

**GOVERNMENT RESPONSE**

**TO RECOMMENDATIONS OF THE HOUSE  
OF REPRESENTATIVES STANDING  
COMMITTEE ON ECONOMICS, FINANCE  
AND PUBLIC ADMINISTRATION:**

*Servicing our future*

*Inquiry into the current and future  
directions of Australia's service  
export sector*

# GOVERNMENT RESPONSE TO HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS, FINANCE AND PUBLIC ADMINISTRATION'S INQUIRY INTO THE CURRENT AND FUTURE DIRECTIONS OF AUSTRALIA'S SERVICE EXPORT SECTOR

## BACKGROUND

On 3 May 2006 the then Treasurer, the Hon Peter Costello MP, asked the House of Representatives Standing Committee on Economics, Finance and Public Administration to inquire into and report on where the services sector now sits in Australia's export and import-competing environment, focusing on, but not limited to:

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

On 18 June 2007, the Committee tabled the report of its inquiry. Its *Servicing our Future* report made 14 recommendations. The Government's response to these recommendations is outlined below.

In addition to *Servicing our Future*, the National Institute of Economic and Industry Research released its *Off Shore and Off Work* report in May 2008. This later report suggested that many services sector jobs could be lost overseas and that many of these jobs would be intermediate or high skill jobs. The *Off Shore and Off Work* report put forward a number of recommendations to address these issues.

Both reports make it clear that the service economy is a vital and growing component of the Australian economy. The latest data available indicates that the service economy employs around 85 per cent of the workforce, generates around three quarters of industry value added and accounts for more than 20 per cent of exports.

The fact that the service economy continues to grow indicates that overall it is strong and vibrant. That said, in an environment of increasing global integration, it is crucial for Australia's service industries to maintain and improve their global competitiveness.

Since many services are direct inputs into other business activities, the provision of competitive, effective and efficient services is fundamental to maintaining and enhancing business competitiveness.

The Australian Government therefore recognises that a strong and efficient service economy is crucial to Australia's long-term economic prosperity. Australia's traditional exports such as mining and agriculture will continue to remain an important component of our international economic activity. However, the Government considers that it is essential to build productive, creative and internationally competitive service industries to diversify our export base and sustain economic growth.

Industries within the service economy are quite diverse, with industries such as construction, education and finance being very different both in terms of their output and the factors that drive them. Each of these service activities involves different skill

sets, investment and operating environments. While many of the challenges service industries face are unique to each industry, there are also common factors essential to ensuring the competitiveness of Australia's service industry businesses.

The Australian Government is committed to implementing a reform agenda to build a modern, competitive economy that is capable of meeting the challenges of the 21<sup>st</sup> century.

To sustain the growth and enhance the international competitiveness of the service economy, the Government is putting in place an overall service economy strategy.

The Government's strategy comprises the creation of a sound macroeconomic environment that supports sustainable growth, increasing the productivity and competitiveness of the service economy by removing impediments to growth, enhancing the capacity of service-based businesses and vigorously pursuing trade liberalisation.

### **A sound macroeconomic environment**

Sound macroeconomic policies are a fundamental pre-condition for a competitive Australian service economy. In an increasingly challenging global economic environment, the Government is committed to macroeconomic policies that support sustainable growth in the service economy. This will be achieved through inflation-targeting monetary policy conducted by the independent Reserve Bank of Australia and conservative fiscal policy to help create the conditions for strong, low-inflationary economic growth.

### **Removing impediments to future growth**

Inefficient and inconsistent regulation across Australia is hampering productivity growth in service economy businesses. By reforming business regulation, the Australian Government, in cooperation with the states and territories, is helping to remove impediments to future growth. The Council of Australian Governments (COAG) has prioritised 27 areas of regulatory reform designed to reinvigorate productivity growth. This far-reaching program will benefit large and small business by advancing Australia towards a seamless national market.

To support its ambitious better regulation agenda, the Australian Government has established an enhanced regulatory management framework that includes:

- the appointment of a Minister with Cabinet authority, the Minister for Finance and Deregulation, with a dedicated responsibility for better regulation outcomes and to take on the role of promoting, encouraging and influencing an enhanced focus on good regulatory practice;
- a strengthened gatekeeping function to thoroughly vet new regulatory policy proposals that are coming forward, including through ensuring adequate consultation with affected parties and establishing a new function to challenge the content and merit of policy proposals; and
- a range of initiatives to review the stock of accumulated regulation including through Ministerial Better Regulation Partnerships and the use of the one-in one-out

principle to guide the development of appropriate offsets where proposals for new regulation are being advanced.

The Organisation for Economic Co-operation and Development (OECD) has also been asked to undertake a Regulatory Reform Review of Australia, to report by the end of 2009. The OECD Review will assess current Australian Government regulatory management against international best practice, providing an opportunity to further improve the quality of Australian regulation.

The Government has also initiated a comprehensive review of the Australian taxation system to restore incentives to business and cut compliance costs. Tax reform that restores incentives will allow business owners to keep more of their earnings, rewarding effort, risk-taking and entrepreneurship.

### **Enhancing the capacity of service-based businesses**

At the same time as the Government works to remove impediments to growth it must also ensure that service-based businesses have the capacity to grow. By investing in education and skills development, infrastructure and innovation, the Government will improve the capacity of service-based industries to compete internationally.

A severe constraint in the service economy is the shortage of skilled staff. The Australian Government has budgeted over \$2 billion to deliver an extra 700,000 skilled training places over five years and has committed \$2.5 billion over the next 10 years to establish Trade Training Centres in secondary schools.

To provide some immediate relief to businesses suffering from skill shortages, the Government has increased the intake of skilled migrants to record levels with an additional 31,000 places available in 2008-09. Overall, permanent skilled migration will make up 133,500 places in the migration program in 2008-09. Over the next four years the Government will also spend \$20 million to improve the responsiveness and integrity of the system of temporary migration arrangements (including the employer-sponsored temporary business (sub class 457) arrangement).

Investment in skills development and education must be supported by efficiently operating infrastructure. The Government has established a new, national approach to modernising Australia's infrastructure, establishing Infrastructure Australia and providing an initial allocation of \$20 billion to the Building Australia Fund to be used to build critical infrastructure such as roads, rail, ports and broadband.

The success of individual businesses is built on the creativity, ingenuity and innovation of their owners and staff. The Government believes that innovation is critical to our future and initiated a review of the national innovation system to provide an appraisal of Australia's innovation effort. *Venturous Australia: building strength in innovation* highlighted the key actors in innovation as businesses and their people, and made recommendations to enhance the support of business innovation. The Government is developing a response to the recommendations of the review that aims to strike a balance between Australia's immediate needs and long-term aspirations.

The Government's support for skills development, education and its commitment to encouraging innovation across the economy will help equip service industries to meet

future challenges and capitalise on future opportunities created through the liberalisation of trade in services.

### **Trade liberalisation to increase trade in services**

In conjunction with fostering a competitive domestic service economy, the Australian Government is working to facilitate international services trade. Liberalising trade in services will benefit Australian consumers and Australian service-based businesses that will be able to grow through exports.

*Servicing our Future* notes that many service industries are competitive domestically but their share of Australia's exports remains relatively small. The main challenge the service economy confronts in international trade is the existence of non-tariff barriers. The Australian Government is reviewing export policies and programs to improve our trading performance. The priority in trade is to restore the primacy of multilateralism in trade policy to deliver substantially improved trade opportunities for Australia, particularly in trade in services. The Government is working to enhance international opportunities for service industries by raising the profile of services in multilateral, bilateral and regional trade negotiations to remove non-tariff barriers.

The Government is focused on improving the performance of Australia's two main service exports: inbound tourism and international education. A National Tourism Strategy is being developed to maximise the net economic benefit from tourism by establishing a long-term economic framework for policy intervention. The Strategy will go beyond the marketing of international tourism and consider supply-side issues such as tourism investment, infrastructure, labour supply, trade barriers and climate change. The sustainable growth in international education will continue to be supported by the Government through an integrated approach to policy, regulation and international marketing. The competitiveness of Australia's student visa requirements is also being considered to help maintain and expand the international education industry.

Services trade not only encompasses services exports but includes the establishment of physical investments in international markets and knowledge flows. A presence within an export market is important for many service businesses. Outwards direct investment by service businesses can improve efficiency in exports through economies of scale and generating knowledge flows that help build domestic productivity. Inwards investment can improve the efficiency of domestic markets by increasing competition and generating knowledge flows.

### **Services sector employment**

Overall employment in the service economy is increasing and this growth is expected to continue. Australian Bureau of Statistics data indicates that by August 2008, employment in the service economy had grown to around 9.1 million persons, or approximately 85 per cent of total employment.

However, in an open economy some jobs will move offshore, while at the same time jobs in which Australia has or develops a competitive advantage will relocate here. The *Off Shore and Off Work* report prepared by the National Institute of Economic and Industry Research on behalf of the Services Unions of Australia suggests that some services sector employment is likely to move offshore over the next two decades.

The *Off Shore and Off Work* report recommends that a services industries strategy be developed and that the "solution is to grow service sector exports". To pursue this strategy, the report puts forward a number of suggestions, including establishing a task force reporting to Cabinet, reviewing the tax system, improving skills through training and skills development, developing competitive infrastructure, marketing and branding Australia's key services capabilities and building linkages with the global services sector.

Many of these recommendations are consistent with the Government's overall strategy of creating a sound macroeconomic environment, the removal of impediments to growth, enhancing the capacity of the service economy and trade liberalisation in services industries.

The implementation of the Australian Government's overall service economy strategy will assist in building a productive, innovative and internationally competitive service economy, to consolidate growth and to provide secure jobs.

The Government's responses to the 14 recommendations in *Servicing our Future* will assist in this regard. The Government's response to each of these recommendations follows.

## RECOMMENDATION 1

The committee recommends that the Government commission research into innovation in the services sector and its implications for productivity.

### Response

The Government supports this recommendation.

The Government recognises that increasing productivity is the dominant contributor to the growth and prosperity of the Australian economy, and that innovation (including in the services sector, which makes up over three quarters of Australian industry value added) is an important driving force for productivity growth.

The Government's wide-ranging review of the national innovation system, chaired by Dr Terry Cutler, examined, among other things, existing government support for innovation to identify ways of ensuring that any future support is well-targeted and easy to access. The report of the Review of the National Innovation System, *Venturous Australia: building strength through innovation*, explicitly identifies the importance of services in the Australian economy and their contribution to innovation (Chapter 3) calling for services innovation to be supported through the Enterprise Connect program. Similarly, *Collaborating to a purpose*, the evaluation of the Cooperative Research Centre (CRC) program, recommended increased participation of the services industry in the CRC program. The Government will consider these recommendations when framing its White Paper on innovation.

The Government will continue to commission research into both innovation and productivity in the service economy. For example, the Prime Minister's Science, Engineering and Innovation Council (PMSEIC) Working Group on Innovation in Services delivered its report on innovation in services stimulated by science, technology, research and development in April 2008.

The Government is also actively engaged in international research efforts in this area. At the Organisation for Economic Co-operation and Development (OECD) Ministerial Council Meeting in May 2007, Ministers endorsed the development of an OECD Innovation Strategy. The work to be undertaken as part of the Strategy will be structured around statistics, indicators and empirical analysis; thematic analysis; and country-specific analysis and recommendations. A number of the proposed modules in the thematic analysis element will provide research and analysis in the area of innovation and productivity, covering a number of sectors including services, with the first research papers expected to be released in 2010.

One of the four analytical research topics of the technical conference of the joint National Experts on Science and Technology Indicators (NESTI) - Working Party in Industrial Analysis (WPIA) held in November 2007 was technological and non-technological innovation. This project will, among other things, examine the contribution of non-technological innovation to productivity growth and its important role in the development of particular service industries. Australia is making a significant contribution to this project.

## **RECOMMENDATION 2**

The committee recommends that the Government create a minister for the services sector.

### **Response**

The Government supports this recommendation.

The Government recognises the strong and growing contribution of the services sector to the Australian economy. Representing around 77 per cent of industry value added and 85 per cent of employment, the services sector warrants its own Minister.

In recognition of the increasing importance and economy-wide impact of the services sector, the Government has therefore appointed a Minister for Small Business, Independent Contractors and the Service Economy.

The Minister will strive to ensure that policies are put in place to foster a productive, creative and internationally competitive services sector. Productivity growth in the service economy has slowed in recent years, contributing to Australia's overall decline in productivity growth. Working on measures to increase productivity growth in the services sector will be a priority.

The following Government commitments will help build productivity improvements in the services sector.

1. Skills – a better skilled services sector workforce will be able to identify new and more productive ways to deliver existing and new services.
2. Infrastructure – better road, rail, telecommunications and other critical infrastructure will enable more efficient delivery of services.
3. Business regulation reform – freeing up time spent complying with red tape obligations and restoring incentives for risk-taking and entrepreneurship will enable business to focus on more productive activities.

Many services sector businesses provide direct inputs into other business activities. Productivity improvements in the services sector will deliver benefits for other sectors, enhancing overall business competitiveness.

The Minister will play a key role in implementing a suite of crucial micro-economic initiatives including:

- Taking a leading role as one of the co-chairs of COAG's Business Regulation and Competition Working Group to identify regulations that require reform and establishing the means through which such reform can be achieved;
- Consulting with service industry representatives on matters that may be affecting their ability to perform at their peak, including on matters such as skill requirements, infrastructure, regulation reform and innovation;

- Working in partnership with industry to identify and put in place practical measures to overcome impediments to raising services sector productivity; and
- Influencing government policy development agendas to ensure, for example, that skills development initiatives meet diverse services sector needs; economic infrastructure services such as rail, road, port, telecommunications and energy services are effective and efficient; and trade in services is fostered through reduced trade barriers.

It should be noted that responsibility for the diverse range of service industries is spread across a range of Government departments including those covering tourism, transport, telecommunications, education, health and energy. The Minister will not duplicate the work of Ministers with specific service industry responsibilities. Rather, the Minister will ensure that initiatives within the broad array of service industries, particularly those that are used as direct inputs into other business activity, improve productivity and competitiveness.

### **RECOMMENDATION 3**

The Committee recommends that the Government consider:

- establishing a program of permanent migration to address shortages in lower skilled positions in industries such as hospitality and tourism; and
- providing incentives for Australian and overseas workers to move to rural and regional areas where skills and labour shortages are severe.

#### **Response**

The Government supports the parts of the recommendation that relate to providing incentives for Australian and overseas workers to move to rural and regional areas.

The Government will continue the practice of reviewing permanent and temporary migration arrangements to ensure they reflect the genuine skill needs of Australian industry. The Skill Stream of Australia's Migration Program provides for the permanent entry of young migrants with high levels of English proficiency and skills (recognised qualifications and work experience) appropriate to employment in skilled (managerial, professional, associate professional and trade) occupations. Research confirms it is migrants with this profile who perform best in the labour market and contribute to Australia's economic well-being.

In addition to the May 2008 report from an External Reference Group of industry experts (on options for temporary migration arrangements to better meet the needs of industries), in November 2008 the Government released the report from Ms Barbara Deegan (on options to improve the operation and integrity of the 457 temporary skilled workers).

The Temporary Business (Long Stay) visa subclass 457 visa allows employers to nominate workers from overseas to fill positions that cannot be readily filled by Australian workers. The Government is undertaking a comprehensive review of the subclass 457 visa to ensure that it is able to meet the skill vacancy needs across Australia, complementing the other permanent migration programs and Australian Government training strategies.

Given accessibility, affordability and service issues facing many regional communities it is probable that most workers (Australian or overseas) will prefer living in major cities. Locations of choice will be those that are connected to employment opportunities, where liveability indexes are high and where there is ready access to services and social support.

The Government is committed to attracting and retaining skilled workers in regional areas. On 18 November 2008 the Prime Minister announced a \$300 million Regional and Local Community Infrastructure Program (RLCIP) to build local community infrastructure in all of Australia's local council areas, providing an immediate stimulus to communities across Australia. This investment will build on the Government's program to invest in national infrastructure, including the \$20 billion Building Australia Fund and \$176 million to deliver the Better Regions election commitments.

To assist regions to attract workers, provision exists for eligible employers in regional Australia to recruit overseas workers to genuine vacancies in a number of less-skilled occupations, usually through Labour Agreements.

The Regional Sponsored Migration Scheme is a migration initiative that allows Australian employers in regional Australia to recruit overseas workers to fill skilled vacancies in their business. In order to be eligible for this visa, the worker must be nominated by an employer for a position that provides full-time employment for two years. In addition, the worker must be able to satisfy the skill and English language requirements.

The labour needs of regional businesses are also supplemented by New Zealand citizens, Working Holiday Maker (WHM), Work and Holiday (WH) and international student visa holders. The tourism and hospitality industry is a significant employer of WHM and WH visa holders and the negotiation of agreements with new countries will further expand the available pool of workers. Implementation of these agreements is expected to be staggered across several years due to the negotiation process.

On 17 August 2008, the Hon Tony Burke MP, Minister for Agriculture, Fisheries and Forestry announced a three year Pacific seasonal worker pilot scheme targeting Australian regions and industries which have an unmet demand for labour.

The pilot is being conducted to examine whether a seasonal worker program could contribute to foreign aid objectives and also assist Australian employers. The pilot aims to enable workers to contribute to economic development in home countries through remittances, but it will also examine the benefits to the Australian economy and to employers who can demonstrate that they cannot source local labour. To keep the pilot at a manageable level it is initially being limited to the horticulture industry.

In the case of employer-sponsored temporary and permanent migration arrangements (including Labour Agreements), the Australian Government will ensure that these arrangements comply with Australia's international commitments on the movement of natural persons; provide solutions to the genuine skill needs of Australian industry; do not result in the displacement of Australian nationals; and complement domestic recruitment and training initiatives. The rationale for these arrangements is on the entry of overseas workers for genuine vacancies in skilled occupations.

Migration programs are important in addressing labour market and skills shortage pressures. The Government is committed to a strong demand-driven temporary migration program to assist employers to meet skills shortages when local workers cannot be sourced. To address labour market pressures that are expected to increase as a result of long-term demographic and economic trends, the Government will continue to provide employment and training opportunities for Australian workers.

As a first step in addressing the current and future skill needs of Australian industry, the Government is implementing the *Skilling Australia for the Future* initiative.

It should be noted that an increasing number of international students are graduating from Vocational Education and Training (VET) institutions with Australian qualifications related to the Migration Occupations in Demand List (MODL) and seek

to join the Australian workforce. In 2007, hospitality management was the most popular VET course, at 14 per cent of total VET commencements. The top five VET courses related to the MODL in 2007 were hospitality management, welfare studies, accounting, cookery and computing/IT.

The Government has established Skills Australia to advise on Australia's workforce skills and development needs. Skills Australia will draw on a range of employment, labour market, skills and training information available in order to advise the Government on priority needs areas. The work of Skills Australia will contribute to improving productivity and competitiveness, including in service export industries.

On 1 April 2008 the Australian Government released a discussion paper that sets out the road map for the delivery of the Australian Government's additional 700,000 training places, through the new Productivity Places Program. These extra vocational and educational training places are for occupations that are most in demand and include 309,000 training places for those who are not working or are marginally attached to the labour force. Occupations identified for the first 20,000 of these places, from April 2008, include kitchen hands; bakers; pastry cooks; cooks; chefs; bus and tram drivers; travel and tourism agents; student counsellors and a range of manufacturing occupations. The remaining productivity places will be made available over the next four years.

The Australian Government is also expanding the role of Industry Skills Councils (ISCs) to provide integrated industry intelligence and advice to Skills Australia, government and enterprises on workforce development and skills needs. ISCs will also actively support the development, implementation and continuous improvement of high quality training and workforce development products and services, including training packages.

The Australian Government's Trade Training Centres in Schools Program will provide \$2.5 billion over 10 years to enable all secondary schools to apply for funding of between \$500,000 and \$1.5 million for Trade Training Centres. Trade Training Centres are being established to help increase the proportion of students achieving Year 12, or an equivalent qualification, and to help address skill shortages in traditional trades and emerging industries.

#### **RECOMMENDATION 4**

The committee recommends that in all future bilateral and multilateral trade negotiations the Government gives greater priority to services trade issues. Where negotiations are stalled because of issues in one particular sector (agriculture, for example), the government should consider negotiating agreements for individual sectors.

#### **Response**

The Government is supportive of the recommendation.

Consistent with the importance of services to the domestic economy, the Government supports the continued pursuit of ambitious services outcomes as key priorities in bilateral and multilateral trade negotiations.

Multilateral negotiations in the World Trade Organization (WTO) are Australia's best trade policy option, complemented by high-quality bilateral and plurilateral Free Trade Agreements (FTAs) where appropriate. The Government does not underestimate the challenge of securing commercially meaningful outcomes from a comprehensive round in the WTO as a single undertaking, given the large and differentiated membership of that organisation.

Still, meaningful services liberalisation outside the context of the current comprehensive WTO trade round would be difficult to achieve given the demonstrated reluctance of many developing countries to improve access to their services sectors until they secure better access to global agricultural markets and domestic political pressures not to liberalise their services sectors.

Significant work is being undertaken, including at ministerial level, towards the successful conclusion of WTO Doha round negotiations. A multilateral outcome in the WTO remains the Government's key priority.

In FTAs, Australia aims to achieve agreements that improve on commitments made in the WTO and provide liberalisation across all sectors, including services, and to ensure that FTAs open markets and support the development of a more open global trading system.

Where trade negotiations are seriously stalled by unresolvable issues in a particular sector, the Government may be prepared to consider how to capture progress made in the negotiations, as well as other ways to advance Australia's interests. Sectoral agreements are one possibility.

In the future, interested WTO Members might be able to agree on stand-alone plurilateral agreements on specific services sectors. Participants would reflect this in their WTO schedules and extend the liberalisation to all WTO Members on a most favoured nation basis. There are precedents for trade in services, with stand-alone agreements on telecommunications and financial services reached after the Uruguay Round. The potential for this approach would depend on the group of WTO Members representing a significant part of trade in a services sector having a common interest in liberalisation. Sectoral agreements could potentially also be applicable in FTA negotiations where insurmountable problems exist in reaching a comprehensive agreement.

The Department of Foreign Affairs and Trade has staff dedicated to working on services, including on sectoral issues, across the WTO and FTA agendas, and consultation with relevant departments, agencies and industry occurs to ensure that all negotiations will deliver commercially meaningful results for Australian service suppliers, as well as useful trade outcomes in other areas.

In the 2007 election, the Government committed to assist the services sector to expand its export base, and to conduct a thorough review of Australia's export policies and programs. On 22 September 2008, the Minister for Trade, the Hon Simon Crean, released the independent Review of Australia's Export Policies and Programs (Mortimer Review) conducted by Mr David Mortimer AO together with Dr John Edwards.

The Mortimer Review recommends that a new trade and investment strategy implemented in partnership with business and across governments, is required to lift Australia's trade performance. It notes the importance of Australia's services sector to Australia's current and future trade profile and suggests, given the services sector's significant contribution to the Australian economy, that there is considerable scope for services exports to increase.

The Government is currently considering its response to the Mortimer Review.

## **RECOMMENDATION 5**

The committee recommends that the Government initiate a ‘Brand Australia Council’ involving all of the Government’s promotion agencies. The goal of this Council would be to provide for communication and coordination between the various agencies responsible for promoting Australian exports internationally. The Council would not amalgamate or replace existing promotion agencies.

### **Response**

The Government supports this recommendation in principle.

The Government recognises that a strong national brand is a valuable asset for Australia, and therefore supports ongoing co-ordination and cooperation between the Government’s existing trade promotion agencies – primarily Austrade and Tourism Australia – and other industry-specific bodies (for example, Australian Education International).

At the inaugural meeting of the Council of Australian Governments (COAG) Ministerial Council on International Trade, Ministers agreed Austrade would work with Tourism Australia and state and territory governments to develop a unified brand to better project Australia's products, services and commercial capabilities internationally. A key part of this initiative will be exploring the extent to which Brand Australia can be effectively adapted for that purpose Austrade will bring together a group of Commonwealth and state and territory officials to conduct this work and report to the Ministerial Council on International Trade in this regard.

The release of the Tourism Australia Business Event branding in early 2008 provided a better fit with the promotional activities of the trade, investment and education promotion agencies. However, development of a unified national business brand would be more beneficial in more effectively promoting Australia as an attractive trade and investment destination.

These organisations already work together to promote the ‘Brand Australia’ concept as a matter of course. Indeed the Government considers that six monthly meetings between Tourism Australia, Austrade, and Australian Education International should be held in order to discuss how each are planning to portray Australia overseas. While this is not a formal ‘Brand Australia Council’ we believe this could improve communication and sharing of research and developed brand infrastructure between these agencies.

An example of this cooperation was the work between Austrade, Invest Australia and Tourism Australia to promote a whole-of-government presence at the APEC 2007 Leaders' Week in Sydney in September 2007. A further example is the G'Day USA promotion event held in Los Angeles and New York early in 2008, which featured involvement from Tourism Australia, Austrade, DFAT and Qantas.

The independent Review of Australia’s Export Policies and Programs (the Mortimer Review) conducted by Mr David Mortimer AO and Dr John Edwards recommends considering the issue of national branding. The Government is currently considering its response to the Mortimer Review.

**RECOMMENDATION 6**

The Committee recommends that more resources be made available to the Australian Bureau of Statistics (ABS) for improving its collection of data on international trade in services.

**Response**

The Government is supportive of the recommendation that the Australian Bureau of Statistics (ABS) improve its collection of data on international trade in services, noting that any additional funding would have to be considered as part of the Budget process.

The Government agrees with the Committee's findings that data on international trade in services are not as comprehensive as data relating to trade in goods, partly reflecting that data relating to the trade in services is more difficult to measure.

The Government also recognises that the ABS has already made some worthwhile improvements to the quality of its existing international trade in services statistics (for example, improvements in coverage, updated benchmarks and the application of new methodologies).

Notwithstanding these improvements, the Government acknowledges that a range of stakeholders, including industry and governments agencies, have requested that the ABS compile and publish more detailed and comprehensive services data. For example, DFAT notes that more comprehensive services data could provide greater analytical input into international trade negotiations and allow for more accurate assessments of the benefits of finalised trade agreements.

The ABS has established a trade in services user group. This group, which includes government agencies, provides a forum for discussing additional work being undertaken by the ABS, other departments and industry bodies on the collection of data on international trade in services.

Any request for additional funding will need to be brought forward in the context of the 2009-10 Budget process and should incorporate any strategies developed through the trade in services user group. During the Budget process, the merits of any proposals will be considered relative to other proposals, both in relation to competing demands on the ABS and more general funding pressures.

**RECOMMENDATION 7**

The committee recommends that the Government commission an independent inquiry on the future of the inbound tourism industry.

**Response**

The Government supports this recommendation in principle.

An independent inquiry into the future of the inbound tourism industry would be too narrow given that it accounts for approximately 25 per cent of the industry. What is more valuable is a strategic approach to the development of the tourism industry, both inbound and domestic.

The Government is developing a National Long-Term Tourism Strategy. The goal of the Strategy is to maximise the net economic benefit from tourism by establishing a long-term economic framework for development. A high level Steering Committee has been established to provide input to the Strategy from the tourism industry including the inbound sector.

The future of the inbound tourism industry, the potential for growth in international tourism and how the industry can realise this potential will be key considerations in the development of the Strategy. However, rather than focussing solely on the marketing of international tourism to Australia, the development of the Strategy will consider 'supply side' issues, such as tourism investment, infrastructure, labour supply, trade barriers and climate change. Consideration will also be given to tourism activity outside traditional leisure activity. The focus will be on ensuring that the tourism industry is meeting the needs of its market.

The Strategy is being developed over 12 months from May 2008 in close consultation with the tourism industry and state and territory governments.

## RECOMMENDATION 8

The committee recommends that governments, both state and federal, take proactive steps to eradicate rogue tourism operators. This process should include:

- Increased federal resources for the Australian Competition and Consumer Commission (ACCC) to actively seek out and prosecute alleged rogue operators; and
- Increased state and federal funding for the Inbound Tourism Compliance Taskforce to enable more effective national coordination on this issue.

### Response

The Government is supportive of the recommendation to take proactive steps to eradicate rogue tourism operators affecting some of Australia's inbound tourism markets, noting that any additional funding would have to be considered as part of the Budget process.

As outlined below, a range of measures are already being implemented within existing resources, to overcome structural factors in these markets which have impeded effective use of available compliance and enforcement mechanisms. Some of the measures are at an early stage. The effectiveness of measures to address rogue inbound tourism operators will be evaluated in 2009-10. This will include reviewing the need for any increased resourcing. Any requests for additional funding would be considered in the context of the Government's Budget processes.

In relation to the adequacy of resourcing of the ACCC, the Government considers the ACCC to be appropriately resourced to enforce the provisions of the *Trade Practices Act 1974* (TPA). As an independent statutory authority the ACCC sets its own enforcement priorities and can direct those resources to inbound tourism as appropriate. The decision for the ACCC to pursue complaints is not constrained by resource considerations.

The Australian Government is leading the *Inbound Tourist Consumer Protection Strategy*, which focuses on the core objective of enhancing consumer protection for visitors to Australia, particularly for visitors from North Asian countries. This Strategy builds on and replaces the former Government's Inbound Tourism Compliance Taskforce. With support across Federal, State and Territory Ministers for tourism and consumer affairs, the Strategy's work program is overseen by an officials' group chaired by the Australian Government Department of Resources, Energy and Tourism.

A key aim is to empower consumers to resist exploitative practices, by better informing tourists about their consumer rights in Australia. The Strategy also aims to gather evidence from consumers on which Australian enforcement agencies can act, particularly by making it easier for tourists to lodge complaints in their own language to Australian authorities. Lack of complaints and evidence from Asian consumers has been identified as an impediment to Australian fair trading agencies' responses to reported problem practices in Asian tourism markets.

The Australian Government released Korean-language consumer (tourist) education materials and a Korean-language online complaint facility in late 2007. These resources

have been promoted in Korea by Tourism Australia, and by Korean Government agencies and industry partner organisations. Submitted complaints are automatically forwarded to Australian State and Territory fair trading agencies. To the end of July 2008, thirty-three Korean language tourist complaints had been lodged. Most centre on alleged misrepresentations and unfair refund policies on sales of health products from Sydney shopping outlets catering to the Korean group tour trade. This has led to a major compliance and investigation program by the NSW Office of Fair Trading, with indications that market conduct is improving.

Similar consumer education and complaint facilitation initiatives are planned for the inbound Chinese tourism market by the end of 2008. Chinese-language consumer materials and a Chinese-language online complaint facility will be released by the Australian Government, and will be promoted in China by Tourism Australia and by Chinese partner organisations. Submitted Chinese tourist complaints will be considered by relevant fair trading agencies.

The *China Approved Destination Status (ADS) scheme*, as noted in the *Servicing our Future* report, is a bilateral tourism arrangement between the Chinese Government and a foreign destination, whereby China permits its citizens to undertake leisure travel in groups on specified itineraries in ADS scheme countries. ADS approval allows the Australian Government access to the Chinese market through Tourism Australia. It underpins the continued rise in this vital market. The number of Chinese tourists has increased by 16 per cent this year to 357,400 and is expected to reach 1 million by 2016. It is also forecast to replace the United Kingdom as Australia's most valuable market (\$5.2 billion) and to account for 14.7 per cent of total tourism inbound economic value in 2016.

The Australian Government strengthened the administrative arrangements for the ADS scheme in 2005 with a range of reforms to ensure Chinese ADS tourists receive a quality Australian tourism experience. A key requirement is that ADS approved Tour Operators comply with the ADS Code of Business Standards and Ethics to ensure integrity, competition and fair trading in the inbound Chinese group tour market.

The Australian Government is active in ensuring compliance with the ADS scheme by suspending operators that do not comply with the ADS Code. As an example of this, in April 2008, the Australian Government suspended three Tour Operators from the ADS scheme for continued non-compliance with the ADS Code.

The Government is also committed to development and implementation of a *National Tourism Accreditation Framework (NTAF)*. The NTAF will facilitate the delivery of quality customer experiences by tourism businesses, through a voluntary national accreditation and promotional framework that recognises sustainable and capable tourism businesses. The NTAF will help create a market that discourages and disadvantages unethical tourism operators, by allowing accredited businesses to brand themselves and provide a point of difference as a quality operator, and by allowing consumers to choose quality accredited tourism products and services. The Government is working with industry and the states and territories to develop a business plan for the implementation of the NTAF, and has indicated that if there is a case for Australian

Government funding support, this will be considered in the context of the 2009-10 Budget process.

## RECOMMENDATION 9

The committee recognises the challenge that the increasing public focus on climate change poses for the inbound tourism industry, as well as the manufacturing and agriculture sectors. The committee therefore recommends that:

- The Government's tourism action plan on climate change consider the potential impact of carbon emission reduction policies on the inbound tourism industry;
- The Government separately consider the potential effects on sectors that rely on air freight; and
- The Government be prepared to argue Australia's case against Euro-centric protectionist policies which exploit the increasing public interest in climate change.

### Response

The Government supports this recommendation.

On 13 April 2007, COAG endorsed the *National Climate Change Adaptation Framework*. Tourism was identified as one of a number of areas of action on climate change adaptation and the Tourism Ministers' Council was tasked with developing an action plan in partnership with industry stakeholders.

The *Tourism and Climate Change: Framework for Action* was endorsed by the Tourism Ministers' Council on 9 July 2008. The Framework was developed by the Tourism and Climate Change Taskforce, which is chaired by the Department of Resources, Energy and Tourism, and includes representatives from Australian and state and territory government tourism agencies, the tourism industry, the Sustainable Tourism Cooperative Research Centre, the Department of Climate Change and the New Zealand Ministry of Tourism.

The Taskforce considered the potential impact of carbon emissions reduction policies on the inbound tourism industry, including the application of such policies to international aviation. The Taskforce funded consumer research in the United Kingdom and German markets to assess the influence of consumer attitudes towards climate change, and the impact of carbon prices, on demand for long haul air travel to destinations such as Australia. The research found that environmental marketing messages could counterbalance the impact of a carbon price. The final report has been referred to Tourism Australia, and state and territory tourism marketing agencies, for incorporation into their tourism marketing strategies.

Australia's input was important in shaping the United Nations World Tourism Organization (UNWTO)'s position on tourism and climate change (refer to [www.unwto.org/climate](http://www.unwto.org/climate)), which was presented at the United Nations Conference on Climate Change in Bali on 12 December 2007. The UNWTO position reflects Australia's input that "*the tourism sector must play a strong role as part of a broader response to climate change; however it should not be disadvantaged through the imposition of a disproportionate burden either on tourism as a whole or on vital components such as aviation*". This message is important for Australia in relation to

long haul air travel, and exposes the potential for emissions reduction policies to disadvantage remote and tourism-dependent developing countries.

The Government has undertaken preliminary analysis on air passenger and freight aspects of the European Union (EU) proposal to unilaterally mandate the inclusion of international aviation in the EU emissions trading scheme from 2012. Further work in this area will draw on the Government's established approach to these matters, which is to emphasise the importance of addressing international aviation emissions multilaterally in order to avoid economic distortions and environmentally perverse outcomes resulting from unilateral action. The Government is also in dialogue with the UK about the announcement on 24 November 2008 that it would increase its Air Passenger Duty on the basis of distance flown and emissions generated.

The Government will continue to participate constructively in multilateral negotiations to establish a framework for addressing emissions from international aviation through the International Civil Aviation Organization as the appropriate forum. Australia is also working regionally through the establishment of an Aviation Emissions Task Force within the Asia-Pacific Economic Cooperation (APEC) Transport Working Group.

Unilateral trade-related measures and campaigns, such as border taxes and food miles, are also likely to represent an inefficient and ineffective approach to tackling climate change. The Government will continue to participate constructively in negotiations towards an international agreement that includes all major emitters to limit greenhouse gas emissions. At the same time, the Government will continue to actively monitor, assess, and respond as necessary to any overseas measures, particularly unilateral measures that risk perverse and ineffective outcomes.

## RECOMMENDATION 10

The committee supports the findings of the Action Plan for Japanese Tourism Committee's report and urges the Government and the inbound industry to implement the report's recommendations.

### Response

The Government supports this recommendation.

A number of the recommendations of the *Action Plan for Japanese Tourism* have already been implemented, and it is acknowledged that Tourism Australia has launched a new tourism strategy to address current challenges and changing consumer preferences in the Japan market.

The *Action Plan for Japanese Tourism* was launched by the previous Government on 26 January 2006. The Action Plan provided an assessment of the Japanese market, recognising the major changes occurring in recent years, and provided recommendations relating to four key areas:

- restoring the Australian brand to recapture the attention of travellers;
- strengthening collaboration between industry and Australian government agencies to improve marketing and distribution;
- ensuring airline pricing and products meet consumer needs; and
- encouraging product development that delivers experiences attractive to the increasingly sophisticated Japanese market.

The Japan Industry Monitoring Group (JIMG), involving key Japanese tourism representatives, was established to oversee the implementation of the recommendations. The Group has now concluded and is satisfied that the Action Plan recommendations have either been implemented, or will be implemented, through ongoing activities.

In August 2007, Tourism Australia launched a new tourism strategy to address current challenges and changing consumer preferences in the Japan market. The campaign has three major components, as set out below.

1. **Engagement with key stakeholders:** Tourism Australia has sought to involve all industry partners including four key airline partners, all state and territory tourism organisations and major regional tourism organisations, and 10 key travel agents in Tokyo, Osaka and Nagoya. This cooperative approach offers the prospect of greater funding and impact.
2. **New co-operative campaign:** In September 2007 Tourism Australia launched a new marketing campaign in Japan, focusing on Australia's World Heritage Areas. The campaign focuses on delivering the message "Immerse yourself in Australia's World Heritage", a message that resonates well with the Japanese consumer, based on extensive market intelligence and testing with key industry stakeholders. By focusing on World Heritage Areas, Tourism Australia is seeking to make visiting Australia highly fashionable again to the Japanese. With multiple tourism bodies promoting in Japan, there was previously a lack of cohesiveness in approach to the Japan market. Aimed at travellers and major travel agents, the new campaign

reflects a partnership approach between Tourism Australia, travel agencies, airlines and state and territory tourism organisation (STOs).

3. **Experience development in Australia:** Tourism Australia will continue to work in partnership with STOs to develop tourism products, services and experiences in Australia. In particular, there will be a focus on assisting the Australian tourism industry to identify and match the right products to the key experiences.

## **RECOMMENDATION 11**

The committee recommends that the Government provide additional funding to Tourism Australia to:

- Extend the international marketing of Australia's business events capabilities; and
- Conduct research into the issues and opportunities arising from the development of an extensive medical tourism industry.

### **Response**

The Government is supportive of the recommendation to extend international marketing of Australia's business events capabilities, and future opportunities to research international developments on medical tourism may be considered, noting that any additional funding would have to be considered as part of the Budget process.

Tourism Australia is taking action to enhance the international marketing of Australia's business events capabilities. Tourism Australia conducts ongoing research into a range of market opportunities.

Any request for additional funding will need to be brought forward in the context of the 2009-10 Budget process. During this process the merits of any such proposal will be considered relative to other proposals, both in relation to competing demands on Tourism Australia and more general funding pressures.

The Government recognises that business events are an important part of the tourism industry. The Minister for Tourism, the Hon Martin Ferguson AM MP, has asked the business events industry to bring forward a Business Events Strategy, to address industry issues. Tourism Australia and the Department of Resources, Energy and Tourism are closely monitoring industry trends and consulting with stakeholders, to examine how the Government can best assist the industry. The Government will consider the case for extending the international marketing of Australia's business events capabilities once it has received the Business Events Strategy.

The marketing of Australia as a destination for business is a growing focus for Tourism Australia, which has adopted strategies designed to deliver tangible outcomes in this area, through identifying five priorities:

- Enhanced stakeholder communications and partnerships;
- Integration of Tourism Australia's global commitment to business events, including developing a clear brand to underpin the marketing of Australia as a business events destination;
- Enhancement of core programs targeting corporate meeting, incentive and association sectors;
- Improved research and insights; and
- Whole-of-government positioning of business events, for example through joint initiatives with Austrade.

Tourism Australia received funding in the 2007-08 Budget to continue a range of marketing initiatives (including business events marketing) that were implemented via

the 2003 Tourism White Paper. Tourism Australia is best placed to prioritise this funding, whether it be for business events, medical tourism or any other purpose.

While Tourism Australia has not produced any significant research on medical tourism to date, future opportunities to research international developments in this area may be considered.

## **RECOMMENDATION 12**

The committee recommends that the Government assess the overall competitiveness of its student visa requirements (ease of application, assessment criteria etc) against our major international competitors, the United Kingdom, the United States and New Zealand. In addition to this generic review, the committee has identified two specific visa issues which should be addressed:

- The Government should consider lowering student visa fees; and
- The Government should consider removing the English language competency test requirement from all English language study visas.

### **Response**

The Government supports this recommendation.

People granted student visas on or after 26 April 2008 will receive permission to work with their visa grant. This will apply to both the primary student and any family members travelling with them on their student visa.

This removes the requirement for most student visa holders to make a separate application for permission to work once they arrive in Australia by providing work rights with the initial student visa. Previously most student visa holders paid a total of \$490 – an initial \$430 for their visa applications and \$60 in Australia for the separate permission to work. Now student visa holders will pay one charge of \$450 for the combined visa application and permission to work. In this context, it should be noted that student visa grants in 2005-06 increased by nearly 10 per cent, with a further increase of nearly 20 per cent in 2006-07. This suggests that the level of student visa fees is not a strong deterrent for international students seeking to study in Australia.

The requirement for English language testing for English language study visas currently only applies to applicants from countries considered to be at a very high risk of not complying with their visa conditions. The Government is currently reviewing the English language test requirement for all English language study visas, taking into account the immigration risk presented by applications from very high risk countries.

**RECOMMENDATION 13**

The Committee recommends that the Auditor-General conduct a performance audit of the Department of Education, Science and Training's [now the Department of Education, Employment and Workplace Relations] compliance and enforcement action in relation to alleged breaches of the *Education Services for Overseas Students Act 2000* and its National Code.

**Response**

The Auditor-General is an independent officer of the Parliament (Auditor-General Act 1997, subsection 8(1)), and has complete discretion in the exercise of his or her powers (in particular, he or she is not subject to the direction of anyone in relation to whether any particular audit is to be conducted (paragraph 8(4)(a) of the Act)). Any decision on whether or not to conduct any performance audit is a decision for the Auditor-General.

The Government acknowledges the need for strong integrity of the Education Services for Overseas Students (ESOS) framework underpinning minimum standards for education services to international students in Australia.

The ESOS framework is also supported by state and territory quality assurance systems and legislation that regulates the approval of education and training providers in accordance with relevant national protocols.

**RECOMMENDATION 14**

The Committee recommends that the Government, through Tourism Australia and Australian Education International, engages in a coordinated effort to promote, target growth in, and understand the importance of, the interplay between international education and tourism.

**Response**

The Government supports this recommendation in principle.

The Government supports promoting the interplay of education and tourism, while remaining conscious of the need not to undermine the reputation of Australian educational institutions for providing academically rigorous tuition by unduly emphasising the ability to combine education with recreation.

Tourism Australia and Australian Education International already liaise to promote this goal and the Government is committed to deepening this cooperation where possible. There is a cross-agency Memorandum of Understanding between seven Australian government agencies regarding the promotion of international study in Australia.