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Our Ref:

DC

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

Dear Mr Baird

VICTORIAN GOVERNMENT SUBMISSION TO THE INQUIRY INTO AUSTRALIA'S SERVICE INDUSTRIES

Thank you for inviting the Victorian Government to contribute to the House of Representatives Standing Committee on Economics, Finance and Public Administration inquiry into Australia's service industries. Please find enclosed the Victorian Government submission to the inquiry.

The Victorian Government submission outlines Victoria's strengths in a range of service industries and highlights the importance of services trade to the Victorian economy. The submission also includes an analysis of the impact of the resources boom on the services sector and provides recommendations for realising future export opportunities in key service industries.

Should you have any questions about the Victorian Government submission, please do not hesitate to contact Mr John Dalton, Director, Industry & Trade Policy, at the Department of Innovation, Industry and Regional Development. Mr Dalton can be contacted on 03 9651 9135, or by e-mail at john.dalton@iird.vic.gov.au

Yours sincerely



HON STEVE BRACKS MP
Premier of Victoria

Submission 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

1. Background

The House of Representatives Standing Committee on Economics, Finance and Public Administration is inquiring into where the service export sector now sits in Australia's export (and import competing) environment, focusing on, but not limited to:

- The tourism and education service sectors
- The impact of the resources boom on the service sector
- Future global opportunities for Australian service exports
- Policies for realising these opportunities

It is timely to examine future opportunities to expand Australia's services exports because evidence suggests that there is greater scope for global integration of services. The World Trade Organization (WTO) estimates that while services currently account for over 60% of global production and employment, they represent no more than 20% of total trade.¹ Similarly, the OECD has noted that the relatively minor role for services in international trade is in contrast to the contribution of services in the domestic economies of member countries.²

Between 2000 and 2005, world exports of services grew at 10% p.a., the same as growth in goods exports. However, Australian services exports grew by only 3% p.a. over the same time. This indicates that Australia is not fulfilling its services exporting potential.

This submission provides information on Victoria's services exports and specific services sectors. A summary is provided of the findings of research conducted to date about the impact of the resources boom on Victoria. The submission also includes recommendations about future opportunities for Australian services exports and possible government policies for realising opportunities.

The Committee is concurrently inquiring into the state of Australia's manufactured export and import competing base. It is important to note that the manufacturing sector has strong links to the services sector which, together with R&D and innovation, are critical to the future growth of both sectors.

¹ World Trade Organization, *Services: rules for growth and investment*, http://www.wto.org/english/thewto_e/whatis_e/tif_e/agrm6_e.htm

² Organisation for Economic Co-operation and Development, *Structure and Trends in International Trade in Services*, OECD Report, 21 October 2005.

2. Victoria's services exports

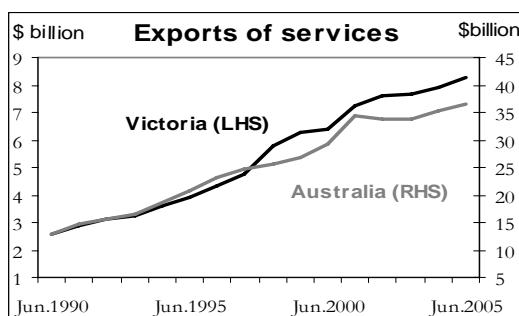
In 2004/05, Victoria's services exports were valued at \$8.3 billion. This contributed 23% to Australia's \$37.2 billion of services exports. The largest services exports for Victoria were travel services (\$4.1 billion, which includes education-related travel services), and transportation services (\$2.2 billion).

Victoria's international trade in services 1999/00 – 2004/05 (\$m)

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
Transportation services	2001	2176	2135	2020	2107	2158
Travel services (incl. business, personal, education related)	2458	3042	3440	3447	3835	4079
Communication services	329	312	189	232	181	176
Construction services	0	np	np	np	np	np
Insurance services	264	245	231	236	236	235
Financial services	380	396	415	423	427	431
Computer & information services	97	np	np	151	110	143
Royalties and licence fees	101	140	136	np	np	np
Other business services	650	720	746	772	676	756
Personal, cultural, and recreational services	122	74	109	142	114	80
Government services n.i.e.	11	10	19	13	14	14
Total confidential items	0	118	179	201	189	239
Total	6413	7233	7599	7638	7889	8311

np = not available for publication

Between 2000 and 2005, Victoria's exports of services grew by approximately 3.5% p.a., compared to around 3% p.a. for Australia as a whole. This was due to slightly higher growth in exports of education services and tourism services in Victoria compared to the rest of Australia.



3. Future global opportunities for Victorian and Australian services exports

There is a broad range of services industries in Victoria and the State Government actively promotes the following key areas:

- **Financial services** – Victoria plays a key role in positioning Australia as a major financial services centre in the Asia-Pacific region. The Victorian Government's 2003 *Financial Services Industry Audit* identified issues and opportunities faced by the industry and forms the basis for the Action Plan for the industry, *Investing in Victoria's Future*;
- **Health and education services** – the Victorian Government's *Grow Your Business* program assists competitive segments of Victoria's private health industry to develop and to access international trade and investment opportunities. The 'VHA Global Alliance' seeks overseas opportunities for the utilisation of expertise in Victoria's public health sector, with a focus on Middle Eastern markets. In education, the 2004 initiative *Global Pathways: International Education for Victoria*, sets out strategies to internationalise Victoria's education system that include global learning, positioning Victoria, and quality assurance;
- **Professional and technical services** – Victorian businesses deliver up to 30% of the Australian professional and technical service sector's annual turnover covering survey, design, architectural, engineering, legal, accounting and employment services. The State Government provides support to these industries through trade fairs and missions and has an active Services Export Advisory Committee;
- **Building and construction services** – a dedicated unit in the Department of Innovation, Industry and Regional Development assists businesses that deliver building and construction services, with a focus on exporting;
- **Transport, distribution and logistics** – Victoria is Australia's major transport and logistics hub. The *Victorian Supply Chain Excellence Action Plan 2006* sets out priorities and targeted initiatives to continue the development of Victoria's long-term competitiveness in the transport, distribution and logistics sector, covering new technologies, education and training to improve supply chain efficiencies, regulation and marketing.

The Victorian Government's 2004 *Opening Doors to Export Plan* is a roadmap for growing exports. It lays out four key strategies to assist and support companies and to promote, coordinate and build Victoria's export strengths and services. The Plan emphasises the importance of services exports to the Victorian economy and identifies key markets as the United States, United Kingdom, Japan and New Zealand. In addition, Victorian Trade Commissioners in North Asia, India and the Middle East assist Victorian services exporters to capitalise on opportunities in these

fast-growing regions that have an growing demand for high value-added services that Victoria is well equipped to provide.

4. Impact of the resources boom on the services sector

The Victorian Department of Treasury and Finance has modelled the regional impacts of the resources boom.³ It found that rising commodity prices have already generated a substantial increase in Australia's terms of trade. While prices of rural (agricultural) commodities are currently lower than at the end of 2002, the Australian dollar price of base metals has doubled over the same period. The net result is that the terms of trade has increased by about 30% over the past three years, boosting national income by about 5.5%.

Although the income gains from the higher terms of trade accrue nationally, different resource endowments across the States imply that there are also region-specific effects on economic activity. Stronger world demand for Australian mining exports has put upward pressure on the exchange rate, making imports relatively cheaper and Australian non-mining exports less competitive. Therefore, the States with a larger share of agricultural, manufacturing and tourism exports are likely to be adversely affected. At the same time, labour and capital are being absorbed by the resource industries, so non-resource industries are faced with higher labour and capital costs. Economic activity is likely to be lower than it would have otherwise been in those States without a large mining sector. The modelling results show that the boom in commodity prices has reduced annual Victorian and NSW GSP growth by up to half of one percentage in the short term.

The modelling suggests that while the mining industries have expanded, most other industries are likely to be smaller than they would otherwise have been. The exporting and import-competing industries outside the resources sector contract by the largest amount. However, the services industries are less adversely affected, as most of their output is sold to consumers, who benefit from income growth, and is non-tradable.

The long-term impact on Australia, and the non-commodity States such as Victoria, will depend on the future path of commodity prices and the future size of commodity exports from Australia's resource-intensive states. There is some evidence that continued rises in the terms of trade are coming to an end as supply eventually responds. However, as long as world demand remains strong, new capacity will see Australian commodity export volumes and GDP expand.

In the long run, labour mobility would result in patterns of net interstate migration shifting to favour the relatively resource-intensive States, reducing disparities in unemployment rates and wage rates between the States. The resource States would also attract investment from the rest of the country. In other words, permanently higher commodity prices are likely to have a net positive impact on the size of the Australian economy, but change both the industry composition and regional

³ *A tale of two economies: the regional impact of Australia's resources boom*, Department of Treasury and Finance Discussion Paper, May 2006.

distribution of economic activity. The above average pricing for resources will most likely continue in the longer term because the source of demand is developing countries. Should China's demand for commodities slow, the other "BRIC" countries of Brazil, Russia and India will most likely continue the momentum with moderate consumption growth.

5. Victorian service industries

5.1 Education

International education is a key industry for Victoria and Australia. In 2004/05, expenditure by international students was worth \$6.9 billion⁴ to the Australian economy and \$2 billion to the Victorian economy.⁵ Victoria has 29% of Australia's education exports. International education is Victoria's second largest services export industry, behind transport services.

Over the past decade, Australia has established itself as the third most popular destination for international students after the United States of America (US) and the United Kingdom (UK). Key source markets are China, India, Korea and Japan.

Main destination and origin countries of overseas students (2003)⁶

Destination Countries	% Total	Origin Countries	% Total
United States	31%	China	13%
United Kingdom	14%	India	5%
Australia	10%	Korea	4%

As the source markets are highly concentrated, with around half of all international students originating from Asia, changes in conditions in these markets could lead to a slowdown in the sector. Recent data points to a global reduction in the growth of international student flows, particularly to English-speaking countries. The US recorded decreases in international enrolments of 2.4% and 1.3%⁷ respectively in the last two years. In the UK, enrolments from outside the European Union rose only 0.9% in 2005 and enrolments from China declined 22.5%.⁸

5.1.1 Visa regulation and administration

Given the importance of the international education industry, Australia must create an appropriate environment to foster industry growth. Visa regulation is closely tied to industry success, as is the role of the Department of Immigration and Multicultural Affairs (DIMA) as an early contact point for potential students.

Improving customer service

In order to improve the quality of interaction between potential students and visa officials, DIMA must develop transparent procedures and maintain open

⁴ Expenditure by international students includes education fees and living expenses.

⁵ Australian Bureau of Statistics (ABS), Series 5368, International Trade in Goods and Services

⁶ Organisation for Economic Co-operation and Development, *Education at a Glance*, OECD 2005.

⁷ Open Doors Fact Sheets 2004 & 2005, International Education Network (IEN).

⁸ Australian Education International, *Competitor Analysis – Australia's Competitors in International Education*, March 2006 Update.

communication between officials and clients, including the development of simple-to-use visa application guidelines. Effective and innovative service channels will enhance the client experience and administrative outcomes.

DIMA should explore opportunities for extending its current services relating to the handling of visa applications. For example, DIMA and the Victorian Department of Education and Training could examine options for an extension of the current system utilising Victorian Government Business Offices (VGBOs), where some staff work specifically on international education opportunities for Victoria. There are 11 VGBOs situated strategically around the world, including in countries that provide large numbers of international students to Australia. Additional DIMA support facilitated through VGBOs or other off-shore organisations would improve the client experience and increase geographical accessibility to services.

On-shore, the Victorian Department of Education and Training would like to explore with DIMA opportunities for the International Division of the Department to assist with migration and student visa issues as a trusted third party. This could involve participation in the e-visa program and/or the outsourcing of a DIMA official to the International Division. The Victorian Government endorses the student e-visa project and urges DIMA to upgrade its systems to permit effective electronic lodgement from all countries and across all assessment levels.

Recommendations:

- **That DIMA improve communication between clients and visa officials;**
- **That DIMA develop user guidelines for student visa applications;**
- **That DIMA explore opportunities for extending their current services relating to the handling of visa applications;**
- **That DIMA outsource an official to the Victorian Department of Education and Training International Division; and**
- **That DIMA develop an e-visa program.**

Removing barriers

There is a close link between international education and skilled migration with many students choosing to study in Australia with a view to permanent residency.⁹ However, there are no clear pathways between education and migration. Liberalisation of policy in order to make this possible would be a powerful means of maintaining Australia's competitive advantage in the delivery of education services. For example, to grow its share of the international student market, Canada has explicitly linked education marketing to migration opportunities, opened new visa processing offices to speed up the process and extended the work rights of international students.

⁹ It is estimated that one in three international students subsequently migrate, with around 70% of students from Indian sub-continent and 45% of Chinese students settling in Australia (Immigration Rules and the Overseas Student Market in Australia, IDP December 2005).

It has been successful in maintaining large enrolments from Hong Kong, India, Japan and South Korea.¹⁰

International students applying for the General Skilled Migration Program also offer benefits because they have Australian qualifications relevant to Australian circumstances and conditions; they have established social and support networks; they are familiar with English; and they are familiar with labour market conditions in Australia.

Given the benefits delivered by linking international education opportunities and skilled migration, the Independent Skilled – Overseas Student visa subclasses should be reviewed to encourage a greater number of applications and approvals of such skilled migrants. Increasing the weighting of migration points for skills would encourage onshore students to become familiar with the Australian workplace environment, a key factor in determining successful outcomes in skilled migration. Furthermore, liberalising the student visa work provisions consistent with Condition 8202 with respect to 20 hours maximum work experience during semester would better enable international students who wish to gain permanent residency to more easily meet workforce participation requirements.

In addition, the TAFE sector is being impeded by its visa status compared with universities. For key markets (India, Indonesia and South Korea) it is significantly more difficult for students to obtain visas for vocational education courses than higher education courses. Reform in this area is a priority and Victoria has requested that Commonwealth Ministers present a report at the next Ministerial Council for Vocational and Technical Education meeting detailing the strategies and processes to enable Registered Training organisations to attain the same visa status as universities.

Recommendations:

- **That student work provisions consistent with visa condition 8202 be liberalised. Rather than 20 hours per week, for example, it should be possible to work an average 20 hour week *per semester*;**
- **That separate points be allocated for skill and education, and equal or near equal weighting – as with the Canadian model – so as to encourage on-shore students to experience the Australian workplace environment;**
- **That the visa status of the vocational education and higher education sectors be aligned;**
- **That DIMA recognise the Victorian Skilled Shortage List (VSSL) to better address the skill shortages faced by Victoria; and**
- **That Australia explicitly market pathways to permanent residency for international students.**

¹⁰ Australian Education International, *Competitor Analysis – Australia's Competitors in International Education*, July 2005 Update.

Enhancing communication with stakeholders

The Victorian Government seeks a more collaborative working relationship between the Victorian Department of Education and Training and DIMA. In addition, DIMA and the Department of Education, Science and Training (DEST) should establish a national consultative forum to bring together Australian Governments and key stakeholder groups in international education and training.

Whilst urging a stronger working relationship with State departments, it is suggested that DIMA broaden this approach by:

- Developing a common strategy for communication with key stakeholders in the wider international education industry;
- Communicating immediately and often, particularly when change is proposed; and
- Actively seek feedback from the international education sector.

Recommendation:

- **That DIMA facilitate improved communication between international education stakeholders to ensure visa regulations support growth in the industry.**

5.1.2 National regulatory framework

Maintaining quality and industry regulation are fundamental to protecting Australia's high standing in the international education industry. The current DEST review of the *Education Services for Overseas Students Act 2000* should aim to assure quality, but should not impose a regulatory regime which leads to increased administrative costs which flow through to increased fees for students. Regulation must be fit for purpose and support both industry growth and quality assurance.

Recommendation:

- **That DEST-led changes to industry regulation frameworks reflect industry objectives and do not increase administrative costs for providers.**

5.1.3 Supporting international education providers

As competitor investment in international education increases, Australian Education International (AEI) must continue to support providers to encourage growth in the industry. Working and marketing off-shore is particularly challenging and AEI is a key source of market intelligence.

Recommendations:

- **That AEI provide more focused and up-to-date market intelligence;**
- **That AEI continue the on-shore counsellors initiative; and**
- **That AEI develop comprehensive guidelines for providers working off-shore.**

5.2 Tourism

In 2003/04, the combined direct and indirect contribution of the tourism industry to Victoria's GSP totalled \$10.9 billion or 5.3% of total Victorian GSP. The number of persons employed directly and indirectly in the Victorian tourism industry was 159,000, or 6.6% of total employment in Victoria. The tourism industry contributed \$3.4 billion to regional Victoria's economy and employed 61,000 people in regional Victoria. International tourism accounted for \$3.4 billion in exports from Victoria.¹¹

Recent research concluded that key issues facing Victoria's tourism export sector include:¹²

Global competition	As tourism is a discretionary activity on the part of the consumer, the tourism industry is highly exposed to downturns in the local and international economy as well as changes in consumer choices about whether or not to travel, and to which destinations.
Threats to quality	Even in market segments that are currently exhibiting strong global growth, the sector needs to deliver a high quality tourism experience in order to retain and grow its share of these market segments.
Skills shortages	The provision of a large and well-trained tourism workforce is a critical factor in ensuring long-term success for tourism. The tourism industry is struggling to attract and retain sufficient numbers of skilled workers due to the perception of the industry as a low-wage, low-skilled industry with limited career prospects.
Market changes	The tourism industry is characterised by rapid changes in product development and consumer preferences.
External shocks	The tourism industry remains particularly sensitive to the impacts of unforeseen events (economic, social, political, health, natural), which can be severe and immediate. While the industry cannot control the occurrence of such events, its capacity to respond to them can significantly determine the extent of their impact.
Industry leadership	The tourism and events industry is comprised of businesses from at least 16 different traditional industry sectors and is therefore fragmented compared to most conventional supply side industries. It is also characterised by a high number of small and medium sized enterprises. These structural features do not readily allow for cohesion and unity across an industry for the purposes of promotion and advocacy.

In addition, restrictions placed on air services agreements and the expansion of foreign airlines impact on tourism growth. International tourism growth is dependent on Victoria's capability to meet demand through improved air capacity – direct

¹¹ 2003/04 data is the most recent data available at a State level.

¹² *10 Year Tourism and Events discussion paper*, Department of Innovation, Industry and Regional Development Victoria, June 2005.

access to Melbourne is especially critical in key markets such as the United States, Korea, India and China. Finally, the Commonwealth's international marketing campaigns need to promote more than Australia's iconic attractions. An emphasis on cultural and major events, diversity of cities and regions would broaden the appeal of Australia to a wider audience.

The resources boom, and the additional jobs generated as a result, is likely to influence the skills shortage experienced by the tourism industry. Assuming the resources boom has made a significant contribution to a strong Australian dollar, this places Australia at a competitive disadvantage in some segments of the international tourism market with Australia becoming a more expensive destination against its competitors. The relative strength of the Australian dollar in 2006 is also expected to continue to support an increase in outbound travel by Australians largely at the expense of domestic travel activity by Australians. This trend will also be supported by reductions in the cost of packages and airfares to many destinations, particularly in Asia.¹³

Recommendation:

- **That the inquiry considers the nature and impact of Commonwealth policy and program responses that affect the tourism service exports sector, including:**
 - **the setting of national policy priorities and strategic directions for tourism and events;**
 - **options for facilitating increased international tourism visitation through regulatory and fiscal mechanisms (e.g. visa arrangements, taxation, infrastructure and investment);**
 - **the benefits to the tourism industry of a more liberalised approach to air services and how this could facilitate improved responses and outcomes for growth markets; and**
 - **the nature of the Commonwealth's international marketing campaigns, which need to promote more than Australia's iconic attractions.**

5.3 Financial services

Financial services exports are a small but significant portion of Victoria's total export revenue, and they continue to grow.¹⁴ In 2004/05, Victoria's financial services exports were valued at \$431 million. Growth has been steady at approximately 2% p.a. since 1999/00. However, while the foreign revenue of Australian banks operating offshore such as the National Australia Bank and ANZ Bank are very large, they are not captured in export income statistics.

Key issues facing financial services exporters at the moment are competition and access to overseas markets, including non-tariff barriers to trade. Growth markets are China, India, the US and Korea. However, export income involves fees and commissions from cross border trade, investment and transactions, and is generally not suited to traditional export promotion activities.

¹³ Tourism Forecasts April 2006, Tourism Forecasting Committee

¹⁴ In 2005, financial and insurance services exports accounted for 8% of Victoria's service exports.

The greatest potential in promoting financial services exports relates to education and training. The Victorian Government's financial services sector Action Plan *Investing in Victoria's Future* found that Victoria's world-class universities and the industry's reputation in areas such as financial risk management and regulatory compliance gives the State a major opportunity to export financial services expertise and education capabilities to emerging markets in the Asia-Pacific region. Victoria's universities have well-established training programs, substantial international linkages and world-class researchers with high-level practical regulatory experience. The presence of a strong skill base in these areas means that Victoria can play a key role in the capacity building of the financial systems of both China and India.

There is enormous potential to leverage off Australia and Victoria's international reputation and education and training capabilities in areas such as credit risk, investment management, insurance and finance regulation and compliance. The State's expertise in the management and regulation of one of the largest and most sophisticated pension fund systems in the world and our knowledge in large and complex infrastructure projects provides the opportunity for significant export capacity. It would also be beneficial to explore opportunities to grow financial services exports in ways other than education and training.

Recommendation:

- **That the inquiry examines other opportunities for financial services exports, including but beyond those relating to education and training.**

5.4 Health services

Victoria has an established reputation for quality health services, and exports in this sector are growing steadily. Victoria has strong health services capabilities in the following fields:

- professional training, including nursing training;
- medical faculty twinning programs;
- hospital management;
- patient risk control services and hospital accreditation;
- ambulance paramedic and trauma services;
- hospital design and architecture;
- medical equipment, instruments and hospital supplies;
- hospital waste management systems;
- biotechnology research collaboration; and
- joint venture/ investment in private hospital projects.

The growth of many commercial Victorian and Australian healthcare service providers has depended on their export success, particularly in South East Asia and the rapidly growing market in the Middle East. However, the maturing markets in India and China, and the re-emerging markets in Malaysia, Indonesia and Thailand, also provide new opportunities.

The continuing growth of health services provides a flow-on effect for opportunities in the following areas, most of which are related to education and training:

- Links to Victorian hospital and medical research institutes;
- Links to Victorian health services and clinical programmes.
- Links to Victorian universities for medical, dental and nursing courses and research programs; allied health courses (physiotherapy, speech therapy, audiology, podiatry); medical technology training (radiology, laboratory, dental); and health administration courses;
- Training programmes in other countries that are set up by Victorian educational institutions;
- Transfer of technical knowledge in the medical, nursing, hospital engineering, communications and construction fields; and
- Opportunities in tourism.

Recommendations:

- **That the Committee investigates new opportunities for health services exports, such as biotechnology collaboration.**

5.5 Information Communication Technology (ICT) services

As is the case in most sectors, obtaining accurate, timely ICT services figures is difficult. The situation is made more complex by ICT's status as a platform technology. Not only is the ICT industry blurring at its edges, its offerings are blurring as well. For example, there is a trend towards 'solution' provision, where hardware, software and services are combined into an integrated business offering.

The recently released *Australian ICT Trade Update 2006*¹⁵ differentiates between ICT equipment and ICT services trade but emphasises that real caution must be observed with respect to ICT services figures. This notwithstanding, the report estimated that in 2004/05, Victoria exported \$343 million in ICT services. By contrast, Victoria exported \$704 million in ICT equipment in 2005.

While Victoria's ICT services exports are half the size of ICT equipment exports, ICT services is an area of strong emphasis for Victoria. The global market for ICT services is growing rapidly and Victoria does possess some strength in this area, including:

- **Telecommunications services** – this is a key strength for Victoria, taking in the provision of telephony and data services. It encompasses the operations of Telstra, Optus, Primus and other carriers and represents a large proportion of the ICT employment and revenue for the State; and
- **Niche software and services** – this sub-sector includes the provision of combined technology and service solutions that allow the outsourcing of entire business functions, such as human resources. Prominent companies operating out of Victoria with these capabilities include IBM, EDS, Infosys and Oakton Ltd.

¹⁵ *Australian ICT Trade Update 2006*, Centre for Strategic Economic Studies, Victoria University, March 2006.

The sub-sector also encompasses the development of software and services built on deep domain experience to service specific industry verticals, for example, financial services, or horizontal niches, such as share registry services, e-security and tailored eLearning solutions. Computershare Ltd, Ocean Software Pty Ltd and Aconex Pty Ltd are leading examples.

These strengths are founded on Victoria's high quality ICT skills base, which provides local industry with employees qualified to undertake high-end, specialist ICT service provision.

Trade in ICT services is increasingly competitive with the emergence of nations such as India and China. With their potent mix of capability, capacity and low wages, these countries are beginning to dominate low-value software development/service provision and ICT manufacturing, respectively. In the face of this shift in global ICT development, the Victorian ICT industry will need to focus on its strengths in niche, high-value production and service provision. For this reason, the *Victorian Government ICT Industry Plan 2005-2010* aims to encourage a more innovative and collaborative, as well as specialised and entrepreneurial, ICT industry with global ambitions.

5.6 Building and construction services

There are increasing international opportunities for Victorian and Australian companies in the field of building and construction services. The Victorian Government has identified opportunities in the massive urbanisation programs occurring in key growth economies around the world, in particular China, where there is an annual spend of \$180 billion in this area.

The Victorian Government established the Australian Urban Systems (AUS) cluster earlier this year to assist Victorian firms skilled in the planning and design of urban systems to secure project opportunities in overseas markets. The aim of the AUS cluster is to capitalise and build on Victoria's strengths in the planning, design and implementation of 'sustainable urban concepts and systems'. From a core group of 3 companies, the cluster has now grown to 12 and is expected to include more than twenty Victorian firms actively involved in projects in China, the Middle East and India, by the end of its first twelve months of operation.

5.7 Mining technology services

The mining technology services (MTS) sector is broadly defined as comprising technology-based businesses that service the mining sector, so includes specialists such as geologists, geophysicists, cartographers, surveyors, and engineers (civil, electrical, electronic, mechanical and mining). The MTS sector, like the mining industry as a whole, is facing significant skills shortages which have been exacerbated by the resources boom.

While the largest skills shortages are in non-professional occupations such as mechanical fitters and electrical trades, current and future skills shortages have been identified for engineers and metallurgists, geologists and other earth scientists, and

computer science specialists.¹⁶ However, there is insufficient education and training capacity in Australia to meet this demand. The growth of this and other sectors is therefore limited by labour availability.

The Minerals Council of Australia has recently been examining ways to address this issue on the basis that labour shortages are expected to continue to limit the growth of the Australian minerals industry for at least the next 10 years. The industry is examining in particular ways to grow the pool of skilled employees through skilled migration.

Recommendation:

- **That in relation to mining and technology services, the inquiry examines ways to build capacity in education and training systems to meet industry requirements and grow the pool of skilled employees, and considers increased flexibility relating to skilled migration requirements.**

5.8 Professional and Technical Services

Professional services include legal, accounting, business consultancy and employment services. Technical services cover surveying, design, architectural, engineering and environmental services.

For the legal sector, trade includes legal and related services, the cross-border movement of Australian lawyers, judicial and other dispute resolution services, and law and legislative models. The Law Institute of Victoria (LIV) notes that a regulatory system is in place in Australia for creating a uniform path for foreign lawyers practising in Australia. In addition, Australia has made a binding, non-reciprocal offer under the General Agreement on Trade in Services (GATS) to provide foreign lawyers with access to the Australian legal services market. However, this has not necessarily been reciprocated and barriers to entry for legal services still exist in a number of markets (for example Malaysia, Japan, Mexico) and should be further reduced.

The legal sector has advocated for improved market access through various free trade agreement (FTA) negotiations over the past three years. The Victorian Government is supportive of FTAs that minimise market access barriers to the practice of law. The LIV has also emphasised that domestic regulations should seek to promote professionalism and consumer protection, rather than operate as barriers to entry for foreign legal services.

Opportunities for exports of Australian legal services could be enhanced by improvements in mutual recognition of professional standards, including admission; mutual recognition of education qualifications; and movement of business people. These improvements could be achieved by working with foreign countries, possibly under the auspices of FTAs, to ease restrictions on Australian lawyers who wish to work as lawyers overseas; ease restrictions on visa requirements for Australian lawyers to work for extended periods overseas; and provide more opportunities for

¹⁶ Australian Bureau of Agriculture and Resource Economics, *Mining Technology Services: a review of the sector in Australia*, ABARE eReport 05.5, April 2005.

mutual exchange of law students and practising lawyers between Australia and other countries.

The Spatial Information (SI) industry, which covers the disciplines of remote sensing and photogrammetry, mapping and surveying, land administration and geographic information systems, has reported skills shortages following increased demand for specialist skills as a result of increasing opportunities in the mining and other resource sectors. A 2005 survey of the Victorian SI industry¹⁷ found that approximately 30% of the industry's revenue was derived from exports (classified as either interstate or overseas). However, the SI industry is likely to experience an increase in its services imports as a result of the resource boom. The majority of trade in this industry is the "Mode 4" services trade (presence of natural persons) where an individual travels to another country to perform services there for a limited period, and the supply of skilled workers is currently not meeting demand. For this reason, foreign workers are being engaged to undertake some projects.

The key issue for the SI industry in relation to growing exports is skills. Training in core areas of surveying and mapping is insufficient in the face of growing demand. Maintaining flexibility in movement of people is also important for growth of this industry. The skills of Australian workers are held in high regard overseas and there is demand for these skills in key markets of the Middle East and South East Asia.

Recommendation:

- **That the inquiry considers options to maintain flexibility in the movement of business people and improve recognition of qualifications and standards for professional and technical services industries.**

6. Role of government and policies for realising opportunities

6.1 Government support

Consultations between the Victorian Government and the services sector suggests it is generally satisfied with the support provided by Federal and State Government agencies with regard to export, including Austrade, and in particular in relation to facilities offered by the overseas offices of these agencies.

While the Export Market Development Grants (EMDG) scheme is designed to cover services products as well as goods, some sectors (for example, legal services) reported that few services businesses apply to the EMDG scheme because of the relatively intangible nature of their exports and/or the long time lag before costs are reimbursed. Many services exporters are small and medium size enterprises (SMEs) with important cash flow considerations. The effectiveness of the EMDG scheme in assisting small businesses is limited by the long time lags between incurring an eligible expense and reimbursement to the business. In addition, the administrative process associated with completing an application for a scheme grant has been

¹⁷ *Victorian Spatial Information Industry Census Report (C155)*, 27 October 2005, Fivenines Consulting Pty Ltd.

identified in the past as a disincentive for SMEs to apply for a grant because it is costly and overly complex.

6.2 Survey

To clarify the role of government and policies for realising opportunities in the services sector, the Victorian Government recommends that the Federal Government undertake a survey of the services sector similar to that which it undertook in 1994.¹⁸ The Service Exports Study analysed the main markets for services exporters, examined the characteristics of exporting and non-exporting firms, and specific types of exporters (e.g. tourism and “cultural” exporters). The Study included analysis by individual industry sector and by State.

A comprehensive and current analysis of the nature of the services sector would allow the Federal and State Governments to better design relevant policies and programs to support the sector because the nature of services trade has changed significantly over the past ten years.

6.3 Free trade agreements and opportunities for services

The Victorian Government is active in the multilateral trade environment and is supportive of WTO negotiations, including the General Agreement on Trade in Services (GATS). However, given the slow pace of multilateral progress, the Victorian Government is also broadly supportive of free trade agreements (FTAs) that are aimed at removing tariff and non-tariff barriers to trade in goods and services. It is anticipated that the benefits of many FTAs that are currently being negotiated by the Federal Government will result from liberalisation of services trade. For example, the Joint Feasibility Study into an Australia-China FTA estimated that the liberalisation of services would contribute US\$1.2 billion to Australia’s real GDP by 2015, compared to an estimated US\$3.2 billion increase in goods exports by 2015 for agriculture, resources and manufactures.

To maximise benefits for the services sector, FTAs need to have substantial sectoral coverage and provide for the elimination of substantially all discrimination in services trade. However, the likelihood of achieving significant outcomes for services in the FTA negotiations is uncertain. For example, the Department of Foreign Affairs and Trade recently reported that while China has taken some steps to liberalise its services sector following its accession to full WTO membership in 2001, further reform is needed, in particular in relation to ownership, business scope and geographical coverage.¹⁹

Ongoing barriers to services trade include:

- cross-border supply and movement of professionals;
- recognition of academic and professional qualifications;
- restrictions on foreign equity ownership and other investment regulations, including joint venture requirements with local companies;

¹⁸ *Intelligent Exports: ...and the silent revolution in services*, Report by the LEK partnership to a Steering Committee of 10 organisations convened by Austrade, Australian Trade Commission, 1994.

¹⁹ *Unlocking China’s Services Sector*, Department of Foreign Affairs and Trade, February 2006.

- standards and technical regulations, including licensing systems and pricing regulations, import licenses, labelling requirements, capital and prudential requirements for financial services;
- enforcement of intellectual property rights; and
- for the education sector, commercial presence, including restrictions on the number of foreign education service providers, accreditation process for curriculum, and restrictions on land ownership.

6.4 Skills shortages/education and training

Skills shortages are a key concern for a number of service industries, in particular those that are directly linked to the resource boom, such as engineering and surveying. The Victorian Government's March 2006 statement *Maintaining the Advantage: Skilled Victorians* includes four key actions to develop the vocational education and training sector and address skills concerns, including initiatives for service industries. The *2005-08 Commonwealth–State Agreement for Skilling Australia's Workforce* is a step toward addressing skills issues and it is important that this remains a coordinated response by State and Federal Governments.

6.5 Services statistics

The Victorian Government believes that current services sector data is not detailed enough to effectively monitor the performance of the services sector and to therefore develop relevant policies to increase services exports. The key concerns about current services trade statistics are:

- Surveys through which data is collected by the ABS are not sufficiently representative of the services sector;
- Survey respondents which operate in more than one State usually allocate the value of all services exports to the company's head office, which may contribute to inaccurate data on State and Territory exports; and
- The ABS does not release some data because the sample is so small that confidentiality is an issue.

Recommendations:

- **That the inquiry examines whether the changes announced to the EMDG scheme in January 2006 have reduced the administrative complexity of the scheme to make it more accessible to SME service exporters;**
- **That the Federal Government undertake a comprehensive survey of the services sector in order to identify sub-sector opportunities and barriers to export;**
- **That the inquiry examines ways to address the above non-tariff barriers to services trade with key trading partners, including the effectiveness of addressing these barriers in FTAs; and**
- **That the inquiry examines ways to develop a better system for the gathering and recording of statistical information on the services sector.**

7. Conclusion

Australia is not fulfilling its potential when it comes to services exports. To better assist Victorian and Australian businesses to use strategic approaches in exporting services, the Victorian Government recommends that the Committee:

- Considers the nature and impact of Commonwealth policy and program responses that affect the tourism service exports sector, including:
 - the setting of national policy priorities and strategic directions for tourism and events;
 - options for facilitating increased international tourism visitation through regulatory and fiscal mechanisms (e.g. visa arrangements, taxation, infrastructure and investment); and
 - the benefits to the tourism industry of a more liberalised approach to air services and how this could facilitate improved responses and outcomes for growth markets; and
 - the nature of the Commonwealth’s international marketing campaigns, which need to promote more than Australia’s iconic attractions. An emphasis on cultural and major events, diversity of cities and regions would broaden the appeal of Australia to a wider audience.
- Examines other opportunities for financial services exports, including but beyond those relating to education and training;
- Investigates new opportunities for health services exports, such as biotechnology collaboration;
- In relation to mining and technology services, examines ways to build capacity in education and training systems to meet industry requirements and grow the pool of skilled employees, and considers options relating to skilled migration requirements;
- Considers options to maintain flexibility in the movement of business people and improve recognition of qualifications and standards for professional and technical services industries;
- Examines whether the changes announced to the EMDG scheme in January 2006 have reduced the administrative complexity of the scheme to make it more accessible to SME service exporters;
- Examines ways to address non-tariff barriers to services trade with key trading partners, including the effectiveness of addressing these barriers in FTAs; and
- Examines ways to develop a better system for the gathering and recording of statistical information on the services sector.

The Victorian Government has identified a number of areas, particularly in relation to education services, where the Federal Government policy is inadequate. In light of this, the Victorian Government requests that the Committee consider the following options:

- That DIMA improve communication between clients and visa officials;
- That DIMA develop user guidelines for student visa applications;

- That DIMA explore opportunities for extending their current services relating to the handling of visa applications;
- That DIMA outsource an official to the Victorian Department of Education and Training International Division;
- That DIMA develop an e-visa program;
- That student work provisions consistent with visa condition 8202 be liberalised. Rather than 20 hours per week, for example, it should be possible to work an average 20 hour week *per semester*;
- That separate points be allocated for skill and education, and equal or near equal weighting – as with the Canadian model – so as to encourage on-shore students to experience the Australian workplace environment;
- That the visa status of the vocational education and higher education sectors be aligned;
- That DIMA recognise the Victorian Skilled Shortage List (VSSL) to better address the skill shortages faced by Victoria;
- That Australia explicitly market pathways to permanent residency for international students;
- That DIMA facilitate improved communication between international education stakeholders to ensure visa regulations support growth in the industry;
- That DEST-led changes to industry regulation frameworks reflect industry objectives and do not increase administrative costs for providers;
- That AEI provide more focused and up-to-date market intelligence;
- That AEI continue the on-shore counsellors initiative;
- That AEI develop comprehensive guidelines for providers working off-shore; and
- That the Federal Government undertakes a comprehensive survey of the services sector in order to identify sub-sector opportunities and barriers to export.

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