



Australian Government

Department of Foreign Affairs and Trade

16 August 2006

The Committee Secretary
Standing Committee on Economics, Finance and Public Administration
Department of the House of Representatives
Parliament House
CANBERRA ACT 2600

Dear Sir

Inquiry into Australia's Service Industries

Attached is a submission by the Department of Foreign Affairs and Trade to the House Standing Committee on Economics, Finance and Public Administration, in relation to its inquiry into Australia's service industries. The submission has also been emailed to you.

The Department has no objection to the Committee publishing the Submission on its website if it so wishes.

Yours faithfully

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Trade and Economic Analysis Branch
Trade Development Division

Australia's Service Industries

**Submission to the House of Representatives
Standing Committee on Economics, Finance and
Public Administration**

**Department of Foreign Affairs and Trade
August 2006**

Key Points

- Australia's economy is dominated by services. Service industries account for around 71 per cent of industry gross value added and 84 per cent of all jobs.
- Services are also highly important in our export sector. In 2005, services exports reached \$37.2 billion.
- The share of services in total exports has increased in the long term from an average of 16 per cent over 1970-72 to almost 23 per cent over 2003-05.
- Principal services exports include tourism (\$18.3 billion in 2004-05), education related services (\$7.5 billion in 2005) and a variety of business and professional services (which taken together reached around \$7.5 billion in 2005).
- Australian enterprises also supply services through affiliated companies operating abroad
 - preliminary work by the Australian Bureau of Statistics estimated sales of services by affiliates of Australian companies at \$65.3 billion in 2002-03, of which \$59.4 billion were sales to the host economy.
- The services sector provides critical inputs to agricultural, mining and manufactured exports.
- Australia's tourism exports continued to recover in 2005, after declines in 2002 and 2003 in the wake of a number of shocks (including a global economic slowdown in 2002, heightened concerns about terrorism, SARS, and the appreciation of the Australian dollar)
 - the number of incoming visitors reached a new high of almost 5.5 million in 2005, up 5.4 per cent on the preceding year.
- Education-related services have grown strongly in each of the past 6 years
 - international student enrolments in Australia reached 345,000 in 2005
 - there are also a large number of students enrolled with Australian institutions offshore.
- The resources boom has probably had some adverse impact on services exports through the appreciation of the exchange rate, but has also contributed to an expansion of other parts of the services sector which provide inputs to resource-based industries or services to areas where development is proceeding rapidly.
- The prospects for further growth in services exports are good. The significance of the services sector in the global economy is continuing to grow. Services account for over two thirds of world output and a fifth of international trade.
- In the case of tourism, the Tourism Forecasting Council is projecting the total inbound economic value from tourism to double from \$18 billion to \$36 billion between 2005 and 2015 in real terms
 - with incoming visitor numbers rising from just under 5.5 million in 2005 to almost 9.2 million in 2015.
- Global demand for education services is expected to continue to grow, reflecting the high proportion of the population under 15 years in many East Asian

economies, demand for new skills as economies develop and diversify, and rising participation rates in higher education. However, competition from other suppliers is likely to intensify.

- There are likely to be significant opportunities to supply business and professional services (such as architectural/engineering services, legal services, financial services, accountancy services and information technology services).
- Australia's ability to increase services exports will depend on maintaining a stable economic environment, which encourages improvements in productivity and facilitates the allocation of resources towards their most efficient uses.
- However, prospects in many areas will also depend on Australia negotiating improved access in key markets. Although the General Agreement on Trade in Services (GATS) has provided a basic framework for services liberalisation, akin to that provided by the GATT for trade in goods after the Second World War, there remains a substantial agenda for further liberalisation.
- In the Doha Round, new services commitments by WTO members will be a critical element of a successful outcome
 - as with the parallel negotiations on industrial goods, progress has been hampered by the continuing deadlock on agriculture and negotiations are now on hold until the Round resumes
 - our overriding objective on services is to secure greater opportunities for Australian service providers, by targeted market access requests, setting a high level of ambition in our own offers; and participating in negotiations on domestic regulation to address "behind the border" issues.
- Services have been a key part of APEC's agenda since its inception, including in areas such as professional services, telecommunications, transport, tourism, education, energy, movement of natural persons and e-commerce
 - in telecommunications, for example, ongoing work has promoted discussion between governments and the private sector; addressed regulatory barriers to trade and encouraged the uptake of e-commerce.
- Services are also a key part of free trade agreements which Australia has negotiated in recent years. These have resulted in important gains in access
 - in the Singapore-Australia Free Trade Agreement (SAFTA) for example, gains for Australia include national treatment for Australian service providers (except where the Agreement specifically provides otherwise); improved visa conditions; lifting restrictions on the number of wholesale banking licenses available to Australian banks and an increase in the number of Australian law degrees recognised in Singapore.
- In Australia's forward negotiating agenda on FTAs, the Government is seeking to build on areas where there is already a substantial services trade, such as tourism and education
 - it aims to obtain improved access in a range of areas, including education; telecommunications; financial services; professional and business services; construction services; transportation; and freight and logistics.

Australia's Service Industries

The Department of Foreign Affairs and Trade welcomes this opportunity to provide a submission to the House of Representatives Standing Committee on Economics, Finance and Public Administration inquiry into Australia's services industries.

As the Committee appreciates, Australia's economy is dominated by the services sector. Service industries made up around 71 per cent of industry gross value added in 2005.¹ About 84 per cent of the employed population, or over 8.4 million people, work in service industries. The contribution of service industries to the economy has increased substantially over the long term, as the share of agriculture and manufacturing in the economy has declined.

Services are also highly important in our export sector. In 2005, services exports reached \$37.2 billion, appreciably more than our rural exports and approximately the same as our manufactured exports. Australian industry is also strongly represented in overseas services industries through direct investments by Australian firms and through the movement of service providers abroad. Service industries play a significant role in supplying other export industries in the mining, manufacturing and agricultural industries.

Improving access for service industries is an important component of Australia's international trade policy. The entry into force of the General Agreement on Trade in Services (GATS) in 1995 brought services under the umbrella of the WTO. It also ensured that services would be a key part of any future multilateral trade negotiations. Australia has worked actively for comprehensive liberalisation of services both in multilateral negotiations and in its negotiations for free trade agreements. Services have also constituted a prominent part of APEC's work since its inception.

International negotiations on services are typically difficult because of the complexity of the sector and the highly regulated nature of service industries in many economies. But the depth of barriers to services trade and the role which services play as inputs to production mean that the gains from further liberalisation are likely to be particularly significant. In many countries, productivity growth in key services sectors has lagged because of a lack of competition in the services sector. Removing barriers to services trade can thus help to lift productivity growth, wages and living standards, as well as creating further commercial opportunities for efficient suppliers such as Australia.

1. The Services Sector in Australia's Export and Import Competing Sectors

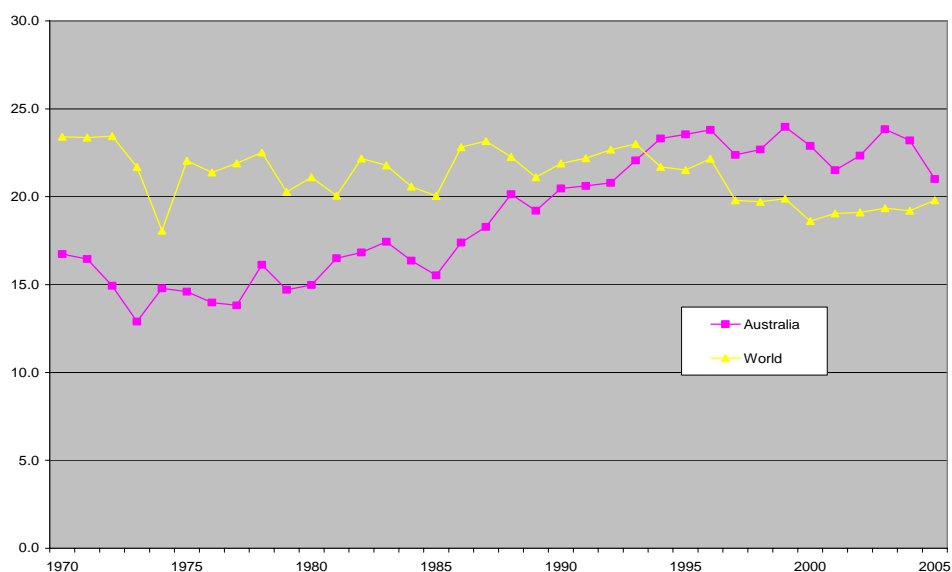
Australia's services exports have grown enormously over several decades. Exports in 2005 were in nominal terms well over twenty times those in 1975. In volume terms (that is, after adjustments for changes in prices), services exports have grown at a trend rate of 7.0 per cent annually over this period. They have grown at an appreciably faster rate than exports of goods.

¹ Data are for gross value added by industry at 2003-04 prices. Estimates include construction and electricity, gas and water, which are not counted as services in some definitions. However, they exclude ownership of dwellings.

The growth in services exports has been accompanied by marked changes in their composition. One of the areas of greatest growth has been in services related to tourism. According to data from the Tourism Satellite Account, exports of tourism services reached \$18.3 billion in 2004-05.² Education-related services have also grown rapidly, from negligible values in 1975 to around \$7.5 billion in 2005. Thirdly, there has been appreciable growth in a wide range of business and professional services. These services, which include services as diverse as financial, insurance and professional services had, taken together, reached around \$7.5 billion in 2005.

As a consequence of rapid growth, the share of services in Australia's total exports has increased over the long term, rising from an average of 16.0 per cent over 1970-72 to an average of 22.7 per cent over 2003-2005. As Chart 1.1 below shows, Australian services exports have been a bigger share of exports of all goods and services than is the case of the world as a whole since the first part of the 1990s. This reflects Australia's comparative advantage in the supply of tourism and education services, as well as its emerging strengths in the supply of a range of business services.

Chart 1.1
Services Exports as a Share of Total Exports: Australia and the World
 (per cent)



Source. ABS, IMF

Growth in services trade has been uneven both in different markets and over time. In the case of our largest single market – the United States – growth was strong in the second half of the 1990s, but exports to that market have declined since 2000. In the second biggest market, the United Kingdom, growth has slowed in the past five years. Services trade with Japan has declined slightly over the past 10 years. Services

² The Tourism Satellite Account data covers all short-term visitors, including students studying in Australia for less than one year. It therefore includes some services which are also counted as education-related services.

exports to Singapore and New Zealand have continued to expand over this period. The fastest growing of our major markets, however, has been China, where exports have grown from a little over \$380 million in 1995 to almost \$2.5 billion in 2005.

The Supply of Services through Commercial Presence and the Movement of Service Providers

Services trade is often considered to include not only sales from residents to non-residents captured in balance of payments data, but also sales from affiliates in service industries abroad. The growth in the stock of foreign direct investment abroad which has occurred over several decades means that services delivery of this kind is very important to links between economies. The movement of service providers abroad also constitutes an important means of services delivery, which is not always captured fully by conventional balance of payments measures (see Box 1.1).

A wide variety of Australian companies in the services sector have moved offshore, with the aim of expanding markets and building global businesses. Publicly listed firms in Australia which have a substantial presence in services sectors offshore thus include Flight Centre (travel), Brambles (transport and support services) and Westfield (property management).³ The extent of overseas involvement varies enormously. The profitability of the investments also varies.

There are only limited data available on sales of services by Australian firms operating in other countries, but some estimates can be derived from preliminary work by the ABS on sales by foreign affiliates of Australian companies. According to these data, sales of services by Australian foreign affiliates amounted to some \$65.3 billion in 2002-03, of which \$59.4 billion were sales to the host economy. Sales of this kind are thus greater than those recorded through conventional balance of payments measures. By country, the bulk of foreign affiliate sales are in the United States (40 per cent of the total), the United Kingdom (18 per cent of the total) and New Zealand (17 per cent of the total). This reflects the importance of these countries as destinations for Australian foreign direct investment.

There are no separate data on services supplied by the movement of service providers abroad. Parts of these services are captured by balance of payments data on exports of services. However, transactions involving an employment relationship between residents and non-residents are covered in the income component of the balance of payments. Income payments to Australia arising from an employment relationship between residents and non-residents were around \$1.2 billion in 2005.⁴ This is not specifically for services industries, but may indicate the orders of magnitude involved in this type of transaction. Cases where the service providers remain overseas for 12 months or longer are not identified in balance of payments data at all, because the persons involved are then treated as residents of the economy in which they work.

³ Brambles operates in a dual-listed companies structure.

⁴ This only covers cases where the employee is abroad for less than 12 months. Where the employee is overseas for 12 months or longer, they are regarded as residents of the economy in which they work and their earnings are not recorded in balance of payments data.

Box 1.1

Defining Services Trade

Services trade has long been defined within a balance of payments framework, to cover transactions in services between residents and non-residents. Services trade, when defined in this way, can be broken down by the type of activity, to include transportation, travel, communications, construction, insurance, financial, computer and information, royalties and license fees, business, personal, cultural and recreational, and government services. The Australian Bureau of Statistics reports services trade on this basis as part of its balance of payments statistics. In practice, services trade defined in this way can involve some transactions in goods (for example, where an international visitor purchases goods in the country to which he or she travels).

Wider definitions of international services trade are also in use, and are being reflected increasingly in international statistics. The framework, used in the GATS thus identifies, for negotiating purposes, four modes of supply through which services can be traded. These are:

Mode 1 - cross-border supply. Services are delivered from the territory of one WTO Member into the territory of another WTO Member. The service supplier and consumer generally do not meet. For example: a consultant located in country A provides advice to a client in country B by email, fax or phone.

Mode 2 - consumption abroad. Services are delivered in the territory of one Member to the consumer of any other Member. It is the consumer who travels abroad to consume the service. For example, nationals of country A travel abroad as tourists, students or patients to consume services overseas.

Mode 3 - commercial presence. Services are delivered by a service supplier of one Member, through commercial presence in the territory of another Member. For example, an insurance company in country A establishes a branch or office in country B.

Mode 4 - movement of natural persons, by the service supplier of one Member, through the presence of natural persons in the territory of another Member. In this mode, it is the individual service supplier who travels abroad to deliver the service. Mode 4 covers only temporary entry and stay of service providers. For example, an IT consultant from country A travels to country B to fulfil a contract.

Modes 1 and 2, and parts of mode 4, are captured as services exports and imports in balance of payments statistics. Mode 3, however, is not recorded in this way. However, profits from affiliates operating abroad are recorded in the income account of the balance of payments. Parts of Mode 4, relating to compensation of employees providing services abroad, are also included in the income account.

A number of statistical agencies, including the ABS, are increasingly seeking to identify and measure transactions arising from commercial presence abroad, as well as other transactions within the GATS framework.

Contributions to other Sectors

The services sector provides critical inputs to other export sectors. According to 2001-02 input-output data released by the Australian Bureau of Statistics, \$100 of output in the agriculture sector requires around \$13 worth of services inputs. For mining and manufactures, the corresponding figures are \$17 and \$23.⁵ Services like transport and wholesale trade are particularly important inputs for trade in goods. The authors of a major study on services by the Productivity Commission note that:

A number of analysts have examined this aspect systematically and put the service sector's total contribution to Australia's cross-border exports at around 40 per cent, compared with a share of just over 20 per cent based on direct contributions alone.⁶

The Import Competing Sector

Australia is a substantial importer of services as well as an exporter of them. On a balance of payments basis, services imports were some \$38.5 billion in 2005. Major import sources include the United States, the United Kingdom, Singapore and New Zealand. Travel and transportation services make up almost three quarters of Australia's services imports. The majority of these in turn were related to tourist services, although freight is also a sizable service import. Australians undertook around 4.8 million short term trips abroad in 2005. Australia is also a significant importer of a variety of other services, such as insurance, financial services and miscellaneous business, professional and technical services.

A substantial part of Australia's services sector competes with imports. In the case of tourism, for example, domestic destinations compete to some extent with overseas destinations for the Australian tourist market. A variety of other services, including professional and business services, are becoming increasingly tradeable because of the impact of electronic commerce. Architectural, engineering design, software consulting, accountancy, telemedicine and office services (including call centres) are examples of services which can be provided making use of the networking capabilities of the Internet. Other sectors, such as the retail sector, compete only to a limited degree with providers located overseas, but can face competition from foreign firms operating through investment enterprises in Australia.

2. Tourism and Education Services Exports

Tourism and education are Australia's two biggest services exports. The value of tourism exports, taken as a single entity, exceeded Australia's biggest merchandise export – coal in 2004-05 (the last year for which total tourism export data are available). Education services ranked after coal and iron ore in 2005. Some tourist sources have now acquired the characteristics of mature markets, with relatively modest growth (or even decline) in recent years. Partly as a result, aggregate exports of tourism have been growing only modestly. But exports of education services have continued to grow extremely rapidly.

⁵ A similar point is made in R. McLachlan, C. Clark and I. Monday, *Australia's Service Sector: a Study in Diversity*, Productivity Commission Staff Research Paper, AusInfo, Canberra, 2002, pp.17-18.

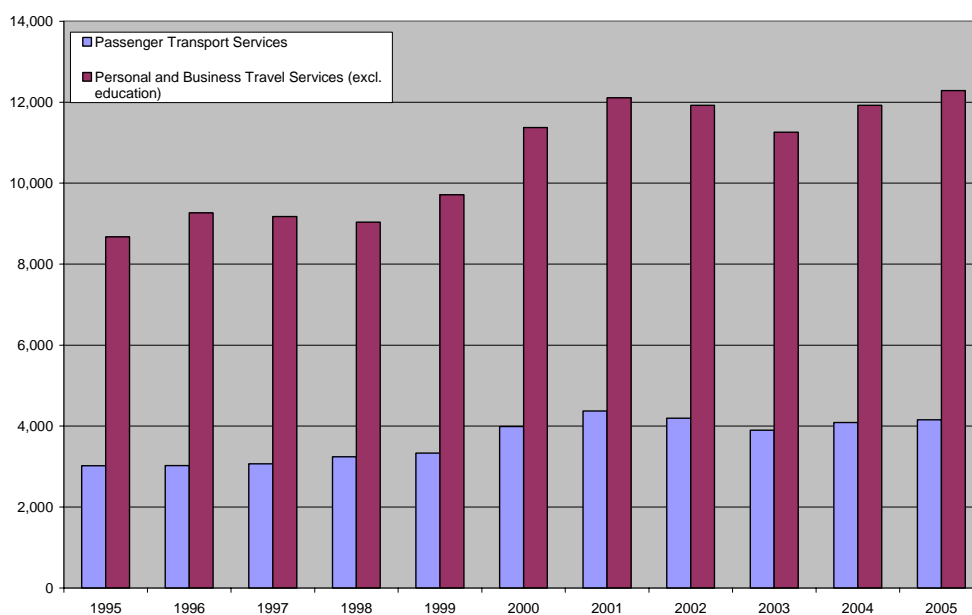
⁶ *Ibid.*, p.65.

Tourism

Chart 2.1 shows exports of services – personal and business travel (excluding education) and passenger services - which are closely related to tourism exports. As the Chart shows, personal and business travel expenditure and passenger transport services continued to recover in 2005, after declines in 2002 and 2003 in the wake of the global economic slowdown in 2002, the end of the direct stimulus from the 2000 Sydney Olympics, heightened concerns about terrorism following the September 11 attacks on the United States, the onset of SARS in 2003 and the appreciation of the Australian dollar.

Incoming visitors to Australia are dominated by a few source countries, with New Zealand, the UK, Japan and the US the four biggest sources. Trends in visitor numbers have been quite different in different economies over the long term, however. Since 1995, arrivals from New Zealand have doubled to reach more than a million in both 2004 and 2005. Visitors from the UK have also approximately doubled over this period, while those from China and India have shown stronger growth from a modest base. But the number of visitors from Southeast Asia has shown only modest growth, and arrivals from Japan and Taiwan remain below the levels reached in 1995.

Chart 2.1
Selected Travel and Transport Services Exports
 (\$A million)



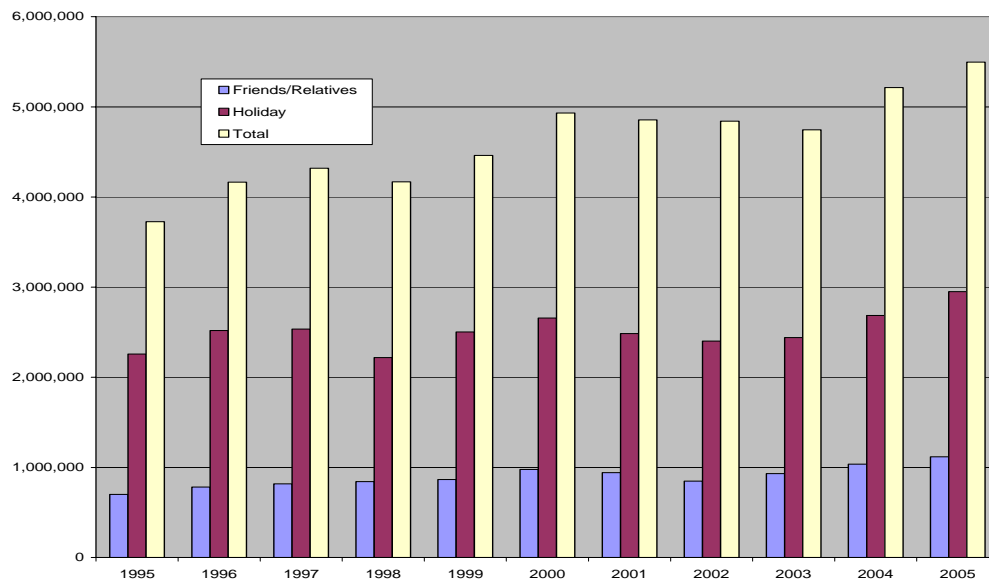
Source: Department of Foreign Affairs and Trade. Air transport agency fees and commissions are included in passenger transport services.

More than half of international visitors recorded by the ABS give a holiday as the purpose of their visit, but a sizable proportion visit friends and relatives. Other categories include business visitors, education-related visits, attending a convention or conference and employment. Since 1995, the number of visitors coming on holiday

has increased by almost one third. There have been much bigger percentage increases in the numbers attending conventions or conferences, or coming for business or employment or education. Growth in the number visiting friends and relatives has also been strong.

The number of incoming visitors reached a new high in 2005, at almost 5.5 million, up 5.4 per cent on the preceding year. Growth in visitor numbers in 2005 occurred in a number of markets, including New Zealand, the United Kingdom, China and Singapore. There were increases in visitor numbers across all major categories of visits, with the biggest increase in numbers from holiday makers, and the biggest percentage increases occurring for business travel and travel related to conferences and conventions.

Chart 2.2
Short Term Visitor Arrivals, Australia

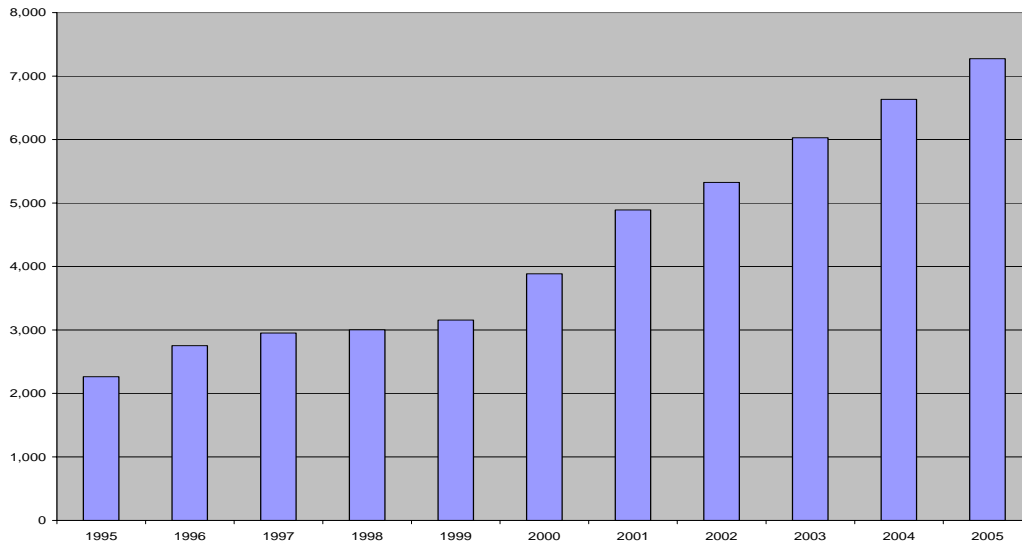


Source: ABS

Education

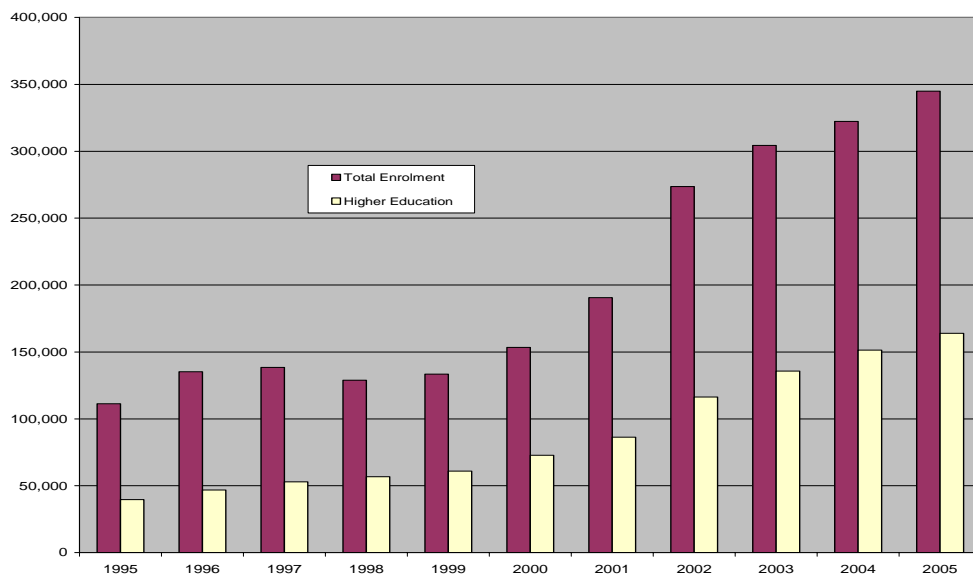
Chart 2.3 shows Australian exports of the education-related travel services, which make up almost all of education service exports. Although described as travel services, these exports essentially measure expenditure by foreign students in Australia on Australian goods and services. They accounted for about 97 per cent of educational services exports in 2005. As the Chart shows, exports of education-related travel services have grown strongly over the past decade. With the exception of a period in 1997-1999, when enrolments were affected by the East Asian economic crisis, growth has been strong in each year.

Chart 2.3
Education-Related Travel Services
 (\$A million)



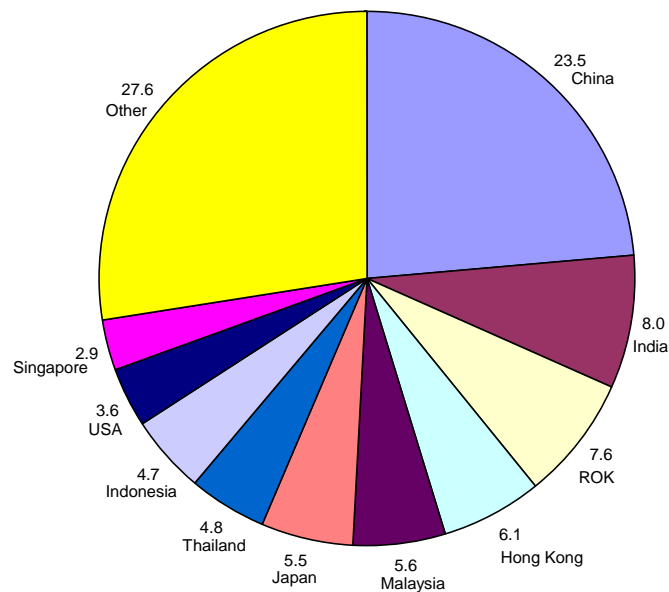
Source: ABS

Chart 2.4
International Student Enrolments in Australia



Source: Australian Education International. There is a break in the series between 2001 and 2002.

Chart 2.5
Student Enrolments in Australia: Top 10 Sources 2005
 (per cent of total)



Source: Department of Education, Science and Training. Data do not include students from New Zealand.

The expansion of demand for educational services has been mainly driven by the demand for higher education places, which account for almost half of total student enrolments (Chart 2.4). However, there are also substantial numbers of students in vocational courses and in English Language Intensive Courses for Overseas Students (ELICOS), each of which accounts for just under a fifth of total measured enrolments. School and other enrolments are much smaller.⁷

The bulk of the demand for Australian education services has come from Asia. Of the top 10 sources of student enrolments in 2005, nine were East Asian economies. China alone accounted for almost a quarter of enrolments in 2005 and India and Korea approximately 8 per cent each. Other important markets included Hong Kong, Malaysia, Japan, Thailand, Indonesia, the United States and Singapore (Chart 2.5).

Australian educational institutions have also moved offshore to supply services through a variety of means, including through twinning programmes and branch campuses. In 2004 (the latest full year for which data are available), over 64,000 higher education students (excluding distance education students) were studying

⁷ The data may underestimate the number of enrolments in some respects, with students entering on tourist visas for short courses (for example, English language courses) not captured by data on student visas.

offshore. In the case of Malaysia, for example, three Australian universities (Monash, the Curtin University of Technology and Swinburne University of Technology) have established branch campuses. Universities with large numbers of offshore students include Monash University, the Curtin University of Technology, and the University of South Australia. There are also substantial numbers of offshore vocational training enrolments with Australian institutions. Significant numbers of students study through distance education, where Australia is an international leader.

3. Future Global Opportunities

There are good prospects for further expansion of exports in a wide range of service industries, in the medium and long term. The significance of the sector in the global economy is expected to continue to grow. Even when narrowly defined, services now account for over two thirds of world economic output and a fifth of total international trade. UNCTAD estimates that around sixty per cent of the stock of international inward direct investment involves services industries.⁸ For many services, rising incomes and the specialised demand created by industrialisation will drive growth in demand.

In the case of tourism, the Tourism Forecasting Council projects visitor numbers to Australia to rise from just under 5.5 million in 2005 to almost 9.2 million in 2015. The Council expects New Zealand to remain the biggest market in terms of visitor numbers over this period, but arrivals from this source are expected to rise only slowly from around 1.10 million to 1.25 million. China is projected to emerge as the second largest market, with visitor arrivals rising rapidly from 285,000 in 2005 to almost 1.2 million in 2015. India is also projected to show particularly strong growth from a lower base, with visitor arrivals increasing from 68,000 to 292,000.

The total inbound economic value from tourism is projected to double from \$18 billion to \$36 billion in real terms. The share held by different markets in terms of value, which takes into account expenditure and length of stay from different sources, differs appreciably from those derived from visitor numbers. China is expected to emerge as the largest tourism market in these terms, with an inbound economic value rising to almost 20 per cent of the total by 2015. The United Kingdom, the United States and New Zealand are expected to rank next in terms of in terms of inbound economic value by the end of the forecast period.

Global demand for education services is also expected to continue to grow. For example, a UK-Australian study has forecast that global demand for international student places will rise to around 5.8 million by 2020, with demand for the principal English speaking destinations rising from about 1 million places to about 2.6 million places.⁹

In the Asia Pacific region, higher education is struggling to meet demand. The high proportion of the population under 15 years in many East Asian economies and requirements for new skills as economies undergo develop and diversify will create significant new demand over the next decade. At the same time, participation rates in

⁸ When data are obtained from the stock of outward investment, the estimate rises to two thirds.

⁹ See www.britishcouncil.org/goinggloabl-streams-international-students.htm accessed 20/07/2006.

higher education are rising as a consequence of further rapid growth. China, which is already the world's largest consumer of international education, is likely to remain a source of rapidly growing demand. There are therefore good prospects for Australian education suppliers if they can continue to deliver high quality, competitive services, although competition from other major suppliers is likely to remain intense. Competition from countries which are seeking to develop as education hubs, such as Singapore, is likely to increase.

As well as opportunities to supply increasing demand from Australia, there will be possibilities to participate in developing education in students' home countries. According to the Economic Analytical Unit:

China, Malaysia, Singapore, Taiwan, the Republic of Korea and Vietnam have all undertaken significant policy changes and are restructuring their higher education systems. In each of these economies, government is encouraging the participation of private institutions, including from offshore, to add capacity in higher education.¹⁰

There are also likely to continue to be substantial opportunities to supply business and professional services internationally. These services, which include architectural/engineering services, legal services, financial services, accountancy services and information technology services will continue to be in strong demand. As already noted, Australian exports of these services has grown appreciably over the past decade. Continued further growth in merchandise trade, including cross-border trade in small or perishable products, are likely to provide opportunities to supply air freight services.

4. Policies for Realising Opportunities

The scope for Australia to increase its exports of services will depend on maintaining a stable economic environment, which encourages improvements in productivity and facilitates the allocation of resources towards their most efficient uses. Possibilities in many areas – and especially in areas such as business and professional services – are also likely to depend, importantly, on Australia negotiating improved access in key markets. Achieving access gains of this kind is part of the core objective of the Department of Foreign Affairs and Trade, and is an area where it works closely with other Commonwealth agencies.

In many markets, services sectors are heavily protected and regulated, particularly in fields such as financial services, telecommunications, law, education, accounting and medicine. Issues such as commercial presence and the entry of foreign personnel are often sensitive. For network-based infrastructure sectors such as telecommunications, transport and energy services, reasonable, non-discriminatory third party access to facilities that may be controlled by the State or a dominant (and perhaps recently privatised) entity is critical to effective market penetration. A number of services sectors have special sensitivities in their own right. Services associated with the media and broadcasting, for example, raise important issues of cultural identity and freedom of expression.

¹⁰ Economic Analytical Unit, *Education Without Borders: International Trade in Education*, Department of Foreign Affairs and Trade, Canberra, 2005, p.31.

At the multilateral level, services can be expected to remain a key area of trade negotiations for many years to come. The major trading powers, including the United States, the European Union and Japan all have very substantial interests in this sector and can be expected to press for further liberalisation. Indeed, it was essentially the interest of the United States which helped to put services on the agenda during the Uruguay Round. An increasing number of developing countries (India is the most prominent example) also have a growing interest in services. Although the GATS has provided a basic framework for services liberalisation, akin to that provided by the GATT just after the Second World War, there remains a substantial agenda for further liberalisation.

Since the conclusion of the Uruguay Round, two major services negotiations have been successfully concluded – on basic telecommunications and financial services. Agreement on basic telecommunications was reached in February 1997, after three years of negotiations, leading to a number of new commitments by WTO members. Another outcome from the discussions was a reference paper on basic telecommunications which sets out a range of safeguards against anti-competitive conduct by dominant (e.g. recently privatised) national carriers. In the case of financial services, around 70 WTO members concluded an agreement in December 1997 which covered more than 95 per cent of trade in banking, insurance, securities and financial information.

New negotiations mandated by the GATS commenced in 2000 and have since been incorporated in the broader Doha Round. As with the parallel negotiations on industrial goods, progress has been hampered by the continuing deadlock on agriculture and negotiations are now on hold until the Round resumes. Our overriding objective in the services negotiations is to secure greater opportunities for Australian service providers, by pursuing targeted market access requests, setting a high level of ambition in our own offers, and participating in negotiations on domestic regulation to address “behind-the-border” issues.

Unlike Doha Round negotiations on goods, which use a single tariff-cutting formula, the services negotiations are conducted on a “request-offer” basis. Negotiations moved into a new phase with the launch of the plurilateral (or collective) sectoral request process agreed by Trade Ministers at the 6th WTO Ministerial Conference in Hong Kong in December 2005. This new approach was intended to supplement and strengthen the traditional bilateral (one-to-one) request-offer process. While they vary in format and content, plurilateral requests generally set benchmarks for liberalisation in a particular services sector and identify common market access barriers for elimination. Australia collaborated with like-minded WTO Members to present collective market access requests in thirteen priority service sectors¹¹. At the same time, Australia has continued to press bilateral requests with key services markets, notably in the Asia-Pacific region. While these efforts have helped generate new momentum, significant gains in services will depend on meaningful progress on agriculture and industrials.

¹¹ Australia co-sponsored plurilateral (collective) requests on air transport; architecture and related engineering services; computer and related services; construction and related engineering services; private education services; energy-related services; environmental services; financial services; freight logistics; legal services (coordinated by Australia); maritime transport; MFN exemptions; and telecommunications.

Australia has continued to lead by example with our successive GATS offers. Our initial (2003) offer was well received by other WTO Members and our first revised offer, submitted in May 2005, is acknowledged as one of the most comprehensive currently on the table. In particular, Australia's revised offer in relation to movement of natural persons (Mode 4) responds directly to a priority request of developing countries, and gives us considerable leverage in the negotiations. Our second revised offer, which will be submitted when the Doha Round negotiations resume, will be designed to maximise Australia's influence in the final phase of the negotiations. All of Australia's offers are conditional upon acceptable counter-offers from our trading partners.

Australia also plays an active role in efforts to develop GATS rules on domestic regulation, emergency safeguards, subsidies and government procurement of services. These are an important adjunct to the market access negotiations. In line with the mandate given by Ministers in Hong Kong, work on domestic regulation intensified this year. Improved disciplines on domestic regulation (licensing, qualifications and technical standards) are essential to ensure that market access gains are not eroded by restrictive "behind-the-border" measures that hinder services trade.

There has long been an active agenda on services in APEC, including in areas such as professional services, tourism, transportation, telecommunications, education, energy and electronic commerce. In the case of telecommunications, for example, ongoing work has promoted discussion between governments and the private sector; addressed regulatory barriers to trade; encouraged the uptake of e-commerce within the region; and promoted implementation of mutual recognition of conformity assessment for telecommunications equipment.

The negotiation of free trade agreements is another area where services figure prominently, with agreements typically now aiming at deep integration across a wide range of sectors rather than liberalisation for goods only. The Trade in Services Protocol to the CER Agreement brought services under the umbrella of ANZCERTA from 1989 and led the way in adopting a negative list approach to Australia's free trade agreements. (Under a negative list approach, barriers are subject to liberalisation unless they are specifically exempt). Market access restrictions on trade in services between Australia and New Zealand now remain on only a handful of sectors.

Article V of the GATS now provides an international legal framework for preferential agreements to address barriers in the services sector provided there is "substantial sectoral coverage" and elimination of "substantially all discrimination". Free trade agreements typically also seek to liberalise investment in order to facilitate the ability of providers to supply goods and services in the host economy. In doing so, they can go beyond the commercial presence provisions in the GATS.

Negotiation of commitments on services has been an important part of each of Australia's negotiations with Singapore, the United States and Thailand, where FTAs have recently entered into force. In the case of the Singapore-Australia Free Trade Agreement, for example, gains made by Australia in the Agreement included national treatment for Australian service providers (except where the Agreement specifically

provides otherwise); improved visa conditions for service providers; and lifting restrictions on the number of wholesale banking licenses available to Australian banks. There has been a substantial increase in the number of Australian law degrees recognised in Singapore.

Services are also a core component of the Australia-United States Free Trade Agreement (AUSFTA). In addition to the commitments on national treatment, the Agreement will potentially provide further gains in trade in professional services through the Working Group on Professional Services. The Working Group - the first of its kind - encourages and supports profession-led mutual recognition initiatives in the initial focus areas of accountancy, legal and engineering. In a parallel development, the E-3 visa was created in September 2005 for qualified Australians. The Australia-only visa enhances Australia's ongoing capacity to take advantage of the AUSFTA's services provisions.

The AUSFTA also established a Financial Services Committee tasked with increasing integration of Australian and US financial services markets. The work of the Committee is in its early stages with the parties focused on developing an understanding of the regulatory arrangements in each country and on identifying opportunities for achieving mutual recognition in a number of financial services sectors.

Services are also an important part of Australia's forward FTA negotiating agenda with China, the ASEAN economies (where the negotiations also involve New Zealand) and Malaysia. There is already a substantial trade with some of these economies in sectors such as education and tourism. The Government is seeking to build on these strengths and also to obtain improved access for Australian firms in a range of areas, including education; telecommunications; financial, professional and business services; construction services; transportation and freight and logistics. The services sector is an important part of the feasibility study on an FTA which Australia is undertaking with Japan and the analysis it is undertaking of a potential FTA with the Gulf Cooperation Council.

In seeking to negotiate, it is important for the Government and industry to have a clear view of Australian interests which are at stake in the services sector. The Department of Foreign Affairs and Trade has therefore advocated efforts to improve statistics on trade in services. It has, among other things, sought more timely and comprehensive balance of payments statistics on services, as well as additional data on services delivered through commercial presence. The Department works closely with the Australian Bureau of Statistics and other interested agencies on these issues.

5. Conclusion

Overall, Australia's services exports have proved to be robust in the face of the appreciation of the exchange rate since 2001. Strong demand for mineral exports may have had some adverse consequences for export-oriented service industries, but have also had positive spin-off opportunities for other parts of the services sector, including those which directly supply the mining sector, and those which have benefited from stronger demand in areas where mineral developments are proceeding apace. There are good prospects for further expansion of services trade. Australia's attractiveness

as a supplier, will, however, depend on maintaining a stable economic environment which encourages innovation and the allocation of resources to their most efficient uses. It will also depend, importantly, on successful negotiations to improve Australia's access to service markets abroad.