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DEFENCE AND TRADE TRADE SUBCOMMITTEE)

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and investment**

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JOINT COMMITTEE ON FOREIGN AFFAIRS, DEFENCE AND TRADE

Trade Subcommittee

Monday, 27 August 2001

Members: Senator Ferguson (*Chair*), Senators Bourne, Calvert, Chapman, Cook, Gibbs, Harradine, Hutchins, Sandy Macdonald, O'Brien, Payne and Schacht and Fran Bailey, Mr Baird, Mr Brereton, Mrs Crosio, Mr Laurie Ferguson, Mr Hawker, Mr Hollis, Mr Jull, Mrs De-Anne Kelly, Mr Lieberman, Dr Martin, Mrs Moylan, Mr Nugent, Mr O'Keefe, Mr Price, Mr Prosser, Mr Pyne, Mr Snowdon, Dr Southcott and Mr Andrew Thomson

Subcommittee members: Mr Prosser (*Chair*), Mr O'Keefe (*Deputy Chair*), Senators Chapman, Cook, Ferguson, Hutchins and O'Brien and Fran Bailey, Mr Baird, Mr Hollis, Mrs De-Anne Kelly, Mrs Moylan, Mr Somlyay and Mr Andrew Thomson

Senators and members in attendance: Senators Chapman and Ferguson and Mr Baird, Mr O'Keefe and Mr Prosser

Terms of reference for the inquiry:

To inquire into and report on increasing Australia's trade and investment through initiatives for economic expansion, in particular:

- The role of development agencies in economic expansion such as the Industrial Development Agency in Ireland and the Economic Development Board in Singapore;
- Reasons for the success or otherwise of development agencies in establishing countries and regional areas as economic leaders;
- The comparative role of such development agencies to existing agencies in Australia;
- Incentives and impediments to foreign investment in Australia such as transport systems, taxation, telecommunications infrastructure, production costs, industrial relations structures, legal systems, federal systems of government and research and development initiatives;
- The adequacy of a skilled workforce in Australia particularly in new growth areas such as, though not limited to, financial services, information technology, E-business, education, pharmaceuticals and health care, and the competitiveness of that workforce; and
- Opportunities for encouraging inward investment and promoting export sales.

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Subcommittee met at 10.16 a.m.**CLAVEN, Mr James Andrew, National Industrial Research Officer, Communications Electrical Plumbing Union**

CHAIR—This is a public hearing of the Joint Standing Committee on Foreign Affairs, Defence and Trade's inquiry into Enterprising Australia—planning, preparing and profiting from trade and investment. On behalf of the Trade Subcommittee, I welcome the representative from the Communications Electrical Plumbing Union. The subcommittee prefers that all evidence be given in public but, should you at any stage wish to give evidence in private, you may ask to do so and the subcommittee will give consideration to your request. Although the subcommittee does not require you to give evidence on oath, I should advise you that these hearings are legal proceedings of the parliament and therefore have the same standing as proceedings of the respective houses.

Welcome, Mr Claven. The subcommittee has received a submission from the Communications Electrical Plumbing Union, submission No. 16, and I now invite you to make a short opening statement before we proceed to questions.

Mr Claven—The CEPU is very thankful for the opportunity to take part in this inquiry and to make a submission. I have no changes to the submission that we have put before you. I would like to go through some of the key issues that we made in our submission and then if you want to ask me questions I will be happy to take them.

CEPU is a union representing 150,000 employees throughout the key infrastructure areas of communications, including areas of postal, telecommunications and electricity. We believe that our members and the union are critical in assisting economic infrastructure development in Australia. We have a strong record of public policy involvement and making contributions over the years. It is in that capacity that we have sought to make this submission.

We note that the inquiry's brief is to look at the role of economic development agencies; the incentives and impediments to foreign investment, specifically to do with infrastructure; the adequacy of a skilled workforce; and the opportunities for encouraging inward investment and promoting export sales—with the aim of assisting the future economic development of Australia.

The key areas that we would seek to make comment on, as we have in our submission, include the role of economic development agencies, communications and other infrastructure aspects of trade and investment, workforce skills issues, e-commerce, the industrial relations environment and a consistent policy agenda. In putting our submission together, we did undertake some international research contacting our affiliates throughout the world, such as the Union Network International, which is CEPU's international union federation. This contact was particularly to do with Ireland, the UK and Singapore. The information they provided formed an important part of our submission.

I will make an overall comment. We regard an adequate national economic infrastructure as a key determinant of growth. Specifically, the areas that our members work in—telecommunications, postal communication services and electricity—are vital if we are to sustain economic growth in Australia. We also believe that there is a major role for government in the ownership and oversight of this infrastructure to ensure that national economic needs are

and oversight of this infrastructure to ensure that national economic needs are met. We also assert the need for all social partners to be involved in the planning for economic growth, especially at the regional level, which is obviously currently a very hot political issue, especially in terms of overcoming disparities in economic development between regions and the major metropolitan areas. We think that involvement of the social partners should also be underpinned by a cooperative industrial relations system. The final point is the lesson from overseas: that you need a consistent policy agenda on economic development which will override or see us through the changes in political complexion of governments. That is very important if this is to be sustained in the future.

I might point you to some of our recommendations and then explain them a little bit, if that is appropriate. We undertook some research about the role of economic development boards overseas. I should add that we did look at the United Kingdom and we received quite a bit of information to do with the set-up of regional economic development boards there. This is an area which the committee has not mentioned in its brief in terms of the Israel, Ireland, Singapore examples but, given the issue of spreading the benefits of economic development throughout the whole country, we think that the committee should look at regional development boards. The UK example is an important one. As you will see, we recommend:

That this Inquiry endorses the establishment of economic development boards on the basis that they are directed at stimulating local employment and not merely a means to facilitate foreign ownership, expand training and retraining opportunities for the local workforce, include trade union representation at both a policy and operational level through direct representation on the bodies concerned and support and promote the Australian cooperative industrial relations system.

I am sure you are aware of the export processing zones, especially throughout Asia. We specifically reject them and we point to them in our submission as things to be avoided by Australia, as they are really aimed at reducing living standards and workers' rights as a means of attracting foreign investment.

I will not go through all the detail of our submission. We looked at Singapore and the English example, and I would draw your attention to the discussion there of the English example. I think that is really relevant to Australia in terms of bringing government, local authorities, trade unions and employers together to coordinate with government in the planning for skills training and also investment in regional areas. That is an area that would merit the inquiry's attention as a possible option for Australia. These were established in the UK in 1999 and I understand that they became fully operational in 2000.

The key to both the Singapore case and the UK case is the importance of the role of social partnership. I will talk about this later, but in our own experience the CEPU has played a big role in introducing change within the communications sector. Specifically, I can speak on behalf of the postal area with a lot of detail. We have had a cooperative environment with the employer. We have worked together to introduce major change. It has resulted in major restructuring which has included reductions in employment but enhancements of skills. We think that the experience in the UK and Singapore shows that a cooperative model can lead to improved opportunities for employees and enhanced economic development. But I think the key is that the trade unions, the collective organisations of the work force, can be considered as stakeholders and strategic partners in that process. Would you like me to now go on to talk about the export processing zones?

CHAIR—You are right.

Mr Claven—I am happy for you to then query me on aspects of what I have said there. The export processing zones I have particularly looked at are Malaysia—I made some comment there—Central America and Eastern Europe. We find these are basically aimed at achieving international competitiveness through lowering labour costs. We do not see that as a way that should be adopted in Australia. The aim of economic development should be to enhance our living standards not reduce them.

You will note that in the studies we have cited in our submission with the electronics industry most of the employees are predominantly female. They are denied organising rights to deal with a trade union. They are also in breach of a number of occupational health and safety provisions. If it was occurring in Australia it would be a scandal. We think we should reject this export processing zone arrangement that occurs throughout Asia. It is basically aimed at cutting down the pressure on living standards rather than enhancing workers entitlements and overall economic growth in the area.

In conclusion, we support economic development boards in Australia, provided they are directed at stimulating local employment and not merely as a mean of facilitating foreign ownership. We believe that trade union representation at the policy level and operationally through direct representation will assist in the work of these regional development boards by creating consensus at a regional and national level if that was the case.

We think the regional economic development boards would have a role to play in enhancing local workforce access to training, retraining and continuing education. Our union represents areas where training has played a very important role, certainly in the telecommunications area. Our members in Telstra have contributed to Telstra having developed some of the most world beating technology in terms of optical fibre, and a range of other things. We think any move by government to stimulate economic development should recognise the role that training plays in that process. We also believe that the economic development boards, if they are established, should support and promote a cooperative industrial relations framework.

With regard to infrastructure issues, I have dealt with the postal sector in quite a lot of detail in our submission. Suffice to say that we believe that, given the geography and population spread of Australia over the last 100 years, it has been a major role for government to ensure that all Australians have access to adequate infrastructure in key areas not only in the postal and telecommunications area but also in electricity and other utilities. Government has played a major role in doing that. It has not been the private sector. We believe that there is a role for the private sector within certain areas. This is the case with communication infrastructure and, in fact, the current revenue of Australia Post is set at 50 per cent fully competitive. The only area that is retained in the public sector is the reserve service, which is only standard letters up to 250 grams. We believe it is essential, if you are to maintain a national, affordable, accessible postal communications service, that the reserve service not be reduced. We believe that that would create enormous cost pressures on Australia Post to reduce services. That could only have a negative effect not only for residential customers but also for business.

Evidence by private sector users—business users of the postal services—at a Senate inquiry into the government's proposed deregulation legislation pointed out that, even though they

supported deregulation, they would not be using an alternative to Australia Post, as it provides the best and most reliable network in Australia compared to any of the other providers. In that sense, they were underpinning the fact that we need to support Australia Post, not undermine it. They were just seeking a reduced cost for themselves rather than looking beyond to national infrastructure reasons.

In the postal area, we believe this inquiry would be remiss if it did not note that other government policies which impact on infrastructure are vitally important. A critical issue is to maintain affordable access for residents to postal services, and telecommunications for that matter. If that were not the case, if policies developed by government were not done through a whole of government approach, we would find that the economic development thrust would be undermined by the inability of businesses to access customers throughout Australia. There are various statistics I have put in there to do with Australia Post in terms of its affordability, accessibility, public support and regional spread. I think it is true to say that, up until the recent proposals, the government has had quite a lot of benefit out of the policy on Australia Post in terms of its dividend payments, extra dividend payments and its service to the public. That is shown by the fact that even the World Bank has said that Australia Post is one of the best postal services in the world. Without wanting to be party political, I think this inquiry would be remiss if it did not underscore the need to maintain affordable and accessible postal and communications services throughout Australia as a key for business development. This is apart from its importance for residential customers per se.

In the telecommunications infrastructure area, we do believe that since the part privatisation there has been a focus on short-term, market driven approaches by Telstra and that that has seen a massive expansion in the number of faults that are not dealt with. Before a Senate estimates inquiry recently, Telstra admitted that, throughout Australia, in the region of—and correct me if I am wrong—45,000 or 50,000 complaints about local service in regional areas have not been addressed in terms of fixing up the service. They are called ‘held orders’. The union actually believes that it is more in the region of over 100,000. This area of the network is vital for businesses to market themselves throughout the area, apart from the equity issues involved. In these regions, Telstra would rather provide a mobile phone at local cost than fix the landline phone problem, the customer access network problem. We think this is directly related to the pressure on Telstra to meet a shareholder bottom line met by fluctuations in the Stock Exchange, rather than have a national infrastructure agenda. Also, an issue since deregulation—and I suppose I am having a go at both parties here—is the USO issue, where licensed private providers are to contribute to the universal service obligation of Telstra. This has been a continually fraught issue, which has been litigated. Instead of these companies paying up a fair amount, which is basically their contribution to the maintenance of the network, they have seen fit to legally challenge their obligations to help fund that in proportion to their section of the industry.

In a nutshell, we are opposed to any further sale of Telstra. We think that, although the government has sought to address concerns in regional areas through the social bonus projects, this is not sustainable in the long term. It is a short-term funding strategy which we believe will be exposed in the future, as more and more needs fail to be met. We believe that this inquiry should recognise that having a majority and publicly owned Telstra is important to the provision of national infrastructure.

I will turn now to electricity issues. We do not have a specific recommendation, apart from the fact that the government needs to consider how it will regulate to ensure the integrity of the national grid. We have experience in some states, particularly in Victoria, of a dramatic increase in blackouts and brownouts in customer areas. We think that all of these issues of privatisation and deregulation must be focused on customer service. Since the privatisation of electricity in some states, we have seen a rise in costs and declines in service. We think these are directly related to the fragmentation of our national infrastructure in the electricity area. I will now refer to the skilled work force—

CHAIR—Otherwise we are going to run out of time. I should have asked if you wanted to make a brief statement.

Mr Claven—I am sorry about that. I stress that we do believe that a cooperative industrial relations environment is a key to economic development. We have our credentials on the board in both Telstra and Post. On a continuing basis in Post we have worked to introduce major change. That has not been without problems. It has resulted in job losses and major change for the work force, in terms of technology and skills, but we went with that. Currently we are in the process of introducing with Post a \$500 million future Post improvement program which will basically computerise the network. That is of great benefit to the business community. It is a state-of-the-art technology building on benefits from across the world. Certainly we have proposed in our submissions to government elsewhere that the deregulation proposals of the government would undermine that investment. We think that this investment process has only been able to be put in place the way it has because of the active involvement of the work force and their union in the process. We would hope to continue to do that.

Finally, I mention the lesson of Ireland to do with a consistent policy agenda. The lesson there was basically that there was a national agreement on the need to invest in education and skills formation as well as to access suitable investment funds from overseas through the European Union. There was a national compact involving the unions and the major parties that has seen them through quite rocky changes in political complexion. You might call me an optimist, but it would be extremely beneficial to Australia if it were possible for us to have national agreement on economic development.

CHAIR—Thank you. I would like to pose a question to you on the regional economic development boards. Given the recent report of Ian Blackburn, do you have a comment on the number of agencies involved in promoting Australia—state, federal and local governments. Do you think we are diluting our message?

Mr Claven—Representing a union which is fortunate to represent people at a national level—and I am not aware of the Blackburn report or its recommendations—it would be my observation that we do dissipate our overseas view by having different state bodies. If we could put our state hats aside for a little while, it would certainly help us. Correct me if I am wrong, but I think there has been a little bit of a trend to reduce some of the offices overseas. The competition by individual states—and this would be more pertinent to other submissions than ours—in bidding for overseas investment to come to Australia is, I believe, only to the detriment of Australia overall. There is a lot of state money involved and a lot of benefits that are not open to Australian industries. In the UK example we would support a consolidation of

these efforts, maybe with a national economic development board and with regional development boards, rather than state ones.

CHAIR—Do the regional economic development boards fit into the national umbrella?

Mr Claven—Yes, that is what I would think. It would be appropriate for Australia, given the current debate. I have been fortunate to be in the UK recently. The impetus for this whole regional development agency proposal is trying to overcome the disparities between regions and urban areas. It is quite glaring in the UK that the benefits of economic development are predominantly in the south-east corner. It is interesting in the way they talk about regions. Our regions in some ways are far more open to the unfair winds of centralisation. As a union that has work forces throughout Australia, that provides services throughout Australia, we are very strongly supportive of keeping infrastructure available at regional levels. We think Australia Post and Telstra should play a role in buttressing regional economic development.

Mr O'KEEFE—Without putting words into your mouth, I think you are actually saying a bit more than that. You have spent quite a lot of time emphasising this: as I understand it, you are saying that your union sees a need to develop regional economic development zones, a la the McKinsey report and the Kelty-Fox task force—all that 'think local, act global' sort of stuff that we were working on some years ago. You are saying that, in order to attract businesses to these regions, there has to be communications infrastructure of best practice. You are putting a case as to why that should be done in a cooperative industrial relations environment. In your view, it is the public sector that does it better than the private sector. That is how I would summarise those things.

Mr Claven—Yes.

Mr O'KEEFE—Personally, I have no argument with those arguments, but part of that becomes something for us to think about because you have also strongly emphasised the need for a consistent policy agenda. In your submission, you have drawn on the Irish example where different political parties and philosophies have changed hands over a 15-year period, but maintained that consistent policy agenda about overseas investment and how you do this—and you have emphasised that. So that is a quick summary of what you are saying, I think. One thing I specifically wanted to ask you about is your recommendations about e-commerce. You are saying that e-commerce is potentially a major part of Australia's future, but I think I saw that, although 43 per cent of Australian homes and businesses are on line, only six per cent have a home page or a web site. Are you saying that you think that a bigger uptake of home pages and web sites would help the development of commerce?

Mr Claven—Certainly to do with e-commerce it would. What I was really getting to in that whole section was the fact that Australia Post is getting into e-commerce in a big way. It sees it as the way of the future. The union is currently involved in negotiations to do with restructuring Australia Post with a specific focus on logistics and e-commerce. We think it is something that we have to be in the forefront of if we are going to be competing in the world market. Getting back to your point. When I talked about the regional economic boards bringing people together, on this notion of social partners, we are not saying that necessarily the private sector does not have a role. We certainly believe it does have a role and that, in fact, our commitment to working with business corporations is because of our experience. We think it is far better, and

we think it is totally possible, to have a cooperative arrangement established between unions and employers at a local level—probably even more at a local level than a national level.

The other thing about these economic development boards that I would stress is that the UK example is tying in your local training facilities to deal with local economic disfunctions. So it might be the retraining of workers for other jobs within the area. When you are researching and writing in this area, you will find that it feels as though you are going over the same sorts of things. Although aspects of this whole area have been dealt with, they have not been dealt with in a holistic way. The advantage of this economic development board approach—and also the overall thing about a consistent government agenda—is to have a holistic approach to economic development, rather than—

Mr O'KEEFE—The national umbrella that the chairman was talking about, sitting over the top of it all?

Mr Claven—Yes, rather than an itsy-bitsy industry based specific assistance when there is a particular problem, more like fitting in with the national plan, where we would want to involve the social partners. I cannot stress it enough. We have worked very hard with the employers, where we have been able, to make the jobs of our members more interesting and more sustainable. We are committed to doing that in the future. What we would like to do is work within a national framework which would see benefits flowing more broadly throughout the Australian community.

Mr O'KEEFE—Let me ask about a specific example which you may or may not want to comment on. I can remember back to when telecommunications was opened up to competition in Australia. Optus was chosen as the international investor to set up the network in opposition to Telstra. Optus chose a particular industrial relations strategy and Telstra had a different one. Do you think that Optus's performance since it was established has had anything to do with the industrial relations strategy that it set out on?

Mr Claven—I suppose the first comment I will make is that no-one could really regard Optus as being a key national infrastructure player. Apart from their pay television investments they basically hang off the Telstra network. They have very few employees and they do not contribute a hell of a lot to national economic development.

Mr O'KEEFE—What about their roll-out? Didn't they roll out a lot of cable?

Mr Claven—Yes, but they basically hang off the Telstra network. They did roll out in the major metropolitan areas, but in terms of national infrastructure they are not really players. That is because, I believe, they are not really committed to working across the country. Certainly it was very difficult for us to work with them. They had a particular agenda from Cable and Wireless. Certainly, originally, when they were owned by Bell South, it was a different arrangement. That company in America has greater foresight and a more progressive view about how it relates to its employees. Optus were different. We endeavoured over the period to look forward to a new ownership arrangement, when maybe things would change. We certainly have made steps to say that we are prepared to put the past behind us and try to work with all the players in the telecommunications sector. But Telstra is really the key. Without Telstra you have not got a real telecommunications infrastructure in Australia.

Over the years Australia has been at the forefront of skills development in the telecommunications area and that has been gutted in recent years. Basically, the private providers, including Optus, are hanging off the redundancies that are given to Telstra employees who go and work for them. If they do work for Optus then they are on short-term contracts. If they do cabling work for Telstra, it is all short-term. That is not good for our telecommunications future. The great advantage of Telstra was that it had research and development laboratories and it had very skilled staff. It received accolades for that across the world. I stress to you that Telstra is still the key and will be into the future. I suppose this inquiry should recognise the importance of encouraging companies, including Optus, to make a positive contribution to the nation's infrastructure, which can then assist business.

CHAIR—You made the point earlier that Singapore and Ireland had a consistent approach for quite some time and Australia seems to have been chopping and changing at different times. How detrimental do you think that has been to our achievements?

Mr Claven—I think it is clear—and throughout my submission there are a range of areas—there were skill and training issues. Without wanting to be partisan on this, I think both parties have buffeted around from one approach to the other over the years. I certainly believe that, given our place in the world, our geography and our enormous opportunities in Asia, we should have a more integrated national approach which, maybe in certain key respects, is agreed between the parties. You will always have differences, but certainly, in terms of key national infrastructure areas and regional economic development spreading the gains, it should not be beyond both parties to come to some consensus. If we can sit down with employers and reach an agreement in the private sector telecommunications area then we cannot see why you lot cannot organise yourselves so that you have a national plan.

CHAIR—But even your agreements have changed over time.

Mr Claven—They have changed, but I should say, as I mentioned in the submission, that in the postal area prior to corporatisation—and the union was opposed to that originally and we had a terrible industrial relations record; it was the envy of the most belligerent union in Australia—we decided that to go forward we had to accept some responsibility for that record and build a competitive, efficient but also productive environment for our members to work in. That meant accepting change—

CHAIR—On the commercial side of Australia Post operations—

Mr Claven—The fully competitive side, yes.

CHAIR—where you are into stationery and a whole range of other areas, given the clout of Australia Post, don't you think that a GBE in that area is unfair to small business in the stationery area? Particularly when you get in your letterbox a flier that says, 'Come and buy all of these things from Australia Post,' a little stationery firm cannot do that. Do the unions support that type of thing?

Mr Claven—There are two aspects to it. We certainly support Australia Post's having a commercial arm, and having full accounting separation between that arm and its reserve service, so that it is not to subsidise the commercial operations of the company. We have also come to

support that there is a place for licensed post office operators. You would all understand across this table that these are small business operators who operate postal services, under licence to Australia Post.

CHAIR—Should LPOs be turned into a sort of franchise, so that the public can get better access and better service, rather than—as is currently the case with an LPO—you have got it and that is it?

Mr Claven—I do not know what you mean by ‘better service’. I think that all the customer service reports—

CHAIR—But the LPOs tend to get stuck in an area. When you have population growth out here, you have population and no service because the LPO happens to be down at the bottom of the light pole.

Mr Claven—We certainly support the expansion of post office networks. One of our concerns over recent years is that the only expansion in the postal network has been in the community postal agency area, which has the lowest level of service enjoyed by the community: basically selling stamps and offering a very minimal postal service. They do not equate, as far as we are concerned, with an adequate postal service, so we would support the expansion of a retail network to fit in with population moves. Our policy, both to government and to the opposition in various inquiries, is that we believe that the community service obligation of Australia Post should be expanded beyond just the standard letter rate. But with respect to the public’s view, it is clear from every customer service survey that has been done by Australia Post—and they are independent and audited—that there is overwhelming support for the Australia Post network, especially the retail network, amongst the community. You are not perfect, you are always going to have some criticisms, but the fact is that it has probably got the best record, in terms of performance and public support, of any corporation in Australia.

I think the existing arrangements are quite adequate, although I do believe there is a need to expand the retail network, especially in rural areas. Without wanting to be political, it is a process of a continuing contraction of services. In a lot of cases the post office is a hub for other small businesses that hang off it. People come to do their postal work, then they go and buy their other goods. I think if you went to any local shopping strip in metropolitan areas, or in rural areas, they would support the post office staying there—the licensed post office or the corporate one. They would not be listening to the bleatings of somebody who is complaining about the odd bit of stationery being sold in a post office.

Mr O’KEEFE—The true focus of this inquiry is: how do we develop Australia’s trade and investment opportunities? You have argued a very good case for the existence of Australia Post and Telstra in the roles they play; but to put it in context, I understand you are saying that if Australia sees small business as part of its emerging export drive, then small business has to be well supported by communications infrastructure. If you are talking about little businesses down in the smallest areas—whether that is farmers who are trying to sell overseas or whether it is small businesses in export or whatever—you are saying even the LPOs have to be able to cater for that sort of trade and not just posting a letter or whatever. You are also saying that if we are going to expand e-commerce as a way of doing business in Australia, this infrastructure has to be nationally available at the highest level. Does that summarise what you are putting to us?

Mr Claven—I would also add that access to a universally available postal, telecommunications and electricity network, at an affordable cost, is a precondition to attracting foreign investment. I would want you to take that into account in terms of your work. There is also the role of regional development and we have a particular view on that. There is the role of these services in buttressing local business. The need to maintain a leading communications infrastructure is critical to us. It provides an important basis and a marketing point for a national economic development board.

CHAIR—Thank you for your attendance here today.

[10.57 a.m.]

DAVIS, Mr Robert Brent, Director, Trade and International Affairs, Australian Chamber of Commerce and Industry

CHAIR—On behalf of the trade subcommittee I welcome the representative from the Australian Chamber of Commerce and Industry. The subcommittee prefers that all evidence be given in public, but should you at any stage wish to give evidence in private you may ask to do so and the subcommittee will give consideration to your request. Although the subcommittee does not require you to give evidence on oath, I should advise you that these hearings are legal proceedings of the parliament and therefore have the same standing as proceedings before the respective houses. I now invite you to make a short statement before we proceed to questions.

Mr Davis—As members will recall, we appeared before this body several weeks ago, probably months now, and gave an overview of some of the general issues before the committee. A number of the questions from almost all of the members, but from Mrs Moylan especially, related to what drives foreign investment. We reflected on this and sought to examine it in more detail. We had a slide show to present; unfortunately, time will defeat us and we will have to forgo that.

CHAIR—We have it in your submission, anyway.

Mr Davis—You do have it more or less. Because we put data in PowerPoint, we protect certain intellectual property, but that is for another day. The submission is there, Chairman; we can walk you through it and bring out the main points. It is simply a matter of trying to say what factors actually drive a foreign investment decision. As we said in our earlier presentation, there is no one size fits all approach that applies in all cases, at all times, in all countries and regions et cetera. In our effort here we have tried to at least use some mathematical methods to get some precision into it. Rather than using intuition, gut feel or narrative, we tried to be more precise. Unfortunately, like most others, we have not seen this Blackburn report. We do not know whether it uses scientifically based methodology or whether it is a Melbourne tram based survey—*anecdotal*, call it what you will. We do not know the report's depth but, nevertheless, we have tried to come at it with some economic science.

CHAIR—Thank you for that. I was going to ask you about the Blackburn report—

Mr Davis—We know nothing.

CHAIR—which it would seem has a single-agency view. I think he argued—and I have not read it, but I have read the reports on it—that having state and federal agencies and a whole range of other people confuses our message overseas. So what is the chamber's view on having a single-agency view response?

Mr Davis—One has a multiple of agencies out there; you have Invest Australia and Austrade primarily doing it, plus the state agencies out there. The potential downside risk of having multiple agencies, of course, is your multiple and competing messages. I think the main game

really has to be raising awareness of us as an FDI destination. Would a single agency necessarily do any better? One could argue that you get a lethargy out there—that one agency would just become cumbersome and inefficient—and if you had a multiplicity of agencies you would have some competitive dynamics. I think the essential message is that we have to sell in Australia first and then argue for the states and the regions second, because it is a matter of getting on the radar. I was at a forum recently with some Japanese, and they said quite simply that Australia needs to get on the radar first and foremost. After that, you get onto the more detailed issues. So are we on radar? The work we have done in here suggests in some cases, yes, in some cases, no.

The other sorts of inferences I guess would come forward are s that, even being on the radar, there is a long lag effect in changing perceptions: if you have a view that held sway in the mid-1980s, it can take you seven or eight years, or 10 years, to reposition yourself. Unfortunately, there tends to be an asymmetry: bad news holds on, good news takes a while to come through and displace bad news. I do not think that is unique to foreign investment. I think that is something that pervades many aspects of public life.

Mr O'KEEFE—Can you go to your submission. The slide show we would have got, let us—

Mr Davis—Do you want me to walk you through it just quickly?

Mr O'KEEFE—Go to the section that starts 'most important, intermediate importance, slow or unimportant'. Just give us a quick nutshell view of those, because that is good work you have done there, and it would be interesting—

Mr Davis—I might indulge if I can and just go through very quickly the background so you have got a sense of what we have done. This is econometrics—it is an awful sounding word—and basically what we attempted to do was s identify which of these factors cause that—you can build mathematical models to show that these things cause that. Everyone knows correlation, but this is associated with that. The classic case of correlation is: increased teacher salary tends to correlate with higher alcohol sales. That is slightly spurious: it tends to suggest that if you pay teachers more, they will drink it. I will leave politicians' salaries to others to discuss.

Mr O'KEEFE—I will give you an amusing one: in my territory, where I have got a lot of vineyards, tax cuts to high income earners result in increased wine sales—there is a very direct and immediate correlation there.

Mr Davis—I can see a logical connection there. So what we attempted to do was look at these sorts of causalities, so we got some data—45 countries, roughly half developed, half developing—

Senator FERGUSON—How does a country get on your list?

Mr Davis—It is based on the data available from the *World Competitiveness Yearbook*.

Senator FERGUSON—Is there a limit of 45, or does it mean that other countries you just—

Mr Davis—That is it.

Senator FERGUSON—The limit is 45?

Mr Davis—Yes.

Senator FERGUSON—If we have got Australian companies investing in, say, Peru, it does not make any difference that it does not appear on the list?

Mr Davis—In all econometric modelling you are limited by your data, and the data—

Senator FERGUSON—The limit is 45, that is all I want to know.

Mr Davis—That is it, so we cannot add data for countries we do not have. If there are other countries that may come on stream in future, we will look at them. How they are divided between developed and developing is up to UNTAD. One can argue the toss backwards and forwards.

Senator FERGUSON—You have still got New Zealand in ‘developed’ I see.

Mr Davis—And Singapore is a developing country, which seems a bit curious to us, and South Korea, of course, is a member of the OECD. We looked at foreign direct investment as a proportion of domestic investment. That creates problems in econometrics, so it is not conventional as a proportion of GDP. You can see under the key indicators chart what we cluster them under: economics, finance, management, openness, government policy and state efficiency. I will just jump through them—the economic ones, country credit rating—

Senator FERGUSON—What is ‘state efficiency’?

Mr Davis—Basically, whether government helps or impairs the process. Do they have good legislative processes? Is the bureaucracy positive or negative and the like—are the laws best practice? We have management and corporate credibility in the marketplace. Are they entrepreneurial. There are openness issues obviously. Are we a protectionist country? Do we integrate into the world economy? Policy is there, of course; as is corporate taxation, investment incentives—which I know is of interest to this group—and the political system. Do we have a government that makes real decisions and sticks with them?

State efficiency, bureaucracy, environment and corruption are not so much issues in Australia, but issues like corruption really do come to the fore in countries elsewhere. Under the heading ‘statistical method’, it is ordinary least squares—that is the most basic form of econometrics but it serves our purpose. It is foreign investment as a proportion of total business investment. Housing is not in there. We have used a very simple method of a constant plus three variables—again, very basic econometrics. We clustered them, as Senator Ferguson observed, into three clusters.

The caveat is that our dependent variable is a ratio. That is always a difficult problem because you do not know whether the things that you are using to explain foreign investment are loading on domestic investment or foreign investment. We cannot break that up yet, and that is second and third generation work in this project for us. Of course, we have a pool of developing and developed countries, so the things that drive us in Australia may not apply in other Western

European developed countries, and they may not apply in some of the developing countries. So you have a bit of a blend in there. We can break that all up—and we will start to break that all up down the track. I will spend a few moments, if the chair will indulge me, explaining where we are going with some of this stuff now.

How did we decide what was most important? We asked the secretary of the committee to ask members what issues they thought were most important. The secretary came back with some ideas. We built these simple regressions and said, ‘Okay, let’s load in three factors.’ In econometrics there is a thing called a test of statistical significance. We focused on those items that came up as the statistically significant factors—that is, which of these have a more powerful explainer. I guess some of you will remember the old bell curve from your undergraduate years—that is all the things down this end.

We basically found those that were statistically significant and those that were not. Those that fell under the most important were those that generally came up as being statistically significant. We ran about 30-odd models—or maybe a bit more; I think there were 32—to find these and we mixed them up and dropped them in and out. It was a trial and error exercise, plus what the committee asked for, what we were interested in, plus a bit of intuition and some econometric methods so that we did not put comparable parameters in together. We came up with: cost of capital, corporate taxation, regional integration, and shareholders rights and responsibilities. Again, they did not come up in every equation as significant, but they tended to come up more often than not.

Senator FERGUSON—Which do you think is the most significant? Is any one more significant than another?

Mr Davis—From a policy perspective or as an econometric exercise?

Senator FERGUSON—You choose.

Mr Davis—As an econometric exercise, I would not say because I think this is what we call naive modelling—it is only the first exploration. For the group of countries as a whole, I think regional integration would be the one that I would come up with—bearing in mind that this is a pool of 45 countries ranging from Russia and Venezuela at one end of the scale to the United States, Japan and Singapore at the other end. If you said that that was a very heterogeneous group, you would be absolutely right. As I said, the second and third generation of this work is breaking it down into developed countries, and eventually we hope to be able to do it for Australia only, and then Ireland only and then any of the countries that you want only. But that is over-the-horizon work.

Mr O’KEEFE—The significance of that to me—and I accept that the process you have used and the way this is evolving is absolutely right, so therefore I agree with it—is that in terms of the most important factors for an international major investor making a decision they would really say, ‘Don’t care where in the world I go, these are the things I want to have a look at.’ Having looked at this, you might say, ‘None of those is about the traditional things we always go on about in Australia, are they?’ Regional integration, which you had just mention, might be one where you say, ‘Okay, bridging point to Asia. If Australia’s strongest marketing point is

regional integration, then our focus should be on the fact that we are a bridge to Asia for the rest of the world.'

Mr Davis—Yes. That is the way the Latin Americans see us. The obvious point in foreign investor control is—surprise, surprise!—'I want to keep control of my investment and I do not want government taking it off me,' which is self-evident, whether it is one's private house or capital investment.

Cost of capital and corporate tax: we were a bit perplexed about that. Because our dependent variable is a ratio we think that loads on domestic investment, not foreign investment. So if you get the cost of capital wrong it adversely affects domestic investment. It does not so much affect foreign investment because, by definition, the money is coming from elsewhere. You do not generally raise foreign investment funds in the country you are going into—by definition. Corporate tax: we have not got a clear enough handle on that yet to form a view. Protectionism and regional integration are just flip sides of each other. Shareholder rights and responsibilities: I think a foreign investor wants to know that the Corporations Law is clear, stable, and if there are to be any changes then there is a high degree of transparency involved in that. It is a bit like foreign investor control: they do not want to get in on the ground, put their \$400 million or \$600 million in, and then find the government has changed all the rules about the rights of shareholders, especially foreign investors.

Mr BAIRD—If you have a look at some of these issues which you list as low or unimportant, you have 'political system' as being unimportant. Yet you can imagine that as a potential investor the political system could loom large.

Mr Davis—It is not a question of whether it is Marxism, from one end of the range, to Fascism at the other. The definition is 'well-adapted to today's economic challenges'. That is: is it a responsive political system or is it a closed mind? I guess it is more like the dynamism that you may see of a very sensitive government like, say, Singapore, which is very sensitive to market movements, to a more closed one like Japan or an ultra-closed one like North Korea. It is not a judgment of the political colour per se; it is a judgment of their sensitivities to what is going on. It is a responsiveness index, really.

The exchange rate: I guess that is intuitive, because a lot of it is really fixed in foreign countries.

Senator FERGUSON—If protectionism is very high in importance and the exchange rate is of low importance, when in fact a rise or fall in the dollar is just as effective as a tariff in lots of cases—

Mr Davis—It is; but most of the currency work is probably done in the foreign exchange. It is probably all fixed price stuff. And they are probably outside of the protectionist market. Again, because this is a global view, the problem we have is that what drives an investment in Argentina may be a totally different package to Australia or to, say, Ireland—which I know the committee is very interested in. That is why investment incentives falls in the middle range. When you look at some of the primary numbers, Ireland looks terrific as an investment incentive place. But again this is the influence of it.

Senator FERGUSON—I just remember the days when we were talking about car tariffs, for instance, when the dollar was at 70c. A dollar at 50c is far more effective than any tariff regime that we could ever put in place, because of the exchange rate. Yet exchange rate is very low in importance and protection is high. I just cannot see the correlation.

Mr Davis—I guess it is high in a negative sense.

Mr BAIRD—It is interesting that you have done the correlations, so it has quite a bit of credibility. If we look at Ireland in relation to those factors, corporate tax obviously is one of the key driving forces, it would seem, in terms of your most important factors. Regional integrations would be important, too.

Mr O'KEEFE—Yes. The door to the EU became a strong thing for them, didn't it?

CHAIR—Yes.

Mr O'KEEFE—And the rest of that—foreign investment control is pretty open. Cost of capital wouldn't be much different, would it?

Mr Davis—We do not know. As I say, when we do an econometric size piece, we stick with the facts we have in front of us. In terms of talking about individual countries, that is beyond our analysis at the moment.

It might be worth pointing out where we are going next. This is a one-year data exercise. You can get caught out in what is called a temporal fallacy—that is, you pick one year but it may be the atypical year. It is 1997 and, let us be honest, in Asia they had a lot of significant issues. The currency turmoil played out. What we are going to do next is twofold. We will add a number of years: we will go from 2001 back to 1990 if we can. Then we are going to split it into two parts: developed and developing. Then we might do an Asia group—Australia and Asia—because we believe we compete with two different groups: developed countries, as a destination for FDI, and Asia. We will do it over time so that we will have a matrix. To pre-empt any questions, in terms of time lines it will be about March of next year before we get near that, because each of these spreadsheets has about 6,000 cells in it. You are eventually talking about a matrix of over 60,000 cells, so it is a large exercise.

We will eventually be able to do countries. Indeed, we could come back in front of this committee and almost do it in real time. If Mr Baird or Mr O'Keefe threw a question at us, we would just throw it straight up on the screen for you. You could look at it in any combination you want in real time.

Mr BAIRD—Out of those most important factors, where does Australia sit and where do we need to—

Mr Davis—We do not know yet. We do not have enough data yet to answer that.

Mr BAIRD—Okay. But we could probably make some value judgments.

Mr Davis—This sort of exercise is about actually challenging value judgments. Value judgments are perceptions. This is trying to find some evidence to see whether the value judgments are actually right.

Mr O'KEEFE—Assuming they are right, on that recipe Australia would nowadays be pretty attractive in terms of foreign investor control. Shell might argue differently with the Woodside thing, but predominantly foreign investors get to run their own money in their own way. We have already talked about cost of capital. Corporate tax is not that unattractive compared to other major competitors. Regional integration: we can market ourselves as a bridge to Asia. Protectionism has been wiped out, and shareholders rights and responsibilities are pretty strongly governed, aren't they?

Mr Davis—The statistical answer to Mr O'Keefe's proposition, Mr Chairman, is: so what? He is absolutely right that they are fair marketing propositions. But this is all a relative. We may be absolutely good in some places—and we have data here that will show you how we rank. But it is a relative. We may be good but someone else may be better. What we are trying to discern is that. In the third generation of this work we will be able to run comparisons just like that. We will say, 'These are the five most important factors; let us run them in an equation that says: here's Ireland, here's Argentina, here's Australia, here's X, Y and Z,' and see how we fall out. Your proposition may be absolutely right. I think, intuitively, in an absolute sense you probably are right. In a relative sense I would hold my counsel on whether you are. I am inclined to think in some cases you probably are, in a relative sense, and in other cases you probably are not. Ultimately FDI is a relative: why am I giving it here and not there? Invest Australia and Austrade are out there for two purposes: (a) to lift the aggregate; and (b) to elbow someone else out of the way.

Mr O'KEEFE—We had some evidence presented to us a couple of weeks ago by Nixon Apple from AMWU. With his involvement in the industry funds and his time on the Austrade board he has been around a bit of this stuff. He was saying to us that the problem for capital in Australia is that there are not enough deals. There is plenty of money but not enough projects to invest in. I wonder if having an opportunity to invest in—

CHAIR—Would you agree with that?

Mr Davis—You are always going to have a massive supply of capital coming on, with superannuation at the moment. I have heard an argument put that that is why some of those direct mortgage suppliers are out there—because they can then put in low cost housing. Ultimately, the superannuation funds can invest anywhere they like. They can go into government bond issues, but now with surpluses having bipartisan support that instrument has gone.

CHAIR—We don't want it.

Mr O'KEEFE—We are cashed up.

CHAIR—The government does not need money any more.

Mr O'KEEFE—It is called 'running budget surpluses'.

Mr Davis—There seems to be bipartisan support for that proposition across the tiers of government, so that instrument is out. The share market: they can keep pumping money into the share market but eventually the price-earnings ratio pushes it out, so there is a cap in there. Privatisations seem to have slowed. New capital offerings: the private sector can offer more capital; that is true. But I suggest that both of those are still nowhere near the supply of capital that is coming into the market. It leaves home ownership, in any diversified portfolio: that is going to hit a ceiling. Yes, the funds have to look where they can chase the best returns. It is not in their interests to inflate the domestic market. If that means going overseas as part of a strategy, we would say that is a legitimate strategy because, again, their first obligation is stakeholder value—policy holder value in that case.

Mr O'KEEFE—Where this is taking me in my head, though, is that this might be an entirely new problem for Australia. In our development over the last 150 years we have never been in the situation where there is too much money and not enough projects to invest in. None of us believe that that is really the case. If we want to continue to attract foreign investment, part of our effort may have to be directed to finding ways to identify opportunities.

Mr Davis—There are two types of foreign investment and, if I understand Mr O'Keefe correctly, he is talking about the financial type. The other type is the physical type, which brings management, technology and the like. Bringing in wads of cash, so to speak, is a simple form; bringing in new technologies, like manufacturing, advanced technology and even some services, is a different type of FDI. Traditionally it was: give the Australian banks money and they will lend it. That is one approach. But bringing in, say, BMW or X or Y or Z and a new plant is a different type of FDI. The modelling work we have done tends to be of the latter kind—fixed capital FDI rather than financial capital FDI, which tends to be fairly footloose. If you are going to run a strategy, you want to split the two out. Given the nature of financial systems these days, a better use of the parliament's and the government's time may be to focus on the fixed capital rather than the movements of financial capital, in so far as you want to have policy interventions. We seem to have a sort of consensus, a bipartisanship, here that we will let the financial markets largely work themselves, we will have supervision arrangements, we will set broad frameworks and we will intervene only when there is malfeasance or improper conduct. To our mind that seems a reasonable framework.

Mr BAIRD—In terms of the econometric modelling you have done, how do you determine the value of each of these input factors? When you are doing the correlation on foreign investor control, on what basis do you—

Mr Davis—It is unweighted; we do not weight the different factors. The primary data is based on a weighting out of 10. They survey about 1,500 to 3,000 business people around the world and say, 'We'll score this country out of 10 on this factor.'

Mr BAIRD—It is a subjective judgment?

Mr Davis—Yes. There is a weakness in that—it is subjective—and it may be well formed or it may not be well formed. Conversely, a lot of business decisions, or any decision, are based on a subjective or intuitive evaluation. I have heard the argument put, 'I'll back my intuition over the ABS data any time.' It may be your neck on the line for \$100 million.

Mr BAIRD—Even those subjective judgments are important to us as we attempt to address them.

Mr Davis—I do not need to tell politicians that one can manipulate subjective judgments.

Mr BAIRD—We would never do that, would we, Mr Chairman?

CHAIR—Absolutely not.

Mr BAIRD—It is very interesting, anyway. Thank you.

Mr Davis—The only thing we would be cautious of is not to go too fast in advising on policy based on this, because it is initial work and it is multi-country.

Mr O'KEEFE—I think it is important that you are out in front with some of this research work, because it is new. You were suggesting that maybe Australia's efforts would be better directed at attracting fixed capital investment, be it in infrastructure, people, skills or technology, whereas we have spent the last 15 years chasing money. Basically from banana day, with the first collapse in currency, we have been chasing money. This has moved to chasing fixed investment. Now we are starting to see that we have plenty of money and we seem to have quite a lot of shows doing well. There is some talk now about a brain drain. In your original presentation, you put to us a substantial increase in population to grow the market to make it a more attractive investment base. What sort of strategies do you think we should be thinking about to attract the fixed capital investment of the kind you are talking about?

Mr Davis—In essence, again drawing some cautious messages from this because it is multi-country not just Australia, we have to stress that Australia is an international platform to go on. At the end of the day, we are a country of 20 million people and some firms will invest here to access the domestic market. But we have generally low trade barriers now. Our weighted average tariff—leaving aside two sectors—is about two or three per cent in what they now call the 'nuisance tariff range.'

If I drew inferences from this preliminary work—again, they are very heavily guarded qualified inferences—it would be to promote yourself as a platform to go elsewhere. Why is Australia the best platform for Asia? We are not a natural platform to our east or to Latin America. We are not a natural platform to our west for South Africa. If those oceans were about 3,000 kilometres shorter, we might be, because we have the advantage of political stability. But I would say for most products, probably not. Although I might reconsider that view on Africa. We might have some reasonable springboard opportunities for Africa, maybe less so for Latin America.

Mr O'KEEFE—We have been saying to the Latin Americans—and they seem to be picking up the message—that the countries with the Pacific seaboard want to be involved in APEC now. We have been saying to them that maybe joint ventures with Australia would open up the opportunity to step further on into Asia and we have been saying to Asia that joint ventures with us open up the opportunity to step across to South America. There has been some interest in that suggestion.

Mr Davis—I would be stressing engagement—again, drawing inferences out of this and with all the caveats—as well as our position as a springboard for Asia in the higher technology area and political stability. I do not know that the resources game will be rewarding to us in the future. There are any number of sources of supply. Our markets like Taiwan, Japan and Korea are diversifying, and that is terribly sensible from their point of view. Any business wants a diversity of supply. So they are the sort of inferences. In terms of other inferences about moving around, matters of tax and cost of capital, we would not draw an inference from there yet. We want to do some more work much along the lines that we have identified—more data series, breaking it down to developed and developing countries and possibly even eventually getting into individual countries because I suspect the Australian story might be quite different.

CHAIR—Our time is drawing to a close. Unless any colleague has an immediate question they wish to ask, I thank you for your evidence and attendance here today. You will be sent a copy of the transcript of your evidence to which you can make corrections of grammar and fact. I move that the slides of the Australian Chamber of Commerce and Industry's PowerPoint presentation entitled *Attracting foreign direct investment* be incorporated into the Trade Subcommittee's records as exhibit No. 18 to the inquiry into enterprise in Australia.

Is it the wish of the committee that the slides of the Australian Chamber of Commerce and Industry's Powerpoint presentation entitled *Attracting foreign direct investment* be incorporated in the transcript of evidence? There being no objection, it is so ordered.

The slides presentation read as follows—

[11.34 a.m.]

CROSS, Ms Rebecca, Assistant Secretary, Australian Education International Branch, Department of Education, Training and Youth Affairs

GORMAN, Mr Douglas George, Assistant Director, Skills Analysis and Data Management, Department of Education, Training and Youth Affairs

KRBAVAC, Mr Lucio, Director, Skills Analysis and Data Management Section, Department of Education, Training and Youth Affairs

THORN, Mr William, Acting First Assistant Secretary, International, Analysis and Evaluation Division, Department of Education, Training and Youth Affairs

CHAIR—Welcome. The subcommittee prefers that all evidence be given in public, but should you wish at any stage to give evidence in private you may ask to do so and the subcommittee will give consideration to your request. Although the subcommittee does not require you to give evidence on oath, I should advise you that these hearings are legal proceedings of the parliament and therefore have the same standing as proceedings before the respective houses. The subcommittee has a submission from the Department of Education, Training and Youth Affairs. That is submission No. 25. I now invite you to make a short opening statement, if you wish, before we proceed to questions,

Mr Thorn—I prefer not to make an opening statement. I am really happy to answer any questions that members may have.

CHAIR—Thank you. I note from your submission that the Limerick University has a program where graduate courses are extended by a year, and the third year of the course is a year of work placement with business. Would you like to comment or expand on this further?

Mr Thorn—I am sorry, can you remind me of the university, in particular?

CHAIR—It is Limerick University.

Mr Thorn—In Ireland?

CHAIR—Yes. I note that they have it. We are just trying to get some expansion on it. We had this when my colleague, the deputy chair, did an inquiry into South America. People should be placed into business as part of the country connection and the education. My question is: would we gain better, from a trade and investment point of view, if we basically had that sort of placement as part of the university course?

Mr Thorn—In terms of trade and investment, the issue is really one of the most appropriate ways in which to train, skill and educate the Australian work force. From that point of view, the issue is one of diversity in provision, certainly in Australia in higher education. There may well be benefits for some groups in some situations for that kind of education to occur and, in fact, it does. The University of Technology in Sydney, among other institutions in Australia, basically does have programs in which there is cooperative education or work placement as part of degree

level study. Those are the kinds of arrangements that the department does like to see developed. My view is that it would be difficult to make a blanket statement that this should occur in all degrees. It is really a decision that has to be taken by particular universities looking at their particular market and their mission in considering the overall benefits, in terms of particular outcomes for the graduates of those courses. It is really one of letting a set of arrangements develop rather than having a particular view that one should see a particular arrangement across every course.

Mr BAIRD—Your submission talks about the opportunities for training courses and education programs being run in places such as the Middle East, South America, Europe et cetera. I am wondering how you see the visa implications of getting people here and then being able to stay on to undertake some practical assignments as well. Have you gone through with that?

Mr Thorn—It is probably best if Ms Cross takes that particular question, as she has direct responsibility for Australian Education International.

Ms Cross—Generally, when a student visa is awarded by the department of immigration it is for the study duration. It would be better to get evidence on this from that portfolio. My understanding is that there are some courses where DIMA has recognised a period of work experience as part of the course, and you can get a student visa for the duration of that. Most of the overseas students are coming here for the actual qualification. Often it is a qualification that they want to take back home for their own purposes. Generally they are really interested in the period of study and then perhaps further study on a second student visa after that.

Mr BAIRD—Is the problem getting the visas for them to come in the first place?

Ms Cross—You would be aware that there have been some recent reforms to the student visa program. I think it is too early to really see the impact of that because a lot of the enrolments for higher education, for example, will peak later on this year. Certainly a lot of the countries in Europe have quite low risk ratings and there will be minimal change for students wishing to study here. With the Middle East it varies country by country, but a number of those countries have reasonably low risk levels, so again they will stay the same. We do not expect any major impact that I am aware of in most of the European, South American and Middle East markets.

Mr BAIRD—What about the market for Internet driven training programs and courses? How do you see that at the moment? How do you see it growing? Are we likely to have a significant market in that area?

Mr Thorn—I think that is pretty difficult to tell. Internet delivery is very difficult to get a handle on. In a sense we are talking without a great deal of evidence at this point in time, but I suspect that the major market probably relates to the kind of professional upgrading, short course type market rather than the formal course market. The reasons for that principally being that in most countries, including Australia, higher education and formal vocational education and training are often pretty highly subsidised by governments to the extent that students are going to have to pay full rates. The calculation they have to make is whether it is worth paying \$10,000 or whatever to the University of Phoenix as opposed to paying HECS in Australia, or vice versa. Certainly in the short course market that is something I would expect to see grow.

Mr BAIRD—What is happening in terms of your encouragement of Australian education providers getting into that market?

Ms Cross—The only sector we have statistics on is the higher education sector, and we would look at two types of statistics. There are students who come to Australia to study and then there are others who stay offshore and either study in an Australian campus or study online over the Internet. In that second category there was 20 per cent growth in 2000.

Mr BAIRD—Are you doing anything to assist this growth?

Ms Cross—Certainly our educational counsellors will help institutions set up campuses. We do not actively promote it because the students who undertake those courses are not covered by the ESOS Act, the Education Services for Overseas Students Act, so when we promote Australian education and training and the safeguards that the government offers, they only apply to students here on student visas. We play a facilitation role for institutions who want to set them up, but at this stage we do not actively promote them in any of our overseas markets.

Mr BAIRD—From our point of view, we are interested in the promotion of packages offshore as well as looking at some of the disincentives and things that we can do. Do you think the level of training that goes on within Australia and assistance to companies relocating here is a significant factor in people's investment—do you look at this at all or is it not part of your brief?

Mr Thorn—It is not something that we would specifically look at. It is really outside our direct portfolio responsibilities. The issues that are obviously of interest to us are the broad level of skilling of the Australian work force. As has been outlined in the submission, we are of the view that at least in the aggregate the supply of and demand for skills and qualifications in Australia is broadly in balance with demand at this stage. Obviously there is a lot of literature which says that one of the things that may influence foreign investment is the skills of the labour in the country in which companies are planning to invest, and I think on most indicators Australia has a highly skilled work force and, in that sense, will provide an incentive for companies to come here, other things being equal.

CHAIR—In the area of the skills base, it has been suggested that the move away from directly indentured apprentices to group employers has actually lowered the skills base. Would you like to make a comment on that?

Mr Thorn—I think the issue there is that, whatever the location or whatever the form in which an individual does a New Apprenticeship, they end up with a qualification. They go through the same certification or whatever procedures to get the qualification.

CHAIR—My question was not about the qualification, it was about the skills base. The two are slightly different.

Mr Thorn—I know, but I guess the issue is how ones measure the skills base apart from qualifications in many cases, especially in a training program where you have got a suite of learning—

CHAIR—I guess you ask an employer.

Mr Thorn—Yes. I guess the issue there is whether the process of certification of the skills learnt gives you a good handle on the particular outcomes of the individual.

CHAIR—But the employer is interested in the quality of the person's work, not necessarily whether he has got a piece of paper or not.

Mr Thorn—Certainly the intention, in terms of vocational education and training at the moment, is to try and ensure that issues such as work in real work situations are actually reflected in the kind of certification that one gets in the end.

Mr Krbavac—I would have thought group training arrangements might improve the level of skill of apprentices in the sense that apprentices get to move through various employers during the apprenticeship period so they get exposed to different work practices, different technology potentially and so on, rather than the apprentices who always stay with the one employer who might have a narrow range of skills to offer.

CHAIR—I know that is the theory, but some would suggest that that way they pick up everyone's bad habits and no-one really takes them under the wing to explain to them why you do it a particular way and to teach them the craft of the particular trade.

Mr Thorn—It is very difficult to come to a definitive answer on this one. I guess I would be loath to make a judgment.

Mr O'KEEFE—The health department appeared before us a couple of weeks ago, and I have to say I was highly critical of them because it seems to me that a good 10 or 15 years ago Australia identified major export opportunities in education and health as part of the restructure of Australia, and I drew the analogy that education had done spectacularly well and that health's performance has been pretty poor. I asked them in a quick run-around to highlight which key strategy they would use—what each person would focus on as the thing to drive this further.

That was easy for them because there are a whole lot of things they would love to be doing. In your case, you have done a lot of it. Education is a major exporter. You are attracting a lot of interest in buying Australian product. Australian institutions are investing overseas to build that base. Can I quickly go along the table and ask each of you what you think is the most important thing we should be doing to expand that base and that business opportunity now? You can give one item each and you have 30 seconds each.

Mr Thorn—I would prefer if Ms Cross answered that question. I am happy to add something, but I think that would be the most appropriate way to do it.

Ms Cross—By way of background, my branch, Australian Education International, is the part of the department that specifically looks at education exports. We have nine counsellors in embassies and high commissions overseas and a local staff of about 65 people that are actively working to increase our exports. So I guess that is why William has referred the question to me. I think Australia has an enviable record and has done a really good job over the last 10 years, and that is showing through in the student numbers. That has also turned the eyes of our

competitors to what we are doing. I think the UK and even the United States of America are starting to look at what we are doing. There are a number of new competitors coming into the education export market—so Malaysia, Singapore and a number of other countries are starting to compete with us.

So if you asked me what we need to do more of, I would say that we need to recognise that it is a very competitive market and that Australia is actually quite a small player relative to some of these other countries. I think that the key to our future success will be the industry, the individual institutions and the government continuing to work together collaboratively, because that is the only way that we can maintain our place, given our size. So I think that partnership between government and the industry, which is specifically what AEI was set up to facilitate and strengthen, is the key. That said, I think that we also need to make sure that we are always diversifying our activities, so emerging markets like the Middle East, South America and Europe are as important to our future as our traditional markets in Asia. I think that is fairly well understood within the industry.

Mr O'KEEFE—Do you see scholarships as any component in that—a la the old Colombo Plan and all that sort of style of opening up these markets?

Mr Thorn—Currently, as you are probably well aware, AusAID has a range of aid scholarships. I think they mainly go to people from the South Pacific and, to an extent, Africa, but they are certainly concentrated in those types of areas. I guess our view about the opening up of the overseas student market in Australia was simply that the decisions in the late eighties to actually remove the restrictions on the charging of fees to overseas students provided the greatest fillip to the industry. Certainly, since the Australian market was opened up in that way, we have seen the massive growth that we have had. So I guess our view is that, were scholarships proven to be a useful method, you could only ever afford to provide them to a small number of individuals and maintaining the openness of Australian institutions to overseas students and the efforts of the government in conjunction with the industry to market Australian education and training are probably the best things that we can do to continue the kind of expansion that we have seen.

Ms Cross—I would like to add that there is a view that the targeted use of scholarships can also help us attract some of the top students in areas where we traditionally have not done as well. I think a lot of our students are in the business administration type areas, and then there are science and technology and a number of other fields where we can use scholarships in a targeted way. One of the interesting arrangements that we have piloted in the last couple of years in Taiwan is actually entering a partnership with some of the large employers who are also interested in developing their position within the market. By them putting forward sponsorship, we can actually offer quite attractive stipends. In that way, we are getting a better quality of student who will turn around and be an ambassador for us when they return. So I think as well as what William said, we are looking at ways that we can actually get a better return on the scholarships that are available.

CHAIR—To what extent has that program grown?

Ms Cross—It has only been piloted for a couple of years in Taiwan. Currently we are looking at whether there are enough good results from it to see if it can be used more broadly as a model

in other countries. You do need to be in a market where the industry is still looking to establish itself and is willing to put the money in. There are some markets where they probably feel they would get little net gain.

CHAIR—What are your early indications?

Ms Cross—It is not actually my area—it is another branch of the department—but I know that the counsellor is very enthusiastic about the results that have been achieved. As well, it is good for the government to be working with some of these big employers overseas. It is all part of the whole of government approach.

CHAIR—It is a very positive idea.

Ms Cross—Yes. It is being evaluated for broader use.

Mr O'KEEFE—We are finding in this inquiry that things like currency exchange rates do not make a lot of difference to long-term investors in capital, plant or whatever. In your industry in places I have been in recent times they are quoting the very low Australian dollar as a reason to choose to do the course here rather than in the US, Britain or wherever they would normally go. As that starts to rebalance itself a bit and that enormous price advantage dissipates a bit, will strategies be put in place to counteract the easy ones we get because of price at the moment? Are people starting to think about that?

Ms Cross—I would agree with you that the exchange rate has been helpful, but it is never the single factor in the student's decision making. If they do not think that we have a good quality education system, it would not matter what the price was. They would not investing in it because it would not give them the outcome that they want. Yes, price is important, but there is a whole suite of things. The safety of our multicultural environment and a whole lot of other factors like that are equally important.

If the exchange rate changes and it becomes more affordable to go to other countries then what is important is that we have the right message about what Australia can offer. There is a branding project currently under way that is finding out an awful lot about what students actually think of Australia and the Australian education and training system. The strategy will be to actually find where our niche in the market is and build on that and, through building on it, move us to a position where the quality of our education is well known and well accepted and where people will still want to study here, even if the exchange rate changes, because of the quality of our system and all of the other features.

One of the key things is the influence of friends and other people who have already studied in Australia who go back and say that it is a good system. That is one of the key things that influences students' choice. Our surveys show that there are very high satisfaction levels for students who have studied here. We have to keep working on that and keep the good word of mouth happening.

Mr Thorn—As Ms Cross has said, price is probably one of the factors that influences students—only one. Should the relative exchange rates move in ways favourable to our competitors, we have to remember that we are not really looking at a zero sum situation here;

we are looking at countries which have quite high levels of economic growth and growing wealth, which means that the market for education is actually growing. A rebalancing of the exchange rate may not have a particularly adverse effect on student numbers, simply because the size of the market is growing at the same time.

Mr BAIRD—Have you had any follow up in terms of the ITAB training package's impact on industry and the ability to equip us for competing on a global basis? Has there been any work on that?

Mr Thorn—This is not really my area of expertise. The broad intention of the training packages is to provide an education and training process which meets the needs of industry. I think that is the key issue here: that we have a process within the VET sector which sees that things such as the development of training packages take place in conjunction with industry and tries to ensure that the outcomes of students are those that industry wants. The key issue in terms of international competitiveness would be that we have that kind of system in place. I do not think that any work has been done on particular packages in relation to competitiveness.

Mr BAIRD—Thank you.

Senator CHAPMAN—In your submission there was a reference to the WTO negotiations in relation to education services. What current restrictions by other countries are placed on our capacity to export education services and what issues are under negotiation?

Mr Thorn—What is happening concerning the WTO round is that there was an initial, post-Uruguay round. Australia was one of the few countries to make commitments in relation to education and has a very open market in education. A new WTO round is just starting and I think there is a meeting on 4 and 5 October in Geneva at which education will be discussed. That is what is called an initial request offer phase of the negotiations at which countries will put forward proposals in relation to their positions in terms of opening up, broadly, the services per se, but also education. While Australia has not developed its position at the moment, we would like to see other countries open up their markets at least to the extent that Australia does. There was a bit of work done by Australia in conjunction with some other APEC economies looking at the kinds of barriers that exist in terms of access to markets and education. I do not have the exact details here but there is a range of impediments including foreign exchange controls, employment of foreign staff, different regulations which affect the establishment of campuses or institutions in particular countries, and things like that.

Senator CHAPMAN—So the restrictions are on Australian institutions setting up facilities in certain other countries rather than preventing their students coming here since we want to provide our services offshore rather than bring them onshore.

Mr Thorn—Trade and services is complicated because, as you know, I can consume a service here which is provided by someone else, or I can travel to somewhere to consume the service. The main impediments to trade probably exist in the rules relating to the establishment of institutions in foreign countries as opposed to the rights of individuals in particular countries to travel to undertake education in Australia, for example.

Ms Cross—The recognition of qualifications would be the other thing.

Mr Thorn—Back in the home country.

Senator CHAPMAN—Which countries are the problem areas—countries where we would have an interest in wanting to set up an institution?

Mr Thorn—Potentially an Australian institution may want to set up a campus in any country in the world, depending on their judgment as to the commercial viability or otherwise of that. At the moment the focus of Australian institutions is South-East Asia. I think there are campuses of Australian institutions in places like Malaysia, and potentially in Vietnam and Thailand.

Senator CHAPMAN—They have been established. Is there a problem there?

Mr Thorn—They have been established. There may be cases in which the process could have been easier.

Ms Cross—But there may also be local laws or local decisions only to have six campuses from overseas institutions of which two are for Australia, two are for the US, and so on, which for the two that set up was not an impediment. It just really depends on the local situation, because it would be an impediment for anyone else.

CHAIR—As there are no further questions, I thank you for your attendance here today. You will be sent a copy of the transcript of your evidence to which you can make corrections of grammar and fact.

Resolved:

That the subcommittee authorises publication of the evidence given before it at the public hearing this day.

Subcommittee adjourned at 12.07 p.m.