

**Ms BIRD**—I just want to know whether the lo-doc housing lender that went broke in America had a presence here and whether we have a process of encouraging investors into these new products in our area?

**Mr Johnston**—I cannot answer that question. I am not aware that they have a presence.

**Ms GRIERSON**—I want to throw in one more thing. I reckon there are some benchmarks you did not put in this benchmark document for the skills area because, when we benchmark certain things, it would not come out so well. Was there stuff you had to leave out in benchmarking Australia against skills?

**Mr Johnston**—This is a marketing document.

**Ms GRIERSON**—Yes, I am aware of that.

**Mr Johnston**—We are trying to tell a good news story.

**Ms GRIERSON**—Absolutely.

**CHAIR**—Enough said. Thank you very much for your comprehensive evidence. Obviously your knowledge of the industry is very helpful. I think you understand what we are trying to do.

**Mr Johnston**—Yes.

**CHAIR**—I appreciate that. If you have any further inspiration, let our secretary know.

**Proceedings suspended from 12.28 pm to 1.25 pm**

**BROWNE, Ms Ruth, Victorian Executive Member, Australian Council for Private Education and Training**

**HANNAN, Ms Jennifer Marian, New South Wales Director, Australian Council for Private Education and Training**

**MANLY, Mr Alan Philip James, State Committee Member, Australian Council for Private Education and Training**

**SMITH, Mr Timothy, National Executive Officer, Australian Council for Private Education and Training**

**ACTING CHAIR (Ms Bird)**—Welcome. Although the committee does not require you to give evidence on oath, I should advise you that these hearings are legal proceedings of the parliament and therefore have the same standing as the proceedings of the respective houses. If you wish to present a submission or make an opening statement to the committee, we will then go to questions.

**Mr Smith**—Thank you, Acting Chair, for the invitation to the Australian Council for Private Education and Training, ACPET, to appear before the committee today. As the largest of the industry associations in the post-compulsory education and training sector, ACPET represents over 1,000 members who offer annually in excess of 4,000 accredited and non-award courses from certificates to postgraduate degrees to an estimated 250,000 Australian and overseas students. Approximately half our members are involved in international education. Our members provide teaching and administrative jobs to approximately 15,000 Australians in urban, regional and country towns across Australia.

The private sector's contribution to Australia's international education industry is estimated to generate \$1 billion gross turnover. The multiplier effect of our course delivery to overseas students in Australia impacts on a wide range of other service providers. I am the national executive officer of ACPET and my colleagues are Ms Jenny Hannan, Mr Alan Manly and Ms Ruth Browne. Ms Hannan is an ACPET board member and chair of our international education committee. She is a member of the ACPET New South Wales state executive committee and is director of Insearch UTS, a wholly owned subsidiary of the university, which delivers English language and higher education diploma pathway programs to UTS for domestic and international students.

Mr Manly is the managing director of Group Colleges Australia and is a member of the ACPET New South Wales state executive committee. Group Colleges Australia is Sydney based and is one of the largest private providers of English language schools and vocational education programs to overseas students in this country. Ms Browne is a former member of the ACPET national board, a member of the ACPET Victoria state executive committee, and the general manager of Pivot Point Hair Design College with campuses in Sydney and Melbourne.

ACPET members are generally small to medium size commercial businesses, delivering fee-for-service courses to Australian and overseas students. There is also a significant number of not-for-profit private providers active in the overseas market. ACPET members, through their overseas students, are providing the Australian community with considerable economic and cultural benefits. 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—a sizable increase from the previous year.

In the higher education sector, non-government provision, that is, other than universities, is steadily increasing with a growth of around 11 per cent in 2006. However, the universities still dominate this sector of the overseas market. It is important to note that a significant segment of the university student enrolments are recruited and enrolled through private providers, in partnership with the public university providers. This partnership area may comprise up to 30 per cent of university activity in the overseas market. The overseas market is highly regulated through both federal and state legislation. This regulation, some say overregulation, embraces the full gamut of quality assurance of courses and provider and consumer protection for students.

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 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. On this basis the fund is unfair, redundant and a massive impost on private providers. It should be abolished—an objective that we have not been able to achieve to date.

Universities and TAFE institutes are owned by government and are funded by the taxpayer. Their marketing activities and revenue generation in the overseas market are entirely commercial, fee-for-service and profit related. The example I have just referred to of inequitable treatment between public and private providers is unfair competition and enshrined in legislation. There are other examples of unfair competition, such as cross-subsidisation of activities, which we submit are inimical to national competition policy. Private providers play an important role in the government's general skilled migration program with former overseas students in many skills shortage areas now able to help to meet the growing skills needs of our community. This is particularly evident in disciplines such as aged and child care, hospitality, hairdressing, cookery, welfare, horticulture and automotive skills.

A current concern of ACPET is that the Commonwealth's Trades Recognition Authority, or TRA, does not appear to have a full appreciation of how quality accredited training under the

Australian quality training framework occurs for these skilled occupations. ACPET is keen to ensure that students completing their training are qualified, skilled and work-ready to enter the Australian work force. ACPET is particularly concerned about TRA's narrow interpretation of the 900 hours required as a minimum for application for general skilled migration, which apparently recognises only technical skills demonstrated in the workplace rather than the many other competencies needed for our work-ready employees. TRA does not acknowledge the work skills training provided by private providers through on-site commercial operations, such as hairdressing salons and training restaurants that are open to public patronage. This attitude of the TRA undermines the nationally recognised training package regime and compromises AQTF standards.

The private providers in higher education also are playing an important training role for other important skills shortage areas, such as accountancy, security and public safety, and information technology, IT, and business. In addition, many private providers have enhanced the choices for international students by meeting the growing demand for training and natural therapies, the arts, multimedia and music, physical and sports education and training.

This inquiry is important because it provides the opportunity not only to look at the education export industry in general but also to draw attention to the size, scope and contribution to the Australian community of the private education and training industry. We thank the committee for the opportunity to appear and give evidence.

**ACTING CHAIR**—Before we go into the detail of some of the issues you have raised, I would just like to ask you, in relation to the overseas students studying, whether there has been a shift in the sorts of things for which they are coming here to study. What is the general environment at the moment in relation to that participation?

**Mr Smith**—Basically, there are two broad categories. The first, of course, is the continuing inflow of overseas students. There is no shortage of those and the principal market at the moment is China. They are coming to do a full range of courses at both the vocational and higher education level. In the vocational level, the VET area, with which we are most familiar, IT business continues to be a very popular area. The welfare and childcare areas are big but the new dimension is the new categories in the skilled migration program. My colleagues, in particular Ms Browne, would be able to give you more information on that.

**ACTING CHAIR**—It might be useful to get that at the moment.

**Ms Browne**—Exactly. Students are coming to do cookery, patisserie work, hairdressing and horticulture—those types of things that Tim mentioned. There are a lot of students coming from overseas with a view to be looking at the possibility of skilled migration on the completion of their course.

**ACTING CHAIR**—What do you think would be the percentage of people looking at the skilled migration option as opposed to studying simply to get the qualification? Do you have some idea of the breakdown?

**Ms Browne**—You have to think about the fact that every overseas student would love to live in this country. If they come and study and there is that opportunity, I would say possibly 90 per cent would be looking at the possibility of skilled migration.

**ACTING CHAIR**—Why I am interested in this is whether we are offering a product that is particularly attractive or whether it is the end result of the product, being able to live here, that is attractive. I will give you my lead-in which you might want to address as well. One of the things the university sector is saying to us is that there are some price competitive issues for us in Australia with the universities competing with the United Kingdom and the United States universities and so forth. I was wondering whether our VET sector products are price competitive internationally. Obviously I would suspect what you have already said: that the quality is a competitive factor—that we are recognised as a high-quality product.

**Ms Browne**—Yes. We are definitely recognised as a high-quality product.

**ACTING CHAIR**—And how do we compare on price?

**Mr Smith**—Our prices locally are set in effect by whatever the universities set. The private sector very much has to fit in within the fee regime set by the universities for overseas students and that is an open market.

**ACTING CHAIR**—I was looking more at the VET sector. We have heard quite a bit of evidence on the university sector. I am just wondering, for people enrolling in the VET sector, whether we are price competitive with international providers.

**Mr Smith**—In the international market the VET market is a growing, still uncertain area in relation to its potential for growth. The term vocational education and training is not widely known overseas. Seventy per cent of the students who come into Australia on visas to do accredited VET courses in Australia are doing them through private providers and only 30 per cent through the TAFE system.

**Dr EMERSON**—How much of that is English language?

**Mr Smith**—English language is another sector again.

**Ms Hannan**—Most of the students. It is only the Indian market that does not really use the English language training. The majority of students coming to study in Australia would pass through an English language training school, of which we have hundreds in ACPET.

**Mr Smith**—The VET market in Australia for overseas students is very much a pathway program. It is designed for students who come in, typically as Ms Hannan said, to do a course or an English language course. They do a VET program which then gives them credit to enrol in a higher education course, typically a university course, which in itself is a problem for us because the regulators, DEST, the federal Department of Education, Science and Training, which controls the accreditation approval regime, is very much based on training packages.

Training packages are designed to meet the skills training needs of Australian industries. It is completely irrelevant for overseas students. One of the difficulties we are having at the moment

is encouraging the National Quality Council to become more liberal or more flexible in its application of training packages. Overseas students doing VET courses fundamentally are not interested in training package programs; they are interested in pathway courses which will take them to university, and that is what my colleagues are expert at providing.

**Mr Manly**—Perhaps I could add something to that. Your earlier question was talking of education as an export product and whether it is competitive. The issue is it is extremely competitive. The witness to that is whenever the Australian embassies have a lead-time for visas, we all say hypothetically 10 weeks and we are in Beijing, which I know a bit about. The New Zealand government will provide enough staff to make it eight weeks. That is a clear case. It goes up and down. It is always a little bit shorter than ours. With price, if the Australian dollar goes to 80¢, then we have a tendency to lose market share. Everyone is a hero exporting when the Australian dollar is 50¢. I have done analyses of that. I have always been a better marketing manager when the dollar is lower.

**ACTING CHAIR**—Fair enough. It is always a bit difficult unravelling the industry export capacity from the immigration issues in this area. I would not like to take away the view that what we are managing to encourage in overseas students is simply a pathway to get residency in Australia. I think we do have good education products.

**Ms Browne**—Absolutely.

**ACTING CHAIR**—Just from family feedback that I have had, for example, aircraft mechanics is a vocational course in places like China where they are using helicopters and things like that much more for travel. There will be a huge capacity for training in that area. You are saying that VET is not a well-understood concept in the international context. How well are we doing in promoting that sort of education and training that is available in Australia? Are government agencies overseas doing well by you in promoting those sorts of opportunities here?

**Mr Smith**—Australian Education International, which is the arm of the Commonwealth department, DEST, which has the responsibility for generic promotion of the market, is enthusiastic. It does consult with the industry. We have a residual concern that that consultation sometimes is more pro forma than real.

**Ms Hannan**—Before dealing with this issue, I would like to go back to your point about competition. Australia has to be aware that education is global; it is not just export industry. It actually has become global. One of the biggest challenges that I think we have in front of us is what is happening in Europe at the moment. It is called the Bologna process, or the Bologna protocol. That is going to see Europe really taking front and centre stage by being able to offer seamless education through all sectors, through 40-plus countries. That is being noticed now in our major competitor markets. Australia really has to look at the end-product of education. What is the product? The product is the diploma, or the degree, or the certificate. If that is not well understood by our source countries where we export, that is where we do have some issues with our training packages. Training packages are not the user-friendly offshore export tools that we would like them to be.

**Dr EMERSON**—You talked about the exchange rate. Let us suppose that beyond the resources boom, whenever that is, the exchange rate dropped substantially in a fairly quick period of time. How responsive is the whole sector to such variations?

**Mr Manly**—You would be talking about a three-month and six-month lead time. From my experience that is over 15 years. You are 100 per cent right. You do not need me to tell you that the resource boom has changed the tilt a bit. If it got over 77¢ we could really see a decline. But now the customer, being China, is also enjoying the benefits of the economic boom so they can afford it. So the real easy analysis, of following the dollar up and watching your exports go down, is not quite true at the moment because the customer's profile has changed. But we have always found that. The other part is that we are very insular in Australia. We have the six states routine. We have a high school—one of our colleges is a high school—but it is really only a New South Wales high school. We have to explain that it was named after the southern part of England and it is the new one that looks like it.

That is just the beginning of the problem. Then you find there are eight different ways of getting into university. That is not easy to explain to someone who is coming from an education environment where a small school is 5,000 kids. They just do not understand why, as Jenny pointed out, Australia is not more international. There are only 20 million of us. Often that just burns up a lot of time. The question earlier was the responsiveness of the government. I am just back from an Austrade exhibition. Vocational education gets a good run with Austrade compared to the universities, probably almost a disproportionate run, in as much as universities, which are 70 per cent of the market, dominate everything. The first check would be, if you are Austrade, to put 70 per cent of your resources into 70 per cent of the market. Having participated in a lot of Austrade things you get fair support there.

**ACTING CHAIR**—The universities are pretty good at doing it themselves these days anyway.

**Mr Manly**—The market has matured to that point. You are probably quite right.

**Mr Smith**—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 but particularly when it comes to dealing with individual providers that threaten the reputation of the industry, DEST, the Department of Education, Science and Training, is very slow to act. DEST is very keen to use a sledgehammer and hold everybody back, but it imposes a very high ARC, Accreditation and Registration Council, annual registration charge, plus the costs of compliance are higher than they are for our competitors overseas. In terms of the cost benefit, it is questionable, but what particularly concerns my organisation is that DEST will not act to deal with individual providers who are embarrassing the system.

**ACTING CHAIR**—You are the second group to give us that evidence today. It has been raised.

**Mr Smith**—Yes. There has been a lot of publicity, particularly in the *Melbourne Age*, about a provider in Melbourne. That provider, IBH Education, is currently a member of ACPET, the Australian Council for Private Education and Training. We understand there have been problems with that provider. Possible trafficking of students is alleged. We now find out, with hindsight,

that it was six months ago that the issues had been raised with government. It was only one month ago that the Victorian department came to my organisation and said, 'This provider will not pay refunds to students. What can you do about it?' In other words, what can the industry body do about it? It was the first we heard about it.

Within a week we removed the 15 students from the college. We told the provider we were going to ask him to show cause why he should not be expelled from our organisation and we acted decisively. When we asked DEST to deal with that and another problem we have in Sydney, DEST say they have no power. We submit to you that the federal department has all the legislative firepower it would ever want, but it has a lack of political will and a lack of bureaucratic will to deal with individual providers. DEST appears to be more concerned about a threat of litigation from individual providers than it is with the health of the industry generally.

**ACTING CHAIR**—So it would be right to characterise what you are saying as, instead of presuming everybody is bad and having a whole lot of entry level testing and charging, we should free that up, but deal more rapidly, impartially and effectively with those that do not comply as a result, rather than try to catch everybody at the gate with a whole lot of tests

**Mr Smith**—We raised with DEST a month ago that a large college called Alpha Beta College, a member of ours, collapsed in Sydney. There were 300 to 400 students involved. We operate the largest tuition assurance scheme in the country which is approved under the ESOS legislation. It is our job to move those students out and place them with providers so that their studies are not interrupted and their fees are protected. We do that very efficiently. On this occasion we had been particularly hamstrung because a non-member of the ACPET, one that we expelled three years ago, Lloyds International College, poached students while we had a relocation process in train. We took that up both with the New South Wales department, which is the local regulator, and with DEST. Both have told us that they have no power to intervene and do something about it.

It is matter of grave concern to us that when an industry body is trying its best to protect the industry's reputation and to put students first, regulators seem inclined not to support us.

**ACTING CHAIR**—Certainly it will damage our capacity to earn that export dollar if that reputation is impaired.

**Mr SECKER**—We have had quite bold evidence that some of this training, especially with people from India, is just being used to allow immigration to Australia. They do their two years of training and that makes them eligible for skilled migration. It is only fair that you get the chance to comment on that.

**Mr Smith**—That does not happen in any college or any provider that is a member of my organisation. We have a strict code of ethics. That is trafficking in students, and we do not do that sort of thing, obviously. It is not only against the law, it is absolutely unethical. But there are a very small number of providers that operate outside our code of ethics. There are several in Sydney and some in Melbourne. We hope that this committee could see fit to include in its report a strong call to DEST to act against these individual problems whom the industry identifies as problems, rather than say, 'It is all too difficult and they will sue us.'

**Ms Hannan**—We have gone repeatedly to government and said that these people must be shut down, and the government has done nothing.

**Mr SECKER**—Could you flesh out the cross-subsidisation that you referred to? Where is the cross-subsidisation causing problems and unfairness, as you suggest?

**Mr Smith**—It is perception of cross-subsidisation, but it is very difficult to pin down because whenever you speak to a university vice-chancellor or the AVCC about these things, they say, ‘We are required by government to make sure that all our international education and fee-for-service activities are totally separate.’ But in every instance there is cross-subsidisation. For a start, the taxpayer has purchased their libraries and computer facilities. In my colleagues’ colleges, my colleagues have bought the equipment and they have provided the books and the libraries. That is the sort of cross-subsidisation I mean, and it is endemic.

We are not saying that it is an inappropriate thing. What we are concerned about is that the public sector, public providers, universities and TAFE institutes are given a leg up through an act of parliament that says in effect that they do not have to pay the same sort of consumer protection charges that the private sector does.

**Mr SECKER**—That is a fair point. This inquiry is more about where this country can go after the resources boom. We do not know how long the resources boom will last. What you have brought to us is more about what is happening in education, which is very important for you; it is also very important for us to have the ability to earn income from overseas students. But what do you think this committee can do by recommendation to ensure the future success of the education sector?

**Ms Hannan**—One of the highest costs that is going to keep on eating away at the education sector is the cost relating to compliance, which is extremely high. A couple of years ago I set up a school in a joint venture with a university in the United Kingdom. The cost of compliance in the United Kingdom is a tiny fraction of the cost of compliance here. They have very high standards with their QAA, the Quality Assurance Agency. So there is the cost of compliance plus, as my colleague was saying before, the annual registration charge. What we have to pay on an annual basis makes business difficult.

**Mr SECKER**—As a group have you said, ‘We think we can get rid of this bit of compliance cost and cut this in half’? Have you actually got down to that level and said, ‘We can do this just as well without all these extra costs’?

**Mr Manly**—In the submission we mention the insurance fund.

**Mr SECKER**—I noticed you mentioned the national assurance fund. Are you suggesting we abolish that?

**Mr Smith**—We lost that battle pro tem in that there was a review of the ESOS legislation last year. We made strong representations to the department to amend the legislation to require universities and TAFE institutions to submit themselves to the same cost regime as us. That was not accepted. What we are more concerned about now is the general cost of compliance. There are at two levels of regulation in this country. The states issue the licence to practise. It is a

totally regulated system. If you want to be a registered training organisation in New South Wales, VETAB, the Vocational Education and Training Accreditation Board, makes those decisions. VETAB is totally and absolutely bound up in bureaucratic red tape. We get snared in that as well. Once you have finally broken through there, then of course you are subject to another set of red tape which comes from the federal department through the ESOS legislation.

Finally, the private providers are represented on the new National Quality Council that was established by the government 12 months ago. It is a great step forward. We welcome that recognition and acknowledgement but we are still trapped in a regulatory regime which reduces everything to the lowest common denominator. There is no attempt to separate good performers from not-so-good performers. If there is one recommendation we would like the committee to consider, that would be to reward high-quantity performers by giving them light touch auditing.

**ACTING CHAIR**—No-claim bonuses.

**Mr Smith**—No-claim bonuses.

**Mr SECKER**—It is interesting that we have had very similar evidence from the rural skills inquiry. New South Wales is a real problem with the paperwork they are providing.

**Ms GRIERSON**—Do you think that there is too much emphasis on compliance and not enough on standards?

**Mr Smith**—On the part of the government regulators?

**Ms GRIERSON**—For the sector, yes. You are saying that compliance is a real burden and you are also saying that the standards for this are at risk. What is your position in terms of assuring standards and meeting quality benchmarks?

**Mr Smith**—We accept absolutely the need to quality-assure the industry and to regulate the industry because you are dealing with the lives of young people and their careers. That is an absolute priority. What we are concerned about is that there is no differentiation by government regulators, at either federal or state level, between people with a good track record and those who are yet to demonstrate a good track record, as I said before. We are asking for some differentiation. What the regulators are fond of, in the Council of Australian Governments Human Capital Agenda, is talking about light-touch auditing, but everything we see does not look too light touch to us.

**Ms GRIERSON**—In the comments you made about skilled migration, you said it emphasises and recognises technical skills that are demonstrated by formal and competency-based qualifications or a training situation, but it does not have the job skills and readiness skills. Some of those would be cultural, I would have thought. Is the point you make that they can be provided here by trainers? I do not quite understand what the point you are making is.

**Ms Browne**—Take the hairdressing industry, for instance. Students are trained in the colleges to be job-market ready. They work in simulated hairdressing salons.

**Ms GRIERSON**—But what you are saying relates to students who train here.

**Ms Browne**—Yes.

**Ms GRIERSON**—I am looking at people coming in on visas, et cetera.

**Ms Browne**—Coming from overseas?

**Ms GRIERSON**—Yes.

**Ms Browne**—They are assessed by TRA, Trades Recognition Australia. That is a desk audit. There no actual assessment of their skill. It is just a paper-based assessment. We would like to see the TRA have some consultation with us, for instance in my industry or cooking or whatever, to make sure that those people coming into the Australian industry are well equipped.

**Ms GRIERSON**—I think that probably skilled migration is something that is not going to go away. If there is an inadequacy in it, is there an opportunity for our private training sector to be a complementary service? Are there already industries that have hauled lots of people in and found that they are not able to do it? Personally I have an ideological position that might be different to that, but is it a case of industries bringing them in and looking to you, or are looking to further training, or is it just total take what you get and do not worry about it?

**Mr Manly**—I could answer that because I am a director of another company that brings in skilled workers. The barrier is that you have got Australia saying we need more skilled people, and that is really an immigration issue. We need more skilled people. We need people and they have criteria.

**Ms GRIERSON**—We have an experience and training deficit here. But anyway, yes, go on.

**Mr Manly**—They are saying it has been going on since the First Settlement, so it has been going on for a while. We accept that there is a skills shortage. I suggest that even if we got every person who was unemployed, they would not want to be welders anyway. Given that, that puts heat on the situation.

**Ms GRIERSON**—Say we are bringing in lots of welders?

**Mr Manly**—Yes; then they fail.

**Ms GRIERSON**—Yes. I know they have from my own area.

**Mr Manly**—Then you get all sorts of social issues, of which I imagine you are aware, and I have some sympathy for that. There is a problem when you have got the TRA, Trades Recognition Australia, that is not well attuned because the employers would want the people and the immigration department is saying we would like them, but then we have a mismatch. The mismatch is that we do not seem to be governing how we get their skills worked out. They are not illiterate. They are skilled people. The ones I am talking about are skilled.

**Ms GRIERSON**—They have language problems sometimes.

**Mr Manly**—Filipinos do not really have a language problem, but you get into this TRA-type issue. Their experience makes them a competent skilled worker in their source country, but that is not exactly the same as ours.

**Ms GRIERSON**—No, it is not transferable.

**Mr Manly**—It is almost an art more than a science to understand that, but we seem to be getting into very dogmatic things, such as: when you can say 600 hours, it gives you competency to do a skill, and I think that is very optimistic. I am not saying it is too long or too short, but why would it not be 500 or 700? Then you go back to the argument: would it not perhaps be a competency type of skill? In welding you would have a standard welding test. If one person can do it perhaps quicker than another person, well good luck to that person. But you would think of the output, and you would have safety and occupational health matters overriding that.

We are then getting stuck with things like numbers of hours. It is hard to instantly say to a person who is 37 that they have to do 600 hours, not 599, do not forget, to meet the skills definition. I think that skills definitions were not ever intended to be used as recruitment into other countries. As little as I know about it, although I was a tradesman once myself, I think they were probably for trade regulation in Australia, and that, I think, probably works reasonably well. But when you are exporting, it is really tricky.

**Ms GRIERSON**—It may be so in a global economy that we get a more fluid movement of people across, and we already are having that across borders in terms of the workforce. What recommendations would you make? If that were the trend, what would be your vested interest in that? Where would you position yourselves in that to the best advantage?

**Mr Manly**—I will answer the first one first. Many Australians who go overseas as skilled workers are educated in business skills because our business skills are quite international.

**Ms GRIERSON**—We heard that today too.

**Mr Manly**—Our trade skills are not international.

**Ms GRIERSON**—They are not even national sometimes.

**Mr Manly**—Exactly. I stand corrected. Yes, exactly.

**Mr Smith**—Yes.

**Mr Manly**—They cannot get out of the neighbourhood. We need perhaps to look past the state divide and say: what are international standards for the skills we want?

**Ms GRIERSON**—That is a complaint we have had from TAFE in that they are now training for the industry. You are training for industry, yet across every state it is different.

**Mr Manly**—Yes.

**Ms GRIERSON**—It is rather silly, isn't it?

**Ms Browne**—Yes, exactly.

**Ms GRIERSON**—There is not a lot of harmonisation even in immigration, but if there is a movement to bilateral trade agreements, then they should be looking at some of these harmonisations in terms of skills and training.

**Ms Browne**—Yes.

**Ms GRIERSON**—Is your sector having an influence on that at all?

**Mr Smith**—We are certainly attempting to influence, in whatever modest way we can, the Department of Foreign Affairs and Trade's negotiating position in relation to the FTA, the Free Trade Agreement, plan with China. We are particularly anxious that DFAT, in representing Australia, our country, makes sure that the interests of the private education and training sector are kept in mind when negotiating FTAs, particularly the one with China. Often there is this fallback to education equals universities equals public providers. Even at the DFAT level, that may sometimes be overlooked. We are doing what we can to make sure that DFAT appreciates that there are two sectors.

**Ms GRIERSON**—There is something in the air in Canberra.

**ACTING CHAIR**—I am conscious of the need not to lose a quorum. It has been very useful information. Certainly some of the points you have mentioned to us have backed up evidence we have heard consistently, and some of it is quite new to us, which I think will be quite useful. We really appreciate your contribution.

**Mr Smith**—Thank you.

Resolved (on motion by **Ms Grierson**):

That this committee authorises publication, including publication on the parliamentary database, of the proof transcript of the evidence given before it at public hearing this day.

**Committee adjourned at 2.04 pm**