



Australian Government

Austrade

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

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

**Prepared by
Austrade**

August 2006

TABLE OF CONTENTS

1.	Austrade overview	Page	3
2.	Importance of service industries to the Australian economy		3
3.	The resources boom		4
4.	Tourism services		5
5.	Education services		6
6.	Future global opportunities for Australian service exports		7
7.	Austrade assistance to the service industries		8
8.	Austrade programs		11
9.	Australian trade policy – driving opportunities		11
10.	Conclusion		12
Australian Free Trade Agreement (FTA) success stories (Attachment A)			13

1. Austrade overview

Austrade is the Australian Government's export and international business facilitation agency. It provides access to overseas markets, financial support through export market development grants and international opportunities through offices and partners throughout Australia and across the world. This is enabled by Austrade's international presence in over 140 locations in more than 60 countries and a technical platform that facilitates global access for Australian businesses to international business opportunities.

While maintaining its support to major exporters, Austrade is specifically focused on further developing a culture of export, particularly for small and medium sized enterprises. To achieve these outcomes Austrade has adopted key performance measures which include: the number of clients achieving export success with Austrade; the total value (\$m) of export success achieved with Austrade; and the number of new or irregular exporters achieving success with Austrade's assistance.

In summary, Austrade delivers:

- International business opportunities for Australians;
- Export and outward investment services;
- Administration of the Export Market Development Grants (EMDG) scheme;
- Programs designed to improve community awareness of trade and international investment;
- Advice to the Australian Government about, and coordination of, its export and international business facilitation activities; and
- Consular, passport and immigration services in designated locations.

Preliminary results for the 2005-06 financial year indicate that Austrade assisted 5,132 clients in exporting activities, a 17.8 per cent increase compared to the 2004-05 level (4,358). Of these clients, 3,266 (63.6 per cent) were established exporters and, significantly, 1,866 (36.4 per cent) were new exporters. The value of exports exceeded \$18.5 billion.

Austrade has prepared this submission within the parameters of its role as a trade facilitation agency. Broader economic-related themes and issues will be dealt with by DFAT in its submission.

2. Importance of service industries to the Australian economy

Services play an important and expanding role in the Australian economy, both autonomously and as intermediaries supporting other industries and trade more generally.

Australia's service sector makes a much larger contribution to exports than its direct share, as services are often integrated into other goods. For example, the production of aluminium requires alumina and other materials as well as services such as electricity, gas, water and transport. When the indirect component of services is taken into account, the contribution of service industries to exports is considerably larger.

Statistics generally underestimate international trade in services by omitting the services supporting the establishment of a commercial presence in a foreign market or individuals

temporarily travelling abroad to provide a service. These forms of service trade are increasingly important, particularly in retailing, banking, business services and telecommunications.

The significant contribution of services to international trade has been recognised by the Australian Minister for Trade in his address to The Economist Intelligence Unit where he noted

that exporting wheat or minerals is not only about a world-class quality Australian product, but also about the efficiency of the services underpinning that product. These services include distribution and logistics, research and design, finance, communication and business services all of which make export transactions possible.

The economic contribution of services is reflected in a range of indicators. According to Australian Bureau of Statistics (ABS) data, in 2004-05 services accounted for 77.9 per cent of GDP (\$554.0 billion), 84.1 per cent of employment (8,230,000), an estimated 60.0 per cent of investment (\$71.1 billion), and 22.8 per cent of exports (\$35.0 billion). In 2004-05, service sector GDP, employment, investment and exports grew at an average annual rate of 3.0 per cent, 3.4 per cent, 11.7 per cent and 3.0 per cent respectively.

3. The resources boom

Australia's current resources boom is being driven primarily by the economic growth of China and the demands of its burgeoning manufacturing sector. While it is difficult to predict the duration of the boom, based on the size of China's domestic market alone and the rise in consumer income, the current cycle is expected to continue for the short to medium term.

The rise in demand for resources is also having a positive flow-on effect for the many Australian services industries that support the sector. Apart from importing resources, China is also aggressively trying to modernise and raise the productivity of its existing, extensive resource infrastructure, to meet domestic demand. The result is a boom in Australian exports of mining and technology services. This trend is expected to continue as Australia's reputation as a leader in the resources sector continues to grow. Australian mining services exporters are experiencing similar demand in South America and parts of Eastern Europe and Russia.

A similar scenario is unfolding across China's manufacturing sector, which apart from fuelling the growth in demand for resources, is urgently trying to modernise and enhance the efficiency and quality of output of its production facilities. Australian service providers, many of whom work with Austrade, are capitalising on these opportunities, be they in business and finance, building and construction or transport and logistics. These same services sectors can also be expected to prosper once the peak in demand for resources has passed and economies such as China enter the more sustainable phase of their economic growth cycle.

In this context, Austrade is working closely with service orientated sectors to capture both the current and emerging market opportunities. At the same time, Austrade is well positioned to respond effectively to a post resources boom environment. In particular, through its extensive networks Austrade is able to gather market intelligence to pro-actively match Australian businesses with specific market opportunities.

4. Tourism services

Tourism is Australia's largest service export, contributing \$17 billion in income and employing over 550,000 Australians. The industry has suffered a number of setbacks in recent years, including the impact of terrorist attacks, war, disease (SARS) and natural disasters.

The short to medium term outlook of the Australian tourism industry is positive. According to the Tourism Forecasting Committee, the real economic value of inbound tourism (TIEV) is predicted to increase by 3.5 per cent in 2006, underpinned by growth in visitor arrivals of 2.8 per cent and higher spending per visitor. Over the medium term, TIEV is estimated to grow in real terms at an average annual rate of 7.1 per cent between 2006 and 2015, to reach \$35.6 billion.

The Australian tourism industry is diverse and difficult to characterise. It encompasses restaurants, wineries, transport operators, tour guides, hotels and a range of other businesses. The Australian Government's leading agency for promoting tourism is Tourism Australia.

Central to Austrade's tourism strategy is the Memorandum of Understanding (MOU) on joint and complementary activities with Tourism Australia - and its predecessor, the Australian Tourism Commission - which has been in place since late 2002. Under this umbrella, the *Aussie Enthusiasts Program* is a joint initiative with Tourism Australia to support the travel trade in markets where Tourism Australia does not have an active presence. The aim is to identify and assist new agents interested in selling Australia with the support of Tourism Australia marketing collateral and other material.

Austrade is also a strong ally of the Australian Tourism Export Council which is the peak industry body representing the tourism export industry nationally. Austrade has been actively involved in its annual symposium over the past five years, including running export market development seminars for tourism operators.

Austrade's full range of services is available to tourism exporters, including customised in market services on a fee-for-service basis. These services may include:

- market research;
- identification of business contacts/partners;
- in-market visit programs; and
- accompaniment to meetings, interpreting services etc.

Austrade also manages tourism related events such as the Australia Festivals in Latin America and Australia Week in Moscow. Tourism Australia promotional materials are used in these and other Austrade events to reinforce "Brand Australia".

In 2005-06, Austrade facilitated 104 deals worth in aggregate more than \$25 million in the tourism and hospitality services sector, exceeding by more than 30 per cent the results achieved in 2004-05 (\$18.9 million). Australia's tourism and hospitality markets are evenly spread across geographical regions. Japan at 10.6 per cent of export sales facilitated by Austrade in 2005-06 was the leading tourism market, followed by India (7.7 per cent), Singapore (5.8 per cent) and Vietnam (5.8 per cent). Other large markets include China (4.8 per cent), Korea (4.8 per cent) and Spain (4.8 per cent). It is also worth noting the emergence of new markets such as Latin America and Eastern Europe.

Tourism and Hospitality – Austrade’s Top Markets in 2005-06

Market	Export sales	% of export sales
Japan	11	10.6%
India	8	7.7%
Singapore	6	5.8%
Vietnam	6	5.8%
China	5	4.8%
Korea, Rep	5	4.8%
Spain	5	4.8%
Germany	4	3.8%
Hungary	4	3.8%
Mexico	4	3.8%
United Kingdom	4	3.8%
United States	4	3.8%

Note: Export sales denote Austrade facilitated deals in market

5. Education services

The international education industry is Australia’s second largest service export industry and fourth largest export industry overall, behind coal, tourism and iron ore. According to the Department of Education, Science and Training, international education contributes more than \$7.5 billion to the Australian economy and supports in excess of 50,000 jobs. Currently, there are 340,000 international students studying in Australia, and approximately 100,000 students undertaking Australian courses overseas. Over the past decade, the education service sector experienced an average annual growth of 10 per cent. Market opportunities are driven by strong demand in India, China, South Korea, Malaysia, Singapore, Vietnam and Brazil. Papua New Guinea, Germany and Central and Eastern European countries also present increasing potential.

Austrade plays a vital role in the Australian education industry’s international success by assisting institutions and other businesses to learn about, approach and win business in overseas markets. Austrade works closely with Australian Education International (AEI) both in Australia and offshore, to ensure a true “whole of government” approach to the promotion of Australian education as a high quality education experience. Austrade’s offshore staff and AEI counsellors work collaboratively to ensure that Australian institutions are promoted effectively and have access to quality business partners.

Austrade data confirms the expansion of education and training services in recent years. In 2005-06, Austrade assisted 435 clients in the education and training sector conclude 1,769 deals with a total value of almost \$827 million. This represents an increase in export impact of over 56 per cent compared to 2004-05 (\$527.6 million). Of all sales facilitated by Austrade in this industry in 2005-06, China accounted for the largest share at 10.9 per cent, followed by Japan (10.4 per cent), Hong Kong (3.3 per cent) and India (3.2 per cent). As the table below illustrates, Australia’s education and training service exporters are also capturing opportunities in other growth markets such as Germany, the United Arab Emirates, France and Poland.

Education and Training – Austrade’s Top Markets in 2005-06

Market	Export sales	% of export sales
China	193	10.9%
Japan	184	10.4%
Hong Kong	58	3.3%
India	57	3.2%
Singapore	47	2.7%
Germany	43	2.4%
Malaysia	41	2.3%
UAE	38	2.1%
France	35	2.0%
Indonesia	35	2.0%
Poland	35	2.0%
Taiwan	35	2.0%

Note: Export sales denote Austrade facilitated deals in market

Since 2002, Australia has experienced significant changes in its international education market, including a broadening of its international student population and a declining rate of growth in international student enrolments reflecting a maturing market.

While the international education sector of Australia remains robust and continues to grow, significant challenges will emerge over the next two decades. Austrade and Australian Education International (AEI) have identified a range of factors that will impact upon international education, including:

- Changing population demographics in many countries;
- Structural economic changes resulting in constantly evolving skills needs;
- An increasingly mobile international workforce;
- Increased consumer choice and customisation of education delivery;
- Increased private delivery of education;
- Technological changes enhancing access to education; and
- Rising influence of global English and other emerging global languages.

6. Future global opportunities for Australian service exports

The Productivity Commission maintains that international opportunities for Australian service exports are expected to continue to grow in line with current trends. Factors such as the development of information and communication technologies, the globalisation of economic activities and the reduction in barriers to the movement of people and capital have been instrumental in accelerating the pace of global trade in services.

Technological advances in information technology, electronic commerce and telecommunications, for example, have enabled international trade in a range of financial, business and education and health services. Rising per capita incomes have increased

demand for services such as education and tourism. Microeconomic reforms, including deregulation of markets for goods and services and privatisation of public utilities have created new opportunities for foreign direct investment (FDI).

Department of Foreign Affairs and Trade (DFAT) figures indicate that services exports rose by 4 per cent in 2005 to reach a record \$37.2 billion (export volumes rose by 0.5 per cent). Exports of travel services rose by 5 per cent to \$19.6 billion, while transportation services exports increased by 2 per cent to \$8.1 billion. Short-term overseas visitor arrivals rose 5 per cent to 5.5 million in 2005. Other services exports were up 1 per cent to \$9.4 billion, led by growth in architectural and engineering services, legal, accounting and management services, insurance services and research and development.

The table below provides an overview of the top Austrade markets for Australia's combined service industry exports. It is important to note that the underlying market trends point to a growing diversity of opportunities emerging across the globe, in regions such as the Middle East, Western Europe, Latin America, and Central and Eastern Europe. Austrade's expertise in key service industries will be of great benefit to prospective Australian service exporters seeking to capture new opportunities.

Within these markets, opportunities exist in business and finance, education and training, culture, media and entertainment, health and medical, ICT and tourism and hospitality.

Combined Service Industries – Austrade's Top Markets in 2005-06

Market	Export sales	% of export sales
China	443	11.7%
Japan	306	8.1%
United States	259	5.9%
Singapore	191	5.1%
India	182	4.8%
United Kingdom	174	4.6%
Hong Kong	145	3.8%
Indonesia	123	3.3%
Korea, Rep	95	2.5%
Malaysia	93	2.5%
Taiwan	89	2.4%
Germany	86	2.3%

Note: Export sales denote Austrade facilitated deals in market

7. Austrade assistance to the service industries

Austrade staff, both in Australia and offshore, are committed to identifying and taking advantage of emerging market opportunities. In 2005-06, Austrade facilitated almost 3,800 deals for Australian service industries. On the basis of export sales, the top 4 markets offering opportunities for Australia's service exporters were China (11.7 per cent), Japan (8.1 per cent), the United States (5.9 per cent) and Singapore (5.1 per cent).

Austrade has a number of industry based units which work with the service sectors. The relevant industry groups are:

- Infrastructure;
- Information and Communication Technologies (ICT); and
- Education, Arts and Business Services.

These three units manage a series of even more specialised networks which focus on service exports and service exporters. These networks directly market service companies to potential customers overseas and seek out trading opportunities. In addition, Austrade's Health, Biotechnology and Wellbeing network has a strong focus on service companies.

As part of their export facilitation role, these networks coordinate a broad program of events such as trade missions, seminars, trade displays, buyer missions and conferences. In 2006-07, some 400 events will be managed to promote and support service exports. These events aim to match Australian capability with identified export opportunities for Australian businesses.

The table below provides an overview of these networks and the number of Austrade staff with responsibility for the various service industries as part of their broader functions:

Service industry	No. of Austrade staff with responsibility for specific service industries
Education and Training	69
Tourism, Franchising and Business Services	54
Arts, Culture and Entertainment	64
Information and Communication Technologies (ICT)	56
Building and Construction	67
Fashion and Accessories	52
Olympics and Sport	35
Health, Biotechnology and Wellbeing	124

Underpinning Austrade's support are the general strategic principles of:

- Working in close cooperation with Federal, State and Industry allies;
- Harnessing the value-add derived from our global networks, especially in identifying opportunities; and
- Improving awareness and understanding in the broader community and among stakeholders regarding the importance of services and ways that they can be marketed.

The table below summarises key export outcomes facilitated by Austrade in major service industries in 2005-06.

Austrade assistance to businesses in the services sector, 2005-06

Sector	No. of businesses assisted	No. of export sales	Export value (\$'000)	% change in export value 2004-05	Top four markets
Biotechnology	84	154	258,659	73.2% (+)	USA China Japan Singapore
Building And Construction	264	402	1,219,777	21.3% (-)	USA China Japan Singapore
Business and Finance	432	607	1,056,001	14.4% (+)	China Japan USA Singapore
Culture, Media, and Entertainment	348	470	301,544	117.9% (+)	USA China Hong Kong UK
Education and Training	435	1,769	826,818	56.7% (+)	China Japan Hong Kong India
Health and Medical	142	221	336,952	284.9% (+)	China Hong Kong India Taiwan
ICT	347	613	825,474	54.9% (+)	USA UK Singapore China
Sport and Recreation	60	78	35,748	91.1% (-)	Japan China UAE Korea/Phillip/UK
Tourism and Hospitality	74	104	25,078	32.7% (+)	Japan India Singapore Vietnam
Transport and Storage	90	150	668,642	12.1% (+)	China Japan India Singapore
Fashion (*part of Textiles, Clothing and Footwear)	207	170	178,504	28.0% (-)	UK USA Indonesia China
Total	2,483	4,738	5,733,197		

Note: The table only represents export sales achieved by service orientated businesses in 2005-06 with Austrade assistance, not the total number of businesses in the sector assisted by Austrade. Export sales denote Austrade facilitated deals in market

8. Austrade programs

The EMDG scheme is the Australian Government's principal financial assistance program for small and emerging exporters. Under the scheme, eligible applicants may qualify for up to 50 per cent reimbursement of eligible export marketing expenses above a threshold of \$15,000 to a maximum of seven grants.

The EMDG scheme supports a wide range of industry sectors, including services, and enjoys very strong support from Australian business. Of the 2004-05 grant year recipients paid in financial year 2005-06, 1,998 were in service industries. These businesses received a total of \$78.0 million in EMDG grants, which represented 58.4 per cent of total grant payments, and generated exports worth \$1.9 billion.

The New Exporter Development Program (NEDP) is also important in assisting Australian businesses to export, including small and medium sized Australian companies, by providing a wide range of free services to new exporters. Such support encompasses advice and information about commencing exporting, export coaching and on-the-ground assistance in overseas markets. In 2005-06, 433 businesses in the service sector (17.4 per cent of all service sector clients) received assistance under NEDP.

Austrade and TradeStart offer a package of free services through the NEDP, designed to assist small and medium sized Australian companies develop their business overseas and make their first export sale.

TradeStart, an integral part of Australia's domestic network, is a national network of export assistance offices developed through partnerships between Austrade and a range of local private and public sector organisations throughout Australia. Currently, there are more than 50 TradeStart offices operating across all states and territories. In the 2006-07 Budget, the Australian Government committed \$23.3 million over four years to continue the TradeStart program, which has helped over 1,200 new exporters achieve export sales over \$550 million since 2002.

The Export Hub network is also important in assisting Australian businesses gain information, advice and support to help them to become innovative and internationally competitive. Export hubs integrate the expertise and services of AusIndustry and Austrade's TradeStart programs. They are located at Ballarat, Bega, Bundaberg, Carnarvon, Darwin, Launceston, Port Augusta and Tweed Heads.

9. Australian trade policy – driving opportunities

The Australian Government has implemented a broad range of policies, programs and initiatives to assist the Australian service industries to identify, pursue and realise international market opportunities.

Improving market access conditions for internationally competitive Australian businesses, including service exporters, through multilateral, regional and bilateral trade policy forums has been at the forefront of these efforts. The negotiation of Free Trade Agreements (FTAs) with important trading partners (United States, Singapore, Thailand) has been particularly beneficial in enhancing trade and investment opportunities.

FTAs have made a significant contribution to the removal of impediments to services trade. Such obstacles included foreign equity limitations, non recognition of professional qualifications, licensing restrictions, and various restrictions on commercial presence. Trade statistics suggest that Australian service exporters appear to have benefited from FTA outcomes.

In particular, following the implementation of the Australia-United States Free Trade Agreement (AUSFTA) in 2005, service exports to the United States rose by 3.6 per cent to \$4.43 billion. Australia's exports of transportation services increased by 25.4 per cent, while other business services and computer and information services grew by 6.1 per cent and 5 per cent respectively. Short term visitor arrivals from the United States to Australia were estimated to have increased by 2.9 per cent in 2005.

A similar picture emerges with respect to Australia's service exports to Thailand and Singapore. In 2005, Australia's exports of services to Thailand rose 3.1 per cent to \$540 million. More than 16,400 Thai students were enrolled in Australian education institutions in the same year, representing a 1.4 per cent increase from 2004. Australia's service exports to Singapore increased by 12 per cent to \$2.4 billion in 2005. Tourism Australia estimated the number of tourists from Singapore to have grown by 9 per cent in 2005.

Austrade's service sector clients confirm the positive effects of FTAs in capturing opportunities in international markets. Please refer to examples of success stories in **Attachment A**.

10. Conclusion

Austrade recognises the significant economic contribution of Australia's services sector and has been actively assisting Australian businesses to achieve export success across the globe. Its extensive domestic and international networks are actively monitoring global market developments and trends to identify emerging opportunities that can be captured by local service exporters.

Australian Free Trade Agreements (FTA) success stories

Australia-United States Free Trade Agreement (AUSFTA)

Team Results

Motivational speaking

John Kolm is a motivational speaker for business people and the author of several books. He has been picked up by every major book chain in the US including Barnes & Noble, Borders and Amazon.com. Mr. Kolm has also developed and delivered two-day workshops based on his book that provide tips on how to become an elite businessperson. He aims to become Australia's own guru rivaling Anthony Robbins.

Mr Kolm said AUSFTA couldn't have come at a better time:

"It appears that since AUSFTA took effect, American companies have a great deal of freedom to engage Australian service providers and I have experienced little or no resistance from them even though my company is not American".

One of AUSFTA's most significant outcomes is the obligation for the US to provide "national treatment" to Australian service providers, which means that Australian businesses are able to compete in the US market on equal terms to their US competitors in most service sectors.

HarvestRoad

E-learning content management software

HarvestRoad develops software for education and training for schools, higher education, and government – particularly defence, enterprise and industry association markets. HarvestRoad's customers in the US now include, in education, DeVry University Online and Portland State University and, in defence, the Joint Knowledge Development and Distribution Capability Centre (JKDDCC), Lockheed Martin and the United States Navy Post Graduate School.

Grame Barty, HarvestRoad founder and Managing Director noted:

"Thanks to AUSFTA, we expect to benefit from easier market entry, due to a more transparent business culture and regulatory framework, an acceptance of Australia as an important and growing trading partner and easier market entry for Australian businesses. The US is now our major market focus. We will continue to expand there and are aiming for \$US 20 to \$30m revenue per annum within three years."

Thailand - Australia Free Trade Agreement (TAFTA)

Integrated Human Resource Consulting (IHR)

Human resource solutions

IHR is a human resource solutions company that is making major inroads into Thailand. Director Stephen Bell said:

“TAFTA was the reason the company looked to enter the Thai market in the first place. It spurred us into getting into Thailand. TAFTA makes it much easier to make contacts; there’s an overall willingness for the Thais to trade with Australia. For us, in a very real sense TAFTA has opened a gate in the road of exporting.”

Cognethos

Software developer for the financial services industry

Cognethos has signed a contract with Reuters Thailand. A major benefit of TAFTA for the company is that it now does not require Thai work permits for short periods (up to 15 days or up to 90 days for APEC travel card holders).