

## CHAPTER FOUR

### AUSTRALIAN COMMERCIAL ENVIRONMENT - VISAS, FINANCE AND OTHER MATTERS

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#### Currency

4.1 The exchange rate is an area which can introduce uncertainty into foreign trade activities. The three main elements of exchange rate variability are transaction exposure, asset exposure and operating exposure. DIST pointed out that 'In comparison with other exporting sectors...service sector exports are likely to be less affected by currency changes'.<sup>1</sup> It attributed this to the fact that the services offered by many service firms are highly differentiated and thus less price sensitive with clients likely to consider the quality of the service and the reputation of the provider as well as price. This view was reinforced by Maunsell Pty Ltd, and Victoria University of Technology (VUT).<sup>2</sup> Telstra Corporation (Telstra) noted exchange rate risk is factored into proposals and appropriate arrangements to hedge or whatever is relevant are taken.<sup>3</sup>

4.2 Few other comments were made on currency issues. It was a very minor issue for the service exporters who provided evidence.

#### Transport and infrastructure

4.3 As commented on in Chapters 1 and 2 and stressed by the Department of Transport,<sup>4</sup> transport and shipping are important service sectors in their own right. As well they provide a medium for facilitating the delivery of other services, are an important component of domestic infrastructure, and a lot of services are related to manufactured products so efficiencies in the delivery of those products impact on the overall efficiencies of the service sector.

4.4 The Western Australian Department of Commerce and Trade (WADCT) noted that for many years utility charges have not been cost competitive for Australian businesses relative to their counterparts overseas. It also pointed out that there has been considerable debate on whether the savings achieved from the corporatisation of railways, the waterfront etc were in fact going to the users of those services.<sup>5</sup> Clough Ltd highlighted the need for port reform and more investment in infrastructure in Australia.<sup>6</sup>

4.5 A number of the Darwin participants in the inquiry outlined recent developments in shipping and air transport in that area - faster and cheaper shipping services including access to some of the smaller ports in Indonesia and direct air services to Hong Kong, Japan

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1 DIST, Submission, p. S498.

2 VUT, Transcript, 17 May 1995, pp. 218-219; and ACSI, Transcript, 3 October 1995, p. 955.

3 Telstra, Transcript, 20 April 1995, p. 170.

4 Department of Transport, Submission, p. S174.

5 WADCT, Transcript, 12 July 1995, p. 523.

6 Clough Ltd, Transcript, 12 July 1995, p. 437.

etc. They stressed the importance of improvements in transport infrastructure for Darwin, and Australia, trade activities despite the conclusions of the *Report of the Committee on Darwin*<sup>7</sup> that the Darwin-Alice Springs rail link was not needed until the early part of the next century.

4.6 Maunsell Pty Ltd stated that '...because there has not been investment in a lot of infrastructure in Australia over the last 20 or 25 years, we are in a sense deskilling ourselves when it comes to export'.<sup>8</sup> It cited the example of it having to add to its own skills with people from outside the country in its involvement in the new rail link between Central Station and the airport in Sydney.

4.7 ACSI noted that 'Increasingly companies draw on international teams to work on assignments and projects. The ability to be able to facilitate the fast movement of key people is an important competitive issue'.<sup>9</sup> Monash University, the ELICOS Association Limited and Curriculum and Customised Training Network (CCTN) requested additional flights to facilitate educational exports.<sup>10</sup>

4.8 To improve private sector investment in infrastructure as a way of improving project selection, delivery and management, tax preferred infrastructure bonds were introduced by the previous government.<sup>11</sup> As a part of the policy the purpose of this investment tool is to provide tax incentives to assist in the development of land transport, sea ports, airport infrastructure<sup>12</sup> and electricity generating projects, at the domestic level. A spin off of this development is that as investment developed in the physical capital areas, so too does the level of investment in human capital. To date the success in investment terms has been slow.

4.9 The present government has temporarily suspended these bonds. The reason for this suspension is that the extent of the bonds on offer for 1996-97 (set at A\$150 million) was expected to be reached and exceeded.

## Conclusion

4.10 While the technology exists to deliver services overseas in modes other than face-to-face and commercial presence, those modes of supply still dominate. Improvements in international transport services to facilitate the movement of key people and international students both in and out of Australia is an important competitive issue and is likely to remain so for sometime. Private sector investment in infrastructure has many spin offs including the development of project selection, delivery and management skills which Australia can market offshore.

## Visas

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7 *Report of the Committee on Darwin*. 1995. Canberra, AGPS.

8 Maunsell, Transcript, 3 October 1995, p. 954.

9 ACSI, Submission, p. S714.

10 Monash University, Submission, p. S114; CCTN, Submission, p. S118; and ELICOS, Submission, p. S164.

11 Infrastructure bonds simply allow companies to invest in projects that develop the infrastructure, that they can issue bonds on, which offer a tax free yield to investors.

12 Airport infrastructure was added in the 37th Parliament. Minister for Transport, Press Release, *Airports and infrastructure in the 1990's*, 28 July 1994.

4.11 As visas are important for the movement of business people, students and for medical treatment they have a significant impact on service exports.

4.12 Visa policy has been linked with wider economic policies for internationalisation and business development and competition. Significant progress has been made in this regard by the Department of Immigration and Multicultural Affairs (DIMA), though other countries with more liberal visa systems would probably not support that view nor those who seek visa free travel for selected countries.

4.13 Changes in relation to business travel from Indonesia include: DIMA offices in Jakarta and Denpasar; putting in place travel agency arrangements in Indonesia for selected agencies to do the physical visa processing; the introduction of a nominated visa class whereby business applicant visa arrangements are managed by the business or government to whom the applicant is coming in Australia; and a business visa option which allows a successful business visa applicant to retain the visa for the life of the passport, or five years, whichever is longest, thereby allowing multiple entry for up to three months at a time.<sup>13</sup>

4.14 Australia has introduced the Electronic Travel Authority (ETA) in selected countries, to date the United States and Singapore. The ETA enables travel agents and airlines around the world to get immigration clearance for tourists and business visitors at the same time as the traveller purchases their ticket.<sup>14</sup>

4.15 In addition, a streamlined temporary business entry sponsorship scheme started on 1 August 1996<sup>15</sup> giving businesses more flexibility to build competitive international links while safeguarding employment opportunities for Australians.

4.16 Since 1 November 1996 all short-term business entrants to Australia under Temporary Business Entry and Electronic Travel Authority have been eligible for an Australian Business Access (ABA) Card. The ABA card initiative has been developed as a logical extension of the business facilitation process to provide these visa holders with a 'value-added' product. On this basis DIMA advise it is negotiating with the Australian Customs Service to streamline border processing for these visa holders on arrival in Australia.<sup>16</sup>

4.17 The ACCI in cooperation with the Australian Government has proposed an APEC Business Travel Card to facilitate trade and services by liberalising business travel between APEC countries. The ACCI has been discussing and promoting this idea to other national chambers around the Asia-Pacific with a very positive response.<sup>17</sup> The proposal was part of Australia's Individual Action Plan (IAP) for the APEC round of talks in the Philippines in November 1996. The proposal for the Business Travel Card to facilitate the rapid entry of accredited business visitors from participating APEC countries, is a sound one and will assist in the development of trade and services. The APEC Ministers welcomed the decision by

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13 DIEA, Transcript, 18 September 1995, pp. 916-917.

14 Media Release, Senator the Hon Nick Bolkus, Minister for Immigration and Ethnic Affairs and Minister Assisting the Prime Minister for Multicultural Affairs. *Invisible visa a world first for Australia*, 17 January 1996.

15 Media Release, Hon Philip Ruddock, MP, Minister for Immigration and Multicultural Affairs. *Streamlined temporary business entry sponsorship starts*, 1 August 1996.

16 DIMA, Submission, p. S926.

17 ACCI, Transcript, 29 August 1996, pp. 1002-1003.

Australia, Korea and the Philippines to proceed with a trial of an APEC Business Travel Card in 1997.<sup>18</sup> They noted the value of the APEC Business Travel Card initiative as a contribution to enhancing the mobility of business people in the APEC region.<sup>19</sup>

4.18 The Committee recommends that:

7. **the Australian Government and Australian business continue to develop the APEC Business Travel Card proposal and consult with APEC countries to widen participation in streamlining border processing for accredited business visitors.**

4.19 The Northern Territory Exporters Council (NTEC) said it had been lobbying for some time to have a visa office set up in Kupang, its closest contact with Indonesia. DIMA advises Kupang is one of nine agency arrangements currently operating in Indonesia, of which five are in Jakarta, one in Kupang, one in Ujung Pandang and two in Surabaya. There are also an additional seven agents expected to start operation in the near future of which four '...will be based in Jakarta, one in Medan and one in Ambon'. DIMA advise that approximately 22 per cent of tourist visa issuance in Indonesia is by agent.<sup>20</sup>

4.20 No specific visa problems were raised in relation to Hong Kong and DIEA commented that it expects Hong Kong post-1997 to be business as usual for it.<sup>21</sup>

4.21 DIEA did not consider the medical visa system an impediment to the export of health services since the policy behind the visa is to facilitate the export of medical services as well as protect Australia's public health interests and protect Australian access to medical/health services.<sup>22</sup>

4.22 There was a complaint from Monash University on the time and costs of processing student visas and a request from Curtin University that student visa conditions be changed to require students to pay health insurance premiums for the whole of the duration of the visa as a condition of the issue of a visa.<sup>23</sup> The International Education Office of the Australian National University suggested that student overstay rates from countries such as Indonesia, are not as much a problem as other categories of overstayers. However, it also suggested that there needed to be better policing of overstay regulations generally to ensure that a problem doesn't develop.

4.23 All of these changes and others are bringing about a significantly different attitude and approach on the part of DIMA overall which should flow through to an efficient, effective and courteous counter service for customers.

## **Conclusion**

4.24 A vast majority of trade in services still depends on the movement of people even though technology is being used more and more. The requirement to obtain a visa can act as

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18 Joint Statement of the Eighth APEC Ministerial Meeting, APEC 96/MM, 22-23 November 1996, p. 5.

19 *ibid.*

20 DIMA, Submission, p. S925.

21 CIEA, Transcript, 18 September 1995, p. 920.

22 *ibid.* p. 919.

23 Monash University, Submission, p. S113; and Curtin University, Submission, p. S644.

an impediment to business in a situation where time is of the essence. Significant progress has been made in freeing up the Australian visa system to ensure that it is not an impediment to service exports.

## Legal framework and business regulation

4.25 The impact that service firms have on individuals and companies means that there has been a long history of regulation in all advanced societies. Such regulations cover professional qualifications, consumer protection provisions, licensing, State payroll taxes, training levies, workers compensation, superannuation etc.

4.26 Given the current climate of deregulation, the specific microeconomic reforms introduced in this area, and cooperation between all levels of government to reduce the regulation burden, there was a wide range of views expressed on this issue. For example, while Clough Ltd noted '...we have got to somehow reduce the conformance burden on industries and companies...'<sup>24</sup> the Hong Kong Jockey Club was looking for a temporary holiday from the regulations for start-up organisations<sup>25</sup> and Cathay Pacific commented '...We have had to comply with the various regulations, FIRB [Foreign Investment Review Board] and things of that nature, but we do not see that as unreasonable...'.<sup>26</sup>

4.27 Telstra raised concerns about the asymmetric regulation of Telstra's supply of telecommunication services in Australia imposing significant disadvantages on Telstra in its ability to compete with foreign carriers and service providers in global markets.<sup>27</sup>

4.28 ACSI made a plea for continued deregulation, no increase in regulation in the case of the banks and avoidance of excessive regulation and bureaucratic control in new industries clustering around the advanced information and telecommunications technologies such as the multimedia industry which has been global from day one.<sup>28</sup>

4.29 Initiatives taken by the former government to reduce the burden of regulation include expansion of the Office of Regulation Review; the Corporations Law Simplification Program; Mutual Recognition Agreement between the Commonwealth, State and Territory governments; and the development of a national market in legal services.<sup>29</sup>

4.30 Standards Australia pointed out that standards and conformity to standards impose a trade barrier to Australian companies wishing to export services to Asia. It suggested no one solution can be applied but common standards and mutual acceptance of conformance will assist Australian exporters.<sup>30</sup> Changes in this area introduced as a result of the report *Linking industry globally*<sup>31</sup> will be instrumental in improving competitiveness.

## Telecommunications

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24 Clough Ltd, Transcript, 12 July 1995, p. 437.

25 Hong Kong Jockey Club, Transcript, 7 August 1995, pp. 786-787.

26 Cathay Pacific Airways Ltd, Transcript, 14 September 1995, p. 880.

27 Telstra, Submission, p. S182.

28 Mercer, D. op.cit. p. 7.

29 See *Working Nation: Policies and programs*, op.cit. pp. 35-38.

30 Standards Australia, Submission, p. S66.

31 *Linking industry globally*, March 1995. Report of the Committee of Inquiry into Australia's Standards and Conformance Infrastructure, Canberra, AGPS.

4.31 Telecommunications is an input to the export of services as well as an outbound and inbound service export in its own right. Telstra noted that the inbound traffic results from regional headquarters and data processing centres locating in Australia and import competition results from offshore service providers offering telecommunications services to businesses located in Australia who want to make international telephone calls.<sup>32</sup>

4.32 While telecommunications was rated as the most positive element of the local environment by respondents to the *Intelligent Exports* report survey, the report stressed the need to maintain this excellence.<sup>33</sup>

4.33 A more objective and detailed assessment of telecommunications by the Bureau of Industry Economics (BIE) supports that view. BIE compared Australia's performance in the provision of telecommunications infrastructure and services with international best practice. The study found that overall Australia's performance is reasonable, but there is no room for complacency. Further improvements are required in price reduction, quality of service and operational efficiency with ongoing investment in network development and labour productivity requiring the most attention.<sup>34</sup>

4.34 Telstra stated that '...This world class level of telecommunication services has resulted from sustained infrastructure investment over a long period, from the presence of dynamic supplier base in Australia and from the effects of competition in the Australian market'.<sup>35</sup> A program of deregulation of the telecommunications sector has been introduced since November 1990, potentially culminating with full competition commencing in July 1997. The *Telstra (Dilution of Public Ownership) Bill 1996* is before the Parliament.

4.35 Fewer, although very positive comments were made on the telecommunications sector by participants in this inquiry. Comments by Cathay Pacific and American Express left little doubt of the benefits of the telecommunications network for attracting regional headquarters and data processing centres to Australia.<sup>36</sup>

4.36 DFAT has advised that under the GATS the negotiations on liberalising trade in basic (voice) telecommunications services have been extended until 15 February 1997, following the failure of participants to reach an agreement by the 30 April 1996 deadline. Agreement was not reached largely because of the United States' view that there was an insufficient 'critical mass' of offers on the table, particularly on satellite services.<sup>37</sup> Participants in the negotiations have put forward offers to improve market access and investment significantly and have developed a set of regulatory principles to facilitate market access globally.<sup>38</sup> Hong Kong has made an offer in the negotiations.

## Conclusion

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32 Telstra, Transcript, 20 April 1995, p. 164.

33 *Intelligent Exports*, op.cit. p. 95.

34 Bureau of Industry Economics, *International performance indicators: Telecommunications 1995*. Research Report 65, March 1995, Canberra, AGPS.

35 Telstra, Transcript, 20 April 1995, p. 160.

36 Cathay Pacific Airways Ltd, Transcript, 14 September 1995, p. 877; and American Express, Transcript, 14 September 1995, pp. 885 & 890.

37 DFAT, Submission, p. S785.

38 *ibid.*

4.37 The Committee is in agreement with the BIE that while Australia's performance in telecommunications is reasonable, there is no room for complacency if the service sector is to lift its performance internationally. Telecommunications is important as infrastructure to facilitate economic growth, as a conduit to trade and a successful outcome to the GATS negotiations is important to Australia.

## Labour market

4.38 The quality of managers, the workforce and their incomes and conditions of employment are critical factors in the success of the service sector.

4.39 Greater flexibility in the labour market is essential for lifting Australia's international competitiveness, in terms of capability as well as price. Several groups suggested Australians' wages are very competitive with their counterparts overseas.<sup>39</sup>

4.40 Maunsell Pty Ltd stressed that although the unit costs are important, the leading edge issues are more related to getting the right inputs to an activity and managing the process properly, that is, for example, rapid and ready access to the individual without having to put them on a plane and pay for a hotel in Melbourne.<sup>40</sup>

4.41 In the new era of technology and globalisation, factors such as hours of work are changing to accommodate different time zones and working overseas is becoming a normal component of a career path. Lend Lease and the ANZ noted that they have put a lot of effort into developing a positive approach to working overseas amongst their staff and management and the Henry Walker Group Ltd said its staff are lined up wanting to go overseas all the time.<sup>41</sup> This impacts on the wage situation and some businesses now operate in Asia without much of a wages loading. They pay a similar salary to that paid in Australia plus accommodation and living allowance.<sup>42</sup>

4.42 The National Tertiary Education Industry Union (NTEU), in discussing international education activities, noted that those working overseas are frequently confronted by disparity in salaries and conditions for locally hired staff and Australian expatriates. Industrial problems have also arisen in relation to the working conditions attached to overseas postings.<sup>43</sup>

4.43 A number of reforms of the industrial relations system have been introduced, but Clough Ltd and the WADCT suggest more needs to be done.<sup>44</sup>

4.44 The *Workplace Relations and Other Legislation Amendment Bill 1996* was assented to on 25 November 1996. In its Budget Statement the Government stated:

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39 Clough Ltd and ACCI, Transcript, 12 July 1995, pp. 443-444; WADCT, Transcript, 12 July 1995, p. 526; and Henry Walker Group, Transcript, 31 July 1995, p. 629.

40 Maunsell, Transcript, 3 October 1995, pp. 946-947.

41 Lend Lease, Transcript, 20 April 1995, p. 136; Henry Walker, Transcript, 31 July 1995, p. 625; and ANZ Ltd, Transcript, 3 October 1995, p. 940.

42 Henry Walker, Transcript, 31 July 1995, p. 625.

43 NTEU, Submission, p. S71.

44 Clough Ltd and ACCI, Transcript, 12 July 1995, p. 444; and WADCT, Transcript, 12 July 1995, p. 524.

The central objective of the proposed reforms is to give employers and employees primary responsibility for industrial relations and wage setting arrangements at their own enterprise and workplace. There is increased emphasis on bargaining at the enterprise level.<sup>45</sup>

## Conclusion

4.45 Continuing flexibility in wages and conditions are essential for international competitiveness and the demand and need for this will get stronger, not less. It is reassuring to know that going overseas to work is part of the career path for Australian professionals. Service exporters need to give consideration to the specific circumstances of the country they are going into and what local wage standards and conditions apply. In addition, overseas work provides opportunities for individuals to enhance their career prospects, broaden their work experience and experience a different life style to that in Australia. The demands on time and performance are high and there is the need to be acutely aware of the cultural and behavioural requirements of the country in which they are living and doing business.

## Education and training

4.46 Australian skills in many service sectors are highly valued overseas, while the transfer of skills is often a requirement for practice in other countries, for example, in some service sectors in Indonesia. Generally the Australian education system is providing such skills and has a good track record. Academic and trade qualifications are well regarded, but an individual's capacities are measured by the local requirements.

4.47 The recognition of qualifications is a problem which education exporters around the world face at various times. Australia has a qualifications framework for schools, TAFE and universities which was approved by Ministers two years ago. According to Mr Norman Fisher of Australian TAFE International (ATI) the Australian qualifications framework is a unique educational advance that is not mirrored in our competitor countries and recognition of Australian qualifications is critical to Australia being more effective in the market place.<sup>46</sup> Furthermore, Mr Fisher noted that until a few years ago:

...there were no aid scholarships for offshore students to come to Australian TAFE's. Nearly 50 years of Commonwealth government support for students from other countries to attend Australian universities created offshore a substantial recognition of the quality of Australian university education and the value of the qualifications. We [TAFE] have hardly had that.<sup>47</sup>

4.48 Mr Fisher pointed out that the Australian qualifications framework, for schools, TAFE and universities, is hardly known offshore and 'it is one of those good developments that has fallen down on implementation and one of which we are particularly critical'.<sup>48</sup>

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45 Commonwealth of Australia, *Budget Statements 1996-97*, Budget Paper No 1, Canberra, AGPS, pp. 2-44.

46 Fisher, Transcript, 29 August 1996, p. 999.

47 *ibid.* p. 996.

48 *ibid.*, p. 994.

4.49 The Committee discussed this matter with officers of DEETYA and were advised:

At an international level, we are in the process of completing the development of a promotion strategy for the Australian qualifications framework so that we can position in particular vocational educational qualifications internationally.<sup>49</sup>

4.50 The Committee recommends that:

**8. the Department of Employment, Education, Training and Youth Affairs commence its promotion of the Australian qualifications framework as a matter of urgency.**

4.51 In addition, Australia's international education system is training a pool of overseas professionals that Australian businesses may recruit to assist in developing export markets in their countries of origin. This is particularly evident in the case of Hong Kong.

4.52 DFAT advised that a Working Party on Professional Services has been established under the GATS to seek freer access for providers of professional services by ensuring that professional qualifications, standards and licensing arrangements are not used as barriers to trade. To promote mutual recognition of professional qualifications in the Asia-Pacific region a similar working party, the Human Resources Development Working Group, has been established under APEC with the initial focus being on the accountancy, engineering and land surveying professions.<sup>50</sup>

4.53 There is an increasing need for professional education and training curriculum to include international and specific country courses. Accounting and law are identified as two disciplines where training relevant to the accounting and legal environment overseas is needed.

4.54 Language skills and cultural awareness are also critical for successfully doing business in Indonesia and Hong Kong. While many of the current business people have to undertake further training in this area before working overseas, some professionals with these skills are now coming through the universities, but there are still not enough. ANZ noted that its graduate recruitment is focusing more and more on language skills.<sup>51</sup> The Committee is of the view that more Australian companies should follow this practice with an emphasis on the Asia-Pacific region.

4.55 The Committee recommends that:

**9. Australian companies adopt a policy of recruiting and supporting students with both language and professional skills to provide an important resource for Australian businesses operating in the Asia-Pacific region in the future.**

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49 Rowling, Transcript, 29 August 1996, p. 1041.

50 DFAT, Submission, p. S788.

51 ANZ, Transcript, 3 October 1995, p. 940.

4.56 American Express highlighted the value of Australia's existing multilingual labour pool at an acceptable cost, stating this was the critical factor in its decision to locate its data processing centre in Sydney.<sup>52</sup> DEET pointed to this as a major advantage in selling Australia's employment, education and training services overseas.<sup>53</sup>

4.57 DEET reported there is a commitment to enhance linguistic capacity in Australia. More than 70 languages are spoken in the Australian community. More than 23,000 students are studying one of more than 35 languages taught in Australian schools. The National Asian Languages and Studies in Australian Schools (NALSAS) program aims to have 60 per cent of school children in Years 3-10 studying an Asian language by the year 2006.<sup>54</sup> However, DEETYA does not keep LOTE (Language other than English) statistics on Years 3-10. These statistics are held by the states and territories. The only statistics which DEETYA can provide are for Year 12. Considering that NALSAS is a federally-funded program, the Committee was concerned that DEETYA does not keep language statistics for all years to enable evaluation of the progress of the program.

4.58 The Committee recommends that:

- 10. the Department of Employment, Education, Training and Youth Affairs, in co-operation with State and Territory Departments, keep comprehensive statistics on the number of students by each year level studying Asian languages.**

4.59 DEET noted that Indonesian is one of the targeted languages under NALSAS.<sup>55</sup> The whole Darwin education system specialises in Indonesian language studies.<sup>56</sup>

4.60 Chinese language studies do not have a high penetration level in Australia. To have linguistic skills, particularly in Mandarin, the main language spoken by administrators in China, is important for Australian businessmen and diplomats doing business and working in China.

4.61 The Committee recommends that:

- 11. the Department of Employment, Education, Training and Youth Affairs encourage, in conjunction with State and Territory Ministers, the availability within the Australian education system of Mandarin and Indonesian language courses.**

4.62 The Northern Territory Government considered language skills so fundamental to successful export promotion that it suggested expenses incurred in acquiring them should be fully rebatable for tax purposes.<sup>57</sup>

4.63 The Northern Territory Department of Asian Relations, Trade and Industry (DARTI) noted that it is often difficult to match the formal training provided by the college

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52 American Express, Transcript, 14 September 1995, p. 884.

53 DEET, Submission, p. S584.

54 *ibid.*

55 *ibid.*

56 NT Dept of Asian Relations, Trade and Industry, Transcript, 31 July 1995, pp. 643-644.

57 NT Government, Submission, p. S573.

or university with the language needs of a trade or profession, for example, it is difficult to find someone to teach plumbing who speaks Indonesian.<sup>58</sup> More emphasis needs to be given to developing a pool of people with both professional or vocational and language skills.

4.64 Lend Lease pointed out that in the financial services area the *lingua franca* is English so there are no great linguistic barriers in the workplace, but the assimilation of family life into the overseas environment and meeting other people puts pressure on individuals.<sup>59</sup> No doubt this is also true for many other service industries abroad where English is the language of business.

4.65 Although there is an expanding range of consultants and courses available to provide training in the areas of language, business protocol, etiquette and/or religious mores of other countries, the uptake of these courses is not as great as it should be. NTEU complained that there are still staff in the international education area - both administrators and teaching staff - who do not receive adequate language and cultural training before going overseas.<sup>60</sup> A study presented by The Australia China Chamber of Commerce and Industry Limited found that 'despite the lack of executives who have worked in China, only 28 per cent of companies give training about China to their departing executives. This is a long way behind European companies (91 per cent) and US companies (63 per cent) sending executives abroad'.<sup>61</sup> Similar results could be expected for businesses going to Hong Kong and Indonesia. Knowledge of the languages and cultures of export markets is an essential ingredient of success.

4.66 The Committee recommends that:

**12. government, business, and educational institutions provide adequate language and cultural training for their executives who work or do regular business overseas.**

4.67 The National Languages and Literacy Institute of Australia Limited (NLLIA) suggested more attention needs to be given to the provision of interpreting and translating services for international business.<sup>62</sup> Australia, according to the NLLIA, '...has developed sophisticated professional services in interpreting and translating which are part of Australia's resources and its capacity to service both foreign companies setting up their business in Australia and Australian companies involved in the export of services'.<sup>63</sup> Australian companies often rely on their overseas customers to provide these services and are unaware they can be accessed at home. Australian peak business bodies such as the Business Council of Australia should take note of the availability in Australia of interpreting and translating services for international business.

## **Leadership and management**

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58 NT Dept of Asian Relations, Trade and Industry, Transcript, 31 July 1995, pp. 643-644.

59 Lend Lease, Transcript, 20 April 1995, p. 141.

60 NTEU, Submission, pp. S71-S72.

61 Blackman, C. op.cit.

62 NLLIA, Submission, pp. S189-S192.

63 *ibid.* p. S191.

4.68 The services sector is critically dependent on the skills of its entrepreneurs particularly those in small businesses. This issue was strongly brought into focus by a major review of Australian managers - *Enterprising nation* - released in April 1995.

4.69 That review suggested that while the best Australian managers are equal to the best in the world, the majority of Australian managers do not have the education and skill levels of those of the major trading nations. It noted that Australia ranked 18th out of 41 nations in relation to management by the World Economic Forum's *1994 World Competitiveness Report*. It suggested the solution lies in management education, training and development. Australia has a number of management schools which are internationally recognised and is regarded as a regional leader. For many years nationals from Asia-Pacific countries have attended management courses in Australia, especially Indonesia and Papua New Guinea. The *World Competitiveness Yearbook 1996* ranks Australia as 25th out of 45 nations in relation to management.<sup>64</sup>

## Conclusion

4.70 *Enterprising nation* is excessively negative about Australia's managers. Based on the Committee's meetings with many businesses exporting to Hong Kong and Indonesia, while management skills in Australia may not be considered great by all, those businesses which are operating successfully in the Hong Kong and Indonesian markets revealed good management skills. The Committee does not believe that lack of management skills is a major impediment to Australian businesses successfully exporting services: in fact Australia's best managers are better than most in the world. It supports the recommendation of *Enterprising nation* that there is a need to develop a more positive export enterprise culture in Australian management where more businesses are prepared to accept the challenges, take the risk, and export.

## Finance

4.71 One of the critical problems confronting service exporters is finance. As pointed out by the McKinsey study into the high value-added manufacturing exporters,<sup>65</sup> it is not peculiar to the service sector. However, it is generally considered to be compounded in the service sector because of the difficulty of translating assets, which might not be tangible, into accessing finance.

4.72 It also has to be accepted that it costs a lot of money to do business in many Asian locations like Hong Kong and Indonesia.

4.73 Austrade noted the *Intelligent Exports* report found there is also a particular problem for companies in the \$2 million to \$5 million turnover category. Smaller businesses with less than \$2 million turnover were often financing exports from mortgages, credit cards and borrowing's from friends while those with more than \$5 million turnover found banks were more prepared to lend to them. Businesses getting through that \$2 million to \$5 million black hole are doing so through initiatives such as borrowing offshore; borrowing from

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64 The *World Competitiveness Yearbook 1996*, June 1996. International Institute for Management Development, Lausanne, Switzerland, IMD, pp. 33 & 39.

65 McKinsey & Company and the Australian Manufacturing Council Secretariat, June 1993, *Emerging exporters: Australia's high value-added manufacturing exporters*. For the Australian Manufacturing Council, Melbourne.

individuals; and using government finance particularly the Export Market Development Grants Scheme (EMDG), and the Export Finance and Insurance Corporation (EFIC) facilities.<sup>66</sup> Finance is a significant problem for a large number of companies.

4.74 The Council of Small Business Organisations in Australia (COSBOA) suggested smaller businesses also need assistance to make them viable so they could develop further. During the recession a lot of those businesses drew down their backing capital to keep going and now they want to do something more creative they are finding it difficult to get the funds to do it. It said '...access to capital is a real thing, even though the banks continue to say it is not'.<sup>67</sup> Similar comments were made by the Western Australian Small Business Development Corporation which also raised concerns about banks' demands for too much security, charging unreasonable fees and being inflexible in dealing with small clients; and heavy emphasis placed by government programs on the track record of businesses.<sup>68</sup>

4.75 Clough Ltd pointed out that it is always difficult organising finance for overseas projects.<sup>69</sup> It involves a lot of legwork. The problem is not restricted to new and smaller players.

4.76 Ms Heij suggested that the problem is partly related to the relative lack of experience Australian banks have with investments in Asia. She noted that her experiences with large Dutch banks with Asian direct investments are more positive than her experiences with large Australian banks. Unfortunately this problem is likely to continue since the expansion into Asia of many Australian banks is limited.<sup>70</sup>

4.77 The former Governor of the Reserve Bank of Australia, Mr Bernie Fraser, has also raised concerns on this. In evidence to the House Standing Committee on Banking, Finance and Public Administration he stated:

...there has not been a great push by the Australian banks to become involved in Asia in the provision of banking services. I think we know there are some good reasons for that, that most of the banks have been a bit burned by their international ventures in the late 1980s; and they have had domestic problems anyhow, which they have been concentrating on. For all that, it has been a bit disappointing...It is really only the ANZ Bank, through the Grindlays connection, which has much expertise and experience in foreign banking.<sup>71</sup>

4.78 In mid 1995 the former Governor noted that the Reserve Bank of Australia was dealing more with Asian central banks and challenged Australian banks to follow its lead.<sup>72</sup>

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66 Austrade, Transcript, 6 April 1995, pp. 59-60.

67 COSBOA, Transcript, 6 April 1995, p. 78.

68 WA Small Business Development Corporation, Transcript, 12 July 1995, pp. 500-502; and WA Small Business Development Corporation, Submission, p. S551.

69 Clough Ltd, Transcript, 12 July 1995, p. 449.

70 Heij, Submission, p. S105.

71 House of Representatives Standing Committee on Banking, Finance and Public Administration. *Inquiry into the Annual report of the Reserve Bank of Australia - 1993-94, Hansard, Public Hearing 19 October 1994*. Evidence by Mr B Fraser, Governor, Reserve Bank, pp. 36-37.

72 Robbins, M. 'Follow our lead into Asia, says bank chief'. *The Australian*, 13 July 1995.

4.79 The NTEC commented that 'The main problem seems to be that banks are perceived to be not particularly entrepreneurial and will not take even limited risks with the provision of finance. After the sorts of events of the late 1980s, that is understandable to a certain extent'.<sup>73</sup>

4.80 According to Austrade, financial institutions at the moment do not have the capacity to assess the kinds of risks associated with the service sector.<sup>74</sup> Room for improvement of staff and skills base in this area also has been confirmed EFIC.<sup>75</sup>

4.81 The ANZ partly attributed its success in international banking to its history. The ANZ has been a business bank with the largest proportion of its customers being businesses. It sees the Australian market as competitive and limited and so has followed its customers into the Asia-Pacific and in some cases led them in there.<sup>76</sup> It is operating in some 40 countries often in a joint venture with a local partner.

4.82 In commenting on the limited involvement of Australian banks in Asia, ANZ said the situation was similar in the United States and the United Kingdom, where there are two or three and one or two truly international banks, respectively.<sup>77</sup>

4.83 Looking at finance failure, ANZ noted that 'In our experience there are two major reasons for this: poor preparation and high risk projects'.<sup>78</sup> Paucity of information on business plans and track record by service exporters were confirmed as issues by Austrade.<sup>79</sup> However, ANZ stressed that it is keen to finance exporters. Its overseas network is of great assistance in this regard with many of the projects in particular countries being financed by the ANZ branch, or its partners, in those countries. It said that although all of the banks have different credit policies, as a general rule the first thing bankers have to look at is capacity to repay and acknowledged that first time exporters are a bit more risky and the smaller exporters are always going to find it harder to get finance. It noted '...with very few exceptions would we have a viable business, whether it be services export or trade export, that we are not able to help...'.<sup>80</sup>

4.84 This however was not the experience of one of the businesses which met with the Committee - Pacific Asia Industries.<sup>81</sup> Despite trying a wide range of sources for finance, including ANZ, it was unsuccessful and reluctantly took up a long standing offer for finance from overseas. Unfortunately, the Committee expects this is often the case and not only the original export project, but all or much of the flow-on sourcing and employment, is lost to Australia's competitors.

4.85 The Henry Walker Group said that it felt disadvantaged by Australian finance sources but did not rely on them. A lot of its financing for Indonesia was through some of the Japanese or even the Deutsche Bank. It also said many small businesses find it difficult to

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73 NTEC, Transcript, 31 July 1995, p. 586.

74 Austrade, Transcript, 6 April 1995, p. 65.

75 *EFIC 95: Export Finance and Insurance Corporation Australia Annual Report 1995*. Sydney, EFIC, p. 6.

76 ANZ, Transcript, 3 October 1995, pp. 934-935.

77 *ibid.* pp. 928-929.

78 ANZ, Submission, p. S347.

79 Austrade, Transcript, 6 April 1995, p. 64.

80 ANZ, Transcript, 3 October 1995, pp. 927-928.

81 Pacific Asia Industries, Transcript, 3 October 1995, pp. 958-968.

get finance overseas because it is very hard to get an established credit rating overseas until you get to a certain volume of business.<sup>82</sup>

4.86 Clough Ltd raised concerns regarding bonding - performance, bid and advance payment - adding 30 per cent to 50 per cent of the value of a contract to the cost of a project. While the Managing Director of Clough Ltd sought government assistance to resolve the problem, the company's Chairman regarded it more as an insurance issue than a problem that needs to be addressed.<sup>83</sup>

4.87 DIST asserted that the government can only play a very limited role in intervening in the financial process and associated business security issues.<sup>84</sup> This role included the activities of the Commonwealth Development Bank; AusIndustry programs to improve business performance; the Business Adviser Skills initiative; development programs through various business associations to improve financial institutions' advice for business; and the Business Equity Information Service operating through the Victorian and South Australian Employees Chambers of Commerce and Industry. As part of the post *Intelligent Exports* report discussions, Austrade held a series of workshops which brought together business and a representative from the banks to achieve a better understanding of finance problems.

4.88 Few solutions to the finance dilemma were suggested during the inquiry. Pacific Asia Industries suggested a scheme whereby a company which is creating employment for Australia could get a cash component for generating employment.<sup>85</sup> Price Waterhouse counselled businesses for their overseas joint venture partners to come with an international banker in tow because of the difficulties of explaining the risks to the local banker.<sup>86</sup>

4.89 In its *Innovate Australia* statement the former Government announced the Reserve Bank will amend its prudential guidelines to permit banks greater scope to make equity investments in non-financial businesses. Banks now have the option of providing equity in addition to, or as an alternative to loans.<sup>87</sup> Permitting banks to make limited equity investments in non-financial businesses will open up a significant new source of equity finance for small and medium sized enterprises. The present Government announced in the 1996-97 Budget it will implement this measure with minor modifications.

4.90 The Commonwealth Bank is expanding into Asia and this will continue in 1996-97. 'Approval to establish a joint venture bank in Indonesia with Bank Internasional Indonesia has been granted and it is expected that business will commence during the year'.<sup>88</sup>

4.91 Hong Kong, along with Singapore has become a fully fledged financial centre, while Australia has languished.<sup>89</sup> The Australian Stock Exchange, the Sydney Futures

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82 Henry Walker Group, Transcript, 31 July 1995, p. 630.

83 Clough Ltd, Transcript, 12 July 1995, pp. 438-439 & 444-446.

84 DIST, Transcript, 13 June 1995, p. 351.

85 Pacific Asia Industries, Transcript, 3 October 1995, p. 964.

86 Price Waterhouse, Transcript, 7 August 1995, p. 839.

87 Press release, Hon Peter Costello, MP, Treasurer, *Equity investments in small and medium enterprises*. 6 December 1995.

88 Commonwealth Bank of Australia, *Annual Report 1996*, p. 13.

89 'Nowhere to Turn: Can Australia shore up its flagging financial markets?', *Far Eastern Economic Review*, 24 October 1996, p. 62.

Exchange and the Australia Financial Markets Association see a need for Australia's financial industry to be revitalised and to boost its competitiveness. According to the *Far Eastern Economic Review* the industry has made its concerns known with a submission to the Wallis Inquiry on Australia's financial industry, warning that:

Australia is failing to establish itself as a regional financial centre - that its markets "are inwardly focused and largely directed at meeting the needs of the domestic economy".<sup>90</sup>

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90 *ibid.*

## Conclusion

4.92 The finance problems of small business and thus service exporters is an ongoing problem and there are no simple solutions. The Government's role has been limited to one of facilitation. The Committee believes there would be great advantages in Australian financial institutions specifically identifying export opportunity in Asia. Like the rest of Australia, the banks need to join in the development of the enterprise and export culture and to enhance their staff and skill base to deal with service exporters.

4.93 Australia needs to position itself to become a regional financial centre; with the rapid growth and development of the Asia-Pacific region other countries are positioning themselves to become regional hubs. Australia cannot be left behind especially in the financial market place.

4.94 Negotiations in the financial services sector under GATS are aimed at improving international access in banking, insurance and securities markets. Following negotiations in 1994-95 an interim agreement expiring in December 1997 was secured, but without full United States participation. It is expected that negotiations will resume in early 1997 with the aim of determining arrangements for the sector on expiry of the interim agreement.<sup>91</sup>

## Insurance

4.95 Some assistance with finance is provided by EFIC. Its finance and insurance services are aimed particularly at supporting Australian exporters in those countries, companies and contracts which the commercial market may not have the capacity to cover.

4.96 A number of exporters report use of the EFIC's facilities and plans for expanded use of those services in the future.<sup>92</sup> This is perhaps not surprising since the majority of EFIC's clients are small to medium size businesses and Asia is the dominant region for EFIC's export finance support and for investment insurance. On the other hand, Europe is the largest region for credit insurance.

4.97 Overall, few difficulties were raised by exporters regarding EFIC activities. Telstra was concerned that in raising investment cover for large scale projects through EFIC, EFIC may decide that it cannot offer insurance cover on its own account for projects in particular markets. EFIC's portfolio for political risk insurance is already heavily skewed towards Indonesia for example, and EFIC may find it difficult to approve cover for additional large scale projects in the future.<sup>93</sup> On the latter point EFIC stated that the benefits test is only part of the process, it is not a formula which is as tight as five years and the test is currently being reviewed.<sup>94</sup> Although not critical of EFIC, Pacific Asia Industries noted that its non-project based export activities could not be supported by EFIC because EFIC is geared to a project by project basis.<sup>95</sup>

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91 DFAT, Submission, p. S785.

92 Austmine Ltd, Transcript, 20 April 1995, p. 181; Clough Ltd, Transcript, 12 July 1995, p. 449; Environmental Solutions International Ltd, Transcript, 12 July 1995, p. 470; and CMPS&F, Transcript, 7 August 1995, p. 807.

93 Telstra, Submission, p. S183.

94 EFIC, Transcript, 14 September 1995, p. 873.

95 Pacific Asia Industries Pty Ltd, Transcript, 3 October 1995, p. 963.

4.98 EFIC launched its Export Finance Guarantee in December 1995 to provide a new channel for delivering to Australian companies competitive medium to long term export finance. The Export Finance Guarantee encourages banks to increase their involvement in medium to long term financing, with EFIC enabling the bank to provide finance on the same terms as if EFIC were lending directly.<sup>96</sup>

4.99 In its 1996 Annual Report, EFIC pointed out that one of its real challenges is the provision of support for the growing number of Australian companies exporting services. This places great demands on EFIC to respond to the needs of those exporters with appropriate EFIC services. EFIC noted that its experience to date with service exports has mostly been with embedded services (those linked with exports of goods), rather than with services performed in their own right. In order to develop an appropriate strategy for this important market segment, EFIC is working on developing a better understanding of the needs of service exporters, and how they differ from those of other exporters. EFIC is working with several industry associations who have service industry members. EFIC has become a member of the ACSI, which includes many of Australia's main service industry organisations.<sup>97</sup>

## Conclusion

4.100 Overall the Committee is satisfied that EFIC is providing a high quality service, is client focussed and gearing itself to cope with the changing requirements and environment of exporters. This ability to respond to change is critical to the ongoing success of both exporters and EFIC. EFIC has demonstrated its ability to respond to a changing export environment by providing support for the growing number of Australian companies exporting services.

## Commercial impact of aid projects

4.101 As well as promoting development, Australia's aid has an important role in fostering Australia's commercial interests by purchasing Australian goods and services and creating export opportunities for companies.

4.102 Aid projects have been important for a number of Australian businesses going into Indonesia because Indonesia is the second largest recipient of Australian aid, and depending on the method of calculation, Australia is the second largest aid donor for Indonesia.<sup>98</sup> Australia does not have an aid program to Hong Kong.

4.103 A recent AusAID review of Australia's development cooperation with Indonesia from 1980-1993<sup>99</sup> demonstrated the commercial benefits to Australia from its programs. Aid expenditure of \$1 billion led to \$1.78 billion of flow-on trade; generated 1500 person years of employment; 20 of the 30 Australian companies responding to this questionnaire secured their first work in Indonesia through AusAID; and for some companies it was their first overseas work ever. The service sector was prominently represented under the aid program, accounting for 30 per cent - \$262 million of aid expenditure in areas such as technical advice, consultancy and research. This was a much higher percentage than the normal trade pattern

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96 *EFIC 96: Export Finance and Insurance Corporation Australia Annual Report 1996*. Sydney, EFIC, p. 8.

97 *ibid.* pp. 8-9.

98 AusAID, Transcript, 18 September 1995, p. 903.

99 AusAID. *Commercial benefits from development cooperation with Indonesia*. Canberra, AGPS, 1995.

in services between Australia and Indonesia. Some sectors, particularly education, generated greater export spin-offs than others. There were also indirect benefits such as the veterinary aid project in Indonesia to learn about exotic diseases, which subsequently facilitated the export of Australian cattle to Indonesia.

4.104 AusAID programs include bilateral and multilateral programs as well as aid linkage programs, such as the Private Sector Linkages Program, ASEAN-Australia Economic Cooperation Program, the Government Sector Linkages Program focusing on Indonesia and the APEC Support Program. During the inquiry most attention focused on the Development Import Finance Facility (DIFF) which was the subject of a major review released by AusAID in January 1996.<sup>100</sup> The DIFF program was terminated on 1 July 1996. The Government had announced prior to its election that the DIFF Program would be abolished, although it would honour all Letters of Formal Offer for existing approved projects and ensure onward funding to those projects at a total cost of up to \$56.2 million.<sup>101</sup> Projects which would have fallen under DIFF funding could still be approved but now would be funded from within the bilateral program.

4.105 Major criticisms of the aid program and its administration were raised during the inquiry. In summary, the major criticisms were that the service sector is not well represented; an overemphasis on track record with previous aid projects; recipients too narrowly spread; small firms not well represented; AusAID's emphasis on its own rules; the need for a more even distribution of funding between the states and territories; and the DIFF scheme being little more than an export subsidy and its funding having increased more than other AusAID activities in the past few years.<sup>102</sup>

4.106 Since the Committee took evidence the Minister for Foreign Affairs has commissioned a major independent review of Australia's aid program.

4.107 Recognising that to some extent services are embedded in manufacturing activities, and AusAID's statistics on services outlined above, the service sector is probably represented more significantly than the Committee would have expected. 'Bricks and mortar' however, will play a significant role in aid for sometime while countries like Indonesia are developing their infrastructure.

4.108 In commenting on the spread of business contracts AusAID noted that it goes out of its way to encourage the widest possible participation. For example, in 1993-94 AusAID let 544 consultancy service contracts valued at \$831 million involving 380 individual firms. This does not include sub-contracting. An article in *The Bulletin*<sup>103</sup> commenting on the DIFF review suggested almost 60 per cent of DIFF funds dispersed in Indonesia between 1983-1993 flowed to Transfield contracts. AusAID asserts that this supply reflects 'lumpiness' - they are huge contracts and good projects. As a result of awareness of these large projects, AusAID claimed there was pull-through with large increases in the number of applications from other businesses. There was also a broadening of the range of aid projects to Indonesia

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100 *A Review of the Effectiveness of the Development Import Finance Facility, January 1996.* AusAID Sectoral Policy and Review Branch and external consultants, Canberra.

101 Media Release, the Acting Minister for Foreign Affairs, Hon Tim Fischer, MP, Deputy Prime Minister and Minister for Trade, 23 July 1996.

102 See for example, MINPROC, Submission, p. S678; Linklater Dawson Architects, Transcript, 31 July 1995, pp. 679-680.

103 Baker, Russell, 'Boomerangs, bridges and billions', *The Bulletin*, 6 June 1995.

into waste water treatment, waste management, solar energy projects. This had been encouraged by the Green DIFF initiative designed to respond to a range of environmental problems and inadequate environmental infrastructure in developing countries.<sup>104</sup>

4.109 AusAID acknowledged that lack of a track record can disadvantage new starters. However it pointed out there are a number of ways of applying for contracts - through period contracts which are allocated on a competitive tender basis, being on the consultants' register and through public tender for feasibility design studies, project and implementation. It noted 'If you have not had experience in the implementation of major projects, you will be at a competitive disadvantage'.<sup>105</sup> This may be overcome by being part of a consortium. Sometimes experience also is needed in short-term, intensive consultancies but AusAID looks for a balance of skills in the consultancy team.

4.110 AusAID confirmed that DIFF funding doubled from \$27 million in 1989-90 to \$52 million in 1994-95. This occurred according to AusAID because of the nature of demand from developing countries, that for every \$1 of aid the multiplier effect was \$3 worth of projects, and there had been an increasing demand from Australian industry. By 1994-1995 DIFF represented about 10 per cent of AusAID's total program and this was generally considered to be about the right proportion.<sup>106</sup> By 1995-96 it comprised 8 per cent of the total aid budget.

4.111 During the hearings in 1995, AusAID rejected criticism that DIFF was simply an export subsidy to Australian companies. It pointed out that DIFF grants were made to the recipient government and not to business, the projects were bid for competitively so the price was being bid down in tough negotiations, it allowed Australian companies to bid for a contract that they may have been excluded from if the grant was not available, and that businesses which were successful with DIFF projects tended subsequently to operate successfully in the international marketplace.<sup>107</sup>

4.112 In spite of several businesses holding general views to the contrary and Clough Ltd pointing that other countries over the years have had their foreign aid policy more directed towards business,<sup>108</sup> AusAID stated that in the case of the DIFF program and Indonesia, Australia offered a complementary product.<sup>109</sup> AusAID's view was strongly supported by Austrade.<sup>110</sup>

4.113 It was disturbing to note that during the inquiry linkages between DEET's international education activities and AusAID have only been forged during the past few years.<sup>111</sup> AusAID and other departments must ensure this gap is bridged in their respective international sectors.

4.114 The Committee recommends that:

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104 AusAID, Transcript, 18 September 1995, pp. 912-913.

105 *ibid.* p. 914.

106 *ibid.* p. 907.

107 *ibid.* pp. 909-910.

108 Clough Ltd, Transcript, 12 July 1995, p. 449.

109 AusAID, Transcript, 18 September 1995, pp. 908-909.

110 Austrade, Submission, p. S330.

111 DEET, Transcript, 13 June 1995, pp. 384-387.

**13. the Australian Government direct its agencies to develop strategies to improve the linkages between their programs and international education export activities.**

4.115 There was some criticism of the World Bank and the Asian Development Bank for their project allocation activities.<sup>112</sup> AusAID reported that Australia performs well in procurement of consultancies from those organisations but proportionally not as well in equipment, civil works and other projects. where the bulk of the funds are expended.<sup>113</sup> For the financial years 1990 to 1994, the most recent period for which data is available, World Bank payments to Australian firms totalled US\$520 million or 1.1 per cent of all payments to foreign suppliers. Payments to Australian consultants made up US\$64 million of that representing a 2 per cent share of total consultants. In the period 1989-93 Australia's procurement from the Asian Development Bank was US\$313 million, representing US\$58 million (or a share of 6.5 per cent) of total consultants and US\$255 million (or a share of 2 per cent) of all goods, related services and civil works. Austrade noted that Australian representatives at the World Bank and the Asian Development Bank are always alert for opportunities for Australia in that area.<sup>114</sup>

4.116 The Committee has had an ongoing interest in the operations of the World Bank and its impact on Australia. One of the recommendations the Committee made in its 1993 report on *Australia, the World Bank and the International Monetary Fund*<sup>115</sup> was that Austrade and the offices of Australia's Executive Director at both institutions must increase their efforts to:

- enhance the knowledge and competitiveness of Australian companies of Bank tender opportunities; and
- increase the awareness of both Bank and loan country procurement personnel about Australian products and services that meet their requirements.

The Committee still holds this view.

4.117 The Committee recommends that:

**14. Austrade and the offices of Australia's Executive Director to the World Bank and Asian Development Bank ensure that Australian business is alerted to the service export opportunities available through both the World Bank and Asian Development Bank tendering processes.**

4.118 As mentioned in paragraph 4.106 the overall goal and focus of Australia's aid program is the subject of an independent review led by Mr Paul Simons, AM. It is expected that the review will be completed in early 1997.

4.119 The Committee recommends that:

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112 P J Nelson & Co., Submission, p. S4.

113 AusAID, Transcript, 18 September 1995, p. 906.

114 Austrade, Transcript, 6 April 1995, pp. 53-54.

115 Report of the Joint Standing Committee on Foreign Affairs, Defence and Trade, 1993.

15. **in the light of the review of Australia's aid program, the Government give consideration to improving arrangements for capitalising on the commercial opportunities arising from Australia's aid program, including new export opportunities for the services sector.**

## **R&D and innovation**

4.120 Innovation and R&D are critical to Australia's continued competitiveness and export opportunities. Innovation is described as finding new and better products and services or new ways of producing and supplying them. It is seen as the key to the constant renewal of competitiveness in industry.<sup>116</sup>

4.121 Until recently, there has been little analysis of R&D in the service sector. This aspect is now claiming more attention with ABS in association with Statistics Canada pioneering a survey of R&D and innovation in the service sector.

4.122 The *Intelligent Exports* report stated that the amount of R&D undertaken in the service sector is particularly low. 'In 1991-92 less than 5 per cent of R&D spending in Australia was undertaken by service companies', compared with levels in the USA and Europe closer to 8 per cent on an equivalent measure.<sup>117</sup> DIST referred to a recent OECD discussion paper which ranks Australia fifth of its 23 members for its expenditure on R&D on services as a proportion of GDP. The paper also shows that Australia spends 34 per cent of its total business expenditure on R&D in the service sector. DIST pointed to flaws in such comparisons between different countries because of the different way in which 'software' is treated in the statistics by various countries.<sup>118</sup>

4.123 Other major comments made during the inquiry focus on differences in the level of R&D between sectors and states and territories; the need for the 150 per cent tax concession given the peculiarities of the service sector; and the important issue of the need to take account of 'on the job' R&D in the service sector where the best R&D is often done.<sup>119</sup> The later point is the most difficult to verify but the most important for the service sector. As noted in Chapter 3, in its 1996-97 Budget, the Government reduced the maximum concessional rate of deduction from 150 per cent to 125 per cent. For an R&D project to be eligible for the concession, it must be based on 'core' R&D activity that involves either innovation or high levels of technical risk.

4.124 Australia is a leader in the information technology and transfer industries. These provide new modes of supply for international trade but to date direct commercial presence abroad has remained the preferred method of supply for many services. Alternative delivery modes are expected to predominate in the next century. Some businesses and sectors are already moving in this direction, particularly the international education sector through distance education. Much remains to be done in this area. 1996 has generally been seen as an important year of expanding business involvement on the Internet. Already groups such as Austrade and ACCI are offering services on the Internet which facilitate exports.

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116 Senator the Hon Peter Cook, Minister for Industry, Science and Technology. *Innovation: Putting ideas to work*. Innovate Australia statement, December 1995, p. 1.

117 *Intelligent Exports*, op.cit. p. 68.

118 DIST, Submission, p. S495.

119 See for example, DFAT, Transcript, 6 April 1995, pp. 9-10; and WADTC, Transcript, 12 July 1995, pp. 518 & 521.

4.125 Intellectual property issues are an eternal problem as ACCI pointed out. Views expressed vary from the continuing need for patents protection, to the downside of patents protection, that it gives the other person the opportunity to obtain all the information on a good idea handed to them on a plate.<sup>120</sup> As mentioned in Chapter 2, extensive work on this issue was undertaken as part of the Uruguay Round, concluding in the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Confrontation between the United States and China on this matter during 1995 demonstrates the dimensions of the controversy surrounding the problem, though this was very much based on verbal exchanges. The Committee is generally optimistic that the TRIPS framework will work.

## **Government programs**

4.126 There are a variety of programs which include assistance to service exporters run by Austrade (eg Export Market Development Grants Scheme), DIST (eg AusIndustry), DFAT and other departments such as DEETYA, Department of Health and Family Services, and AG's. State and Territory departments, the industry associations, business councils, legal and accounting firms and management consultants are also involved in export programs. The Committee sympathises with new service exporters trying to work their way through the maze of these programs with a view to achieving the best result for themselves.

4.127 The Export Market Development Grant (EMDG) Scheme is the Government's principal form of assistance for Australian exporters. It came into operation on 1 July 1974 under the *Export Market Development Grants Act 1974*. The purpose is to provide incentives for the development of export markets. It reimburses a percentage of exporter's expenditure on export promotion.

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120 ACCI, Transcript, 6 April 1995, pp. 92-93; and Open Access Pty Ltd, Transcript, 20 April 1995, pp. 151-152.

4.128 Some specific criticisms levelled at the EMDG Scheme were that:

- businesses have to meet a \$45,000 turnover level before they could apply;
- extending, prior to the 1996 Budget, the seven year limit would allow for the development of new types of programs required to maintain competitiveness in the more established markets;
- the two 'free' grant years to develop a market before subsequent grants which are limited to a percentage of export earnings are too restrictive for service exporters; and
- larger exporters are not benefiting from the scheme.<sup>121</sup>

4.129 In 1993-94 the Australian National Audit Office (ANAO) undertook a performance audit on the EMDG and the ANAO has carried out a follow-up performance audit of the Scheme.<sup>122</sup>

4.130 In its follow-up audit the ANAO found that the response by Austrade to the performance audit has been positive. The ANAO also found that:

...management of the Scheme over the longer term would have been more efficient and effective if problems associated with the increasing complexity of the legislation had been addressed when they were first identified, at least as early as 1989.<sup>123</sup>

4.131 In 1995-96, the Scheme was the largest item (approximately 53 per cent) in Austrade's budget and employed 5.5 per cent of its staff.<sup>124</sup>

4.132 In the 1996-97 Budget the scheme was improved to focus on small and medium sized businesses; full grant eligibility was extended to single service tourism providers; the eligibility threshold was reduced to \$20,000 from the previous \$30,000; and the Scheme was capped at \$150 million per annum from the 1996-97 grant year onwards.

4.133 The establishment of AusIndustry, a Federal, State and Territory Governments' initiative, aims to help businesses become more internationally competitive. AusIndustry 'provides a comprehensive marketing framework to streamline the delivery of government business assistance programs to small and medium enterprises. AusIndustry provides three levels of service: information, advice and referral, and one-on-one client management'.<sup>125</sup>

4.134 The AusIndustry one-stop-shop concept which identifies the programs and players, is a positive step. However, many new service exporters are not aware of AusIndustry's existence and others are confused about its role.<sup>126</sup> The recent restructuring

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121 See for example, Austmine Ltd, Transcript, 20 April 1995, p. 182; and Monash University, Submission, p. S113.

122 Audit Report No. 11, 1996-97, Follow-up Audit on *The Export Market Development Grants Scheme*, Australian Trade Commission.

123 *ibid.* p. x.

124 *ibid.* p. ix.

125 DIST, *Annual Report 1995-96*, p. 51.

126 Austmine, Transcript, 20 April 1995, p. 179.

and rationalisation of AusIndustry programs and services by the Government indicates a further potential improvement, although it is too early to establish what net impact they will have on the effectiveness of Government support for business development.

4.135 The Committee recommends that:

- 16. the Department of Industry, Science and Tourism advertise AusIndustry services and assistance more widely and effectively, particularly to potential and existing service exporters.**

4.136 As service exporters develop greater experience overseas, government programs are perceived and used in different ways. Experienced players have their own information and marketing systems in place and/or are using government programs and staff very skilfully and strategically.<sup>127</sup> Small and new players still need help.<sup>128</sup> Austrade's mid 1995 reorientation of its client focus and charging structure recognised this, and Austrade is commended for it. However, many small service businesses still believe staff resources and programs remain focused on big business and manufacturing. There are criticisms that some departmental structures reflect this bias.<sup>129</sup> In the 1996-97 Budget the Government further refocused Austrade and its programs towards small-medium sized enterprises.<sup>130</sup>

4.137 The Committee recommends that:

- 17. Austrade communicate its client policy more effectively to ensure that small to medium service exporters are aware of programs available to provide export assistance.**

4.138 Performance of the three main departments involved in exports has improved substantially over the past couple of years with the Committee receiving some strong supportive testimonials.<sup>131</sup> However, there are still criticisms of the service provided by some Austrade state offices and posts in some Asian countries, and of the specialist skills of staff and aspects of particular programs.

4.139 Some service exporters seriously questioned whether government assistance had gone too far, particularly in the marketing area. Some suggested that the real problem with marketing is not the lack of information, but rather understanding the information available.<sup>132</sup> There was a view that the only people who can sell the services are the people providing them and unlike business, government departments are never going to be on the competitive edge where the deal is made.<sup>133</sup> Countering that view, others said small new exporters are never going to make a big enough splash on their own.<sup>134</sup> Some groups prefer a

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127 Clough Ltd, Transcript, 12 July 1995, p. 450; and Environmental Solutions International Ltd, Transcript, 12 July 1995, p. 467.

128 See for example, COSBOA, Transcript, 6 April 1995, p. 80; and Integrated Systems Australia, Transcript, 12 July 1995, p. 456.

129 See for example, Trans Western Health Care Services, Submission, p. S55 and S550.

130 Media Release, The Deputy Prime Minister and Minister for Trade, *1996 Federal Budget - Trade budget aims for export culture*, 20 August 1996.

131 See for example, Philip & Mitaros, Transcript, 1 August 1995, p. 771; and Computer Power Pty Ltd, Submission, p. S662.

132 Heij, Submission, pp. S105-S106.

133 Clough Ltd, Transcript, 12 July 1995, p. 450; and Philip & Mitaros, Transcript, 1 August 1995, p. 711.

134 Integrated Systems Australia, Transcript, 12 July 1995, p. 456.

more focused selection by government departments of sectors linked to markets, development of strategic industry specific plans, and Austrade staff to have more specific sector skills and expertise.<sup>135</sup>

4.140 To facilitate business in the overseas market place the Committee is of the view that Austrade should produce brochures for individual overseas markets, in particular for Indonesia and Hong Kong. This one-stop-shop approach will provide businesses with the most up-to-date profiles of available government assistance and overseas market information on services to assist them to make decisions about market access and opportunities both in Indonesia and Hong Kong.

4.141 The Committee recommends that:

**18. Austrade publish a brochure for potential service exporters dealing with the challenges and opportunities of individual overseas markets and outlining the various schemes that offer assistance.**

4.142 The Committee received reports of turf fighting between Austrade's state agencies, between Austrade and state/territory trade agencies and between Austrade and Market Australia in DFAT.<sup>136</sup>

4.143 From its first public hearing the Committee was concerned about the overlap between the functions of Austrade and Market Australia. The Market Australia program was intended as a strategic campaign to enhance Australia's image as a supplier of high-technology, value-added goods and services with funding for a discrete three year period ending on 30 June 1996. The Committee is pleased to note that Market Australia was completed at the end of the 1995-96 financial year. Austrade's domestic operations have been streamlined and there has been a boost to Austrade's activities in regional Australia, especially Northern Australia.<sup>137</sup>

4.144 The Committee's inquiry clearly demonstrated the importance of Government endorsement of business capability and track record, especially in countries like Indonesia where the government plays such an important role in business activity.<sup>138</sup>

4.145 Those companies which win government contracts in Australia have endorsement which provides a competitive edge in the international market place. This edge is an important promotional aspect in the competition for offshore contracts.

4.146 The Committee is aware that relating to exports, we are now getting to the stage where there is a report on almost every issue. However, it is concerned about the lack of action and practical results and improvements in export performance resulting from such reports.

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135 See for example, International Medical Assistance Programs Pty Ltd, Transcript, 17 May 1995, p. 299.

136 DFAT, Transcript, 6 April 1995, pp. 30-31; and Environmental Solutions International Ltd, Transcript, 12 July 1995, p. 468.

137 Media Release, Hon T Fischer, MP, Deputy Prime Minister and Minister for Trade, op.cit. p.1., and the Deputy Prime Minister and Minister for Trade, *1996 Federal Budget - Boost for regional export effort*, 20 August 1996.

138 See for example, Austrade, Transcript, 6 April 1995, p. 45; and Lend Lease, Transcript, 20 April 1995, pp. 143-144.



