



SUBMISSION 31

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The Hon Bruce Baird MP
Chairman
Standing Committee on Economics, Finance
and Public Administration
Department of the House of Representatives
Parliament House
CANBERRA ACT 2600

Dear Chairman

Thank you for your letter of 5 June 2006 to the Chief Minister, the Hon Clare Martin MLA, seeking submissions to the Standing Committee on Economics, Finance and Public Administration inquiry into Australia's services industries, now and beyond the resources boom.

On behalf of the Chief Minister, please find enclosed the Northern Territory Government's submission, which outlines the Territory's current major international services exports and identifies impediments to growth in international business services exports, as well as recommendations to foster growth in this potentially significant export sector.

Yours sincerely

SYD STIRLING



Northern Territory Government

INQUIRY INTO AUSTRALIA'S SERVICE INDUSTRY

Background

The structure of the Northern Territory economy is unique in that it has high representation from mining, defence, government and the tourism-related sectors. Due to the dominance and capital intensity of the mining industry, the services sector contributes less to the economic output than nationally (65 per cent compared with 76 per cent nationally), but represents 92 per cent of resident employed persons. Nationally, services represent around 85 per cent of total employment. Relative to the national figures the wholesale and retail trade, business services and manufacturing industries are underrepresented in the Territory economy and contribute comparatively less to total resident employment.

Despite lower economic output in the services sector, in 2004-05 the Territory recorded the highest level of service exports per capita of the jurisdictions. This was primarily due to the significance of the tourism industry and the Territory's status as a preferred rest and recreation destination for overseas defence personnel. Export services industries are driven by external demand, and therefore global economic growth and confidence, and are heavily influenced by exchange rates and their impact on competitiveness.

Tourism

In 2004-05, tourism is estimated to have represented 7.4 per cent of Territory Gross State Product (GSP), more than in any other jurisdiction, and was a major employer in the Territory. In an international context, tourism contributed to the economy through expenditure on travel services by overseas tourists, business travellers and students, as well as expenditure by visiting international defence personnel.

Major national and international setbacks in the tourism industry since 2001, coupled with an appreciation of the Australian dollar, have had a negative impact on international visitor numbers to the Territory. International visitor numbers decreased by 14 per cent in 2002-03 and remained flat through to 2004-05. Since 2002, the value of Territory travel services exports has fallen by more than 27 per cent.

There were an estimated 334 000 international visitors to the Territory in 2004-05, around 26 per cent of the total tourist visitors to the Territory. Over half of these international visitors were from Europe, with around 23 per cent from Asia. While the number of Asian visitors has increased, it would appear that the close proximity to this market presents opportunities for further expansion. International backpackers are more significant to the Territory than in other jurisdictions, and represented 32 per cent of international visitors to the Territory in 2004-05. Backpacker numbers to the Territory have been decreasing over the past four years, although backpacker numbers to Australia have been increasing.

Tourism also contributes to local economic growth through the demand that it creates for goods and services, employment and investment in other service sectors such as hospitality, retail trade, transport and construction. Investment related to tourism infrastructure tends to be volatile, especially in a small jurisdiction like the Territory.

In the absence of major shocks, growth in international visitor arrivals to Australia is expected to continue. The expected depreciation of the Australian dollar, when the commodity boom ends, will also support visitor arrivals. A key challenge for the Territory will be to attract a growing proportion of international visitors to Australia through innovative marketing, notably for the non-peak wet season.

Tourism NT has received significant government support to rebuild tourism demand following the 2001 downturn, with additional recurrent funding of \$10 million per annum announced in the 2006-07 Budget.

Education

Australia's international education exports are currently valued at \$7.2 billion, making it the fourth largest export earner behind coal, tourism and iron ore. The Territory's share of these education exports is estimated at \$7.2 million or 0.1 per cent, significantly below the Territory's one per cent of national population.

In the Territory as in the rest of Australia, the majority of international education exports relate to university services. Charles Darwin University (CDU) was not consulted in preparing the Territory Government's submission, although there are several Territory-specific characteristics that could influence medium term growth prospects. For example, CDU being marketed as closer to home for Asian students has strong potential to attract international students and to provide course and consultancy services in the region. There are currently around 50 international students enrolled at CDU and schools and colleges across Darwin and Alice Springs.

Although enrolments are often linked to status, the 'newness' of CDU is likely to be a factor in the low number of international students at present. Although this is likely to persist in the short term, as CDU develops its niche and services to support international students, it can be expected to be able to compete more effectively with the more established southern universities. To this end, national working parties have been preparing a new quality framework to regulate education exports. The Territory has had direct input into these proposals for reform through representation on all the national committees and working parties.

Business Services

The global resources boom has created opportunities for Northern Territory service providers in the resource sector. A number of international resource projects have been identified as having the potential to utilise services sourced from the Territory. Although the resource boom can be credited with creating additional demand for resource services, fundamental supply chain logistics of time, availability, quality and reliability still govern final purchasing decisions for services.

3.

Although there will be increased opportunities for service exports, the Territory faces a number of challenges, typically associated with scale, on how to realise these opportunities, including:

- identification of export opportunities – this is a time intensive task that distracts resources from domestic business tasks. Due to the intangible nature of services it can be very difficult for a small service provider to identify an export opportunity in the global marketplace;
- business capacity and capability – service providers must assess their current business ability against the projected future business opportunities. For many service providers, exporting is only explored when existing resources are under-utilised. Engaging new resources (eg, staff) to increase capacity and capability is inherently risky, especially where skills shortages affect hurdle rates and expected returns on investment; and
- supply-push versus demand-pull – supply-push relates to identifying opportunities that match what a business has to offer (supply). Demand-pull occurs when there is a demand in the marketplace for services that a firm offers. It is typically easier to achieve business outcomes from a demand-pull marketplace, where the marketplace has identified a deficiency.

Other factors identified as constraining international export growth include:

- few direct international air services and weak international networks;
- lack of recognition of qualifications overseas;
- in some instances, knowledge and technology developed in the Territory being most relevant to developing countries, but there is risk and uncertainty regarding the ability of those clients to pay; and
- shortages of skilled staff affecting production and costs of recruitment and retention activities, which impacts on international competitiveness.

The strong local economy and continuing difficulties attracting and retaining staff means that local firms are placing less emphasis on building international markets. The following factors were identified by local firms as possibly contributing to a greater emphasis on developing services export markets:

- increased opportunities to participate with government in trade delegations and expositions;
- the use of international aid projects as an avenue to establish credibility in new markets;
- better information and understanding of benefits and processes for effective networking and partnering to generate scale/expertise for gaining access to international markets; and
- information and communication-related legislation being reviewed for its impact on international and e-business transactions.

4.

Policies for Support Business Services Export Opportunities

Business development – as the global marketplace for services becomes more competitive, the Australian services sector will need to be able to respond to new demands and challenges. Businesses will require access to additional resources in order to maintain a level of capacity and capability to undertake domestic business and capture international opportunities.

It is recommended that business development policies be considered for the services sector specifically designed to encourage capacity building.

Export market identification – this can be a time consuming and costly activity, but one that has the potential to add significant value to the development of future export opportunities. Often export market identification is provided at a sectoral level, which is acceptable for those sectors that have well established businesses that can utilise the information in conjunction with their business development strategies and activities. However there are a significant number of smaller businesses which require more specific and directed information on market opportunities.

It is recommended that policies be considered for the expansion of current export market identification activities for the services sectors to include closer and more specific export market evaluations.

All jurisdictions in Australia have administrative functions to assist in the development of exports – the services sector has been identified by all jurisdictions as having the potential to increase export earnings. As a means of diversifying Australia's industry and skills base, the services sector should receive special attention. There is a role for the Australian Government in coordinating and assisting in the development of the services sectors across the country to realise their export potential.

It is recommended that policies be considered for the establishment of an administrative area specifically tasked with increasing exports of the services sector, including the provision of resources to the States and Territories to complement the activities of the Australian Government.

Should you require further information on this matter, please contact Ms Barbara Neil (08) 8999 6018.