



Australian Government

Department of Foreign Affairs and Trade

**Productivity Commission Study into Barriers to
Growth in Australian Services Exports**

**Submission by
Department of Foreign Affairs and Trade (DFAT)
Australian Trade Commission (Austrade)
Export Finance and Insurance Corporation (Efic)**

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Overview

The services sector now accounts for almost three quarters of Australia's GDP and makes an important contribution to the competitiveness of other sectors. Strengthening its international competitiveness and export performance is central to Australia's economic future.

The contribution of services to Australia's trade and economic performance is generally undervalued. On a trade value basis, services account for only 18 per cent of direct export earnings. However, the OECD has found that services contribute 41 per cent of Australia's export earnings on a value-added basis, given that services embedded in merchandise exports contribute significant value-add to merchandise exports. In addition to this share, services provided abroad through foreign affiliates of Australian companies are significant compared to direct exports of Australian services.

Taking into account the earnings from direct services exports and the value added by services supplied to other export industries, the services sector generated more than \$100 billion in value-added export earnings in 2013.

Australia's ability to tap into global and regional value chains will be enhanced by making our services sector more internationally competitive. Over 70 percent of global trade is in intermediate goods and services, and capital goods, which feed into global production of final goods and services. Services play a significant role in global and regional value chains including in transportation; logistics; communication; managerial, legal, technical and marketing business services; and research and development, innovation and design.

Barriers to international trade in services are complex and take a wide range of forms. In many cases they are domestic regulations which are difficult to measure and, because their policy rationale is often non-trade related, are often difficult to eliminate or reduce.

The Department of Foreign Affairs and Trade and Austrade (and their respective overseas networks) as well as Efic actively seek information on specific barriers and difficulties through a range of different approaches and mechanisms.

Australia has pursued an ambitious services trade liberalisation and reform agenda through a range of multilateral regional, plurilateral and bilateral trade negotiations. Significant progress has been made in recent times, most notably in the three free trade agreements negotiated with North Asian economies in 2013-14 (China, Japan and Republic of Korea) which together account for 19 per cent of our total services exports. Ongoing bilateral trade negotiations with India and the plurilateral Trade in Services Agreement (TiSA) offer the prospect of further market openings for Australian services exports.

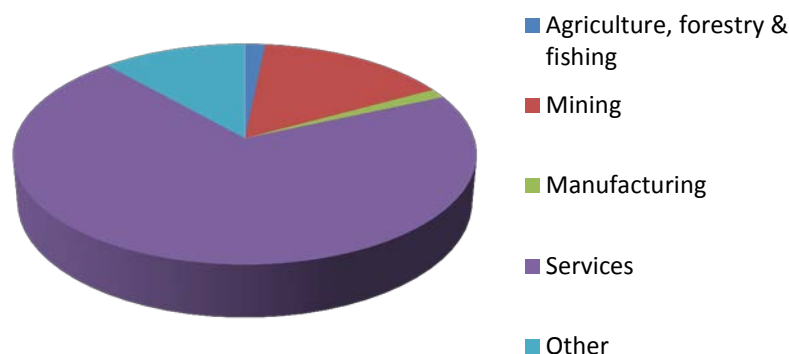
In addition to sound macroeconomic fundamentals, domestic reforms, particularly in areas such as competition policy and visas, are crucial in driving the development of an internationally competitive, export-oriented services sector that is capable of taking advantage of new access opportunities and participating in global and regional value chains.

Austrade and Efic play complementary roles in assisting companies involved in the export of services, particularly small and medium enterprises.

A. Context

1. The services sector is an important foundation of the Australian economy. Reflecting rising real incomes and consumer demand, service industries have grown strongly over the past 50 years to the point where the sector now accounts for almost three quarters of Australia's GDP¹.

Services contribution to GDP 2014



2. While in the past services tended to be closely linked to manufacturing, this has changed in recent years with the impact of globalisation, technological change, emergence of global value chains as well as trade and investment liberalisation and other economic reforms. Business services, including financial and professional services, and health and education are now major elements of the Australian economy. About a half of the ASX's top 20 corporations are services companies.
3. Service industries are generally more labour intensive (and less capital intensive) than manufacturing. The sector now employs almost 90 per cent of Australia's workforce and it has been responsible for the vast bulk of new jobs in Australia over the past decade.
4. Services – led by financial, transport, education and professional services – have delivered substantial export earnings for Australia over the past 30 years. Australia's services exports were valued at over \$60 billion in 2014. However, this figure understates the real contribution of services to Australia's exports and economic performance. Taking into account the value added by services supplied to other export industries, including services embedded in merchandise exports, the services sector generated more than \$100 billion in value-added export earnings in 2013².

¹ ABS catalogue 5206.0 Contribution to GDP (Dec quarter 2014): Services 72%; Mining 15.8%; Other 11.9%; Agriculture, forestry and fishing (1.7%) and Manufacturing (-1.4%)

² 'Australia's Jobs Future, ANZ PwC AsiaLink Business Services Report

5. Foreign affiliates of Australian businesses contribute significantly to Australia's services provisions through commercial presence in overseas markets. ABS data from a 2009-10 survey, indicates around 96 per cent of Australia's financial and insurance services trade in 2009-10 was delivered through commercial presence by Australia's foreign affiliates abroad (\$35.9 billion delivered by foreign affiliates compared with \$1.3 billion by cross-border trade). AsiaLink indicates services trade through foreign affiliates in 2013 was valued at \$138 billion, more than double Australia's services exports delivered through cross-border trade. Publication of current foreign affiliate's trade in services data would enhance analysis of trends in services trade delivery through commercial presence in other economies.
6. Global and regional value chains are now a major feature of the global economy, in which goods and services move (often many times) across borders as they are developed into the final product or service to end users. At the global level, 70 per cent of all exports of goods and services from anywhere in the world are intermediate or capital inputs to some other product or service.
7. The 2013 OECD-WTO-UNCTAD report to G20 Leaders, *Implications of Global Value Chains for Trade, Investment, Development and Jobs*, provided a clear message: global value chains reflect 21st century production and provide potential mechanisms for countries – large and small, developed and developing – to improve income, employment and productivity.
8. Australian governments have placed a high priority on pursuing the liberalisation of services trade globally and on establishing a global regime of rules to ensure transparency and predictability in services trade. This has reflected recognition of the potential benefits from new market openings in terms of future services exports growth and foreign exchange and employment benefits.
9. Barriers to international trade in services are complex and take a wide range of forms. In many cases, they are domestic regulations which are difficult to measure and, because their policy rationale is often non-trade related, they are often hard to eliminate or reduce.
10. Services trade barriers are generally higher in developing country economies where there is often also strong resistance to liberalisation and reform. There is, however, a strong economic argument in favour of services trade liberalisation and reform in these countries, particularly in the Asia-Pacific region, to underpin the continued process of economic transformation underway, most notably in China, characterised by the emergence of a large and increasingly prosperous middle class.

B. Trends in Australia's services exports³

12. Services are exported in three primary ways:
 - a. cross-border, direct exports, these are typically sales of services from Australian service providers;
 - b. embodied in other goods and services exports. For example iron ore exports from Australia are underpinned by a range of services including technical services (such as geological services) engineering services, construction, provision of utilities, telecommunications, legal, insurance and transport and logistics services; and,
 - c. through a commercial presence in another market, for example as foreign affiliate sales.

Cross border exports

13. Available official data covers only the value of cross-border exports. In 2014, they were valued at \$60.1 billion. The value of services exports values have grown on average by 3.9 per cent per annum (1.4 per cent in volume terms) over the last ten years. In percentage terms, services exports on a gross basis accounted for 18.4 per cent of Australia's total exports in 2014⁴.
14. Since 2008, education-related travel services have overtaken other personal travel services to become Australia's largest source of services exports⁵. Other major services exports include business services, professional services, travel, finance, insurance and transport services.
15. In 2013-14, China (\$7.5 billion), the United States (\$6.4 billion) and the United Kingdom (\$4.2 billion) were Australia's top services export destinations⁶. Within the top ten export destinations, Asian markets have been the fastest growing annual markets for our services exports, notably China where they have recorded average growth of 11.9 per cent annually over the last ten years. Service exports to India (10.5 per cent), Malaysia (4.2 per cent) and Singapore (3.5 per cent) also recording strong growth.
16. The growth in Australia's services exports to Asia have been dominated by travel services. The largest market for business services⁷ exports was the United States valued at \$3.5 billion which accounted for 15.3 per cent of total business services exports in 2013-14, followed by Singapore (valued \$1.7 billion), the United Kingdom (valued at \$1.3 billion) and New Zealand (valued at \$1.2 billion).

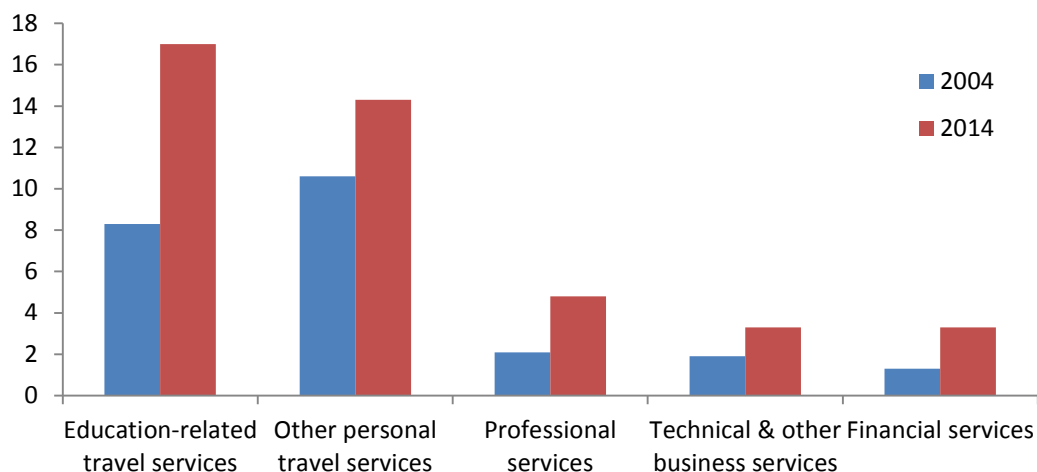
³ There are a number of shortcomings in services trade data (outlined in the annex to this submission) and this makes it difficult to define trends.

⁴ Based on Australian Bureau of Statistics (ABS) trade statistics which do not include services provide by Australian foreign affiliates abroad or embodied services in goods exports.

⁵ ABS catalogue 5368.0 (March 2015)

⁶ Note calendar year 2014 services data by country will not be released by the ABS until 22 June 2015.

⁷ Business services includes: Construction services; Financial & insurance services; Charges for the use of intellectual property; Telecommunication, computer & information services; and Other business services.



Assessing the value add of the services sector

17. Quantifying the value-add of services has been the subject of a range of research projects. In 2011, the Institute of Developing Economies (IDE-JETRO) and the World Trade Organization (WTO) released a joint report examining the significance of global value chains in international trade. The OECD built on this work to compile the Trade in Value-Added (TiVA) database which harmonises national input-output tables from the top 57 economies and reveals how much value is added by each industry in each country to goods and services that are internationally traded. Using this value-add methodology, it has been estimated that services contribute 41 per cent of Australia's export earnings⁸.
18. GVCs are currently less developed for services than for manufactures. According to the World Investment Report 2013, in 2010 the global average share of foreign value-added in exports in the services sector of 14.2 per cent was less than half the level of the manufacturing sector, 29.4 per cent. The average was lower still in the agriculture sector, at just 9.6 per cent. This suggests that the process of regional specialisation in services and agriculture has much further to run, two areas where Australia has particular advantages.

⁸ 'Australia's Jobs Future' ANZ PwC AsiaLink Business Services Report

Service provision through foreign affiliates

19. Foreign affiliates of Australian businesses contribute significantly to Australia's services provision through commercial presence in overseas markets. These services are not directly included in trade in services export data (see Annex). However, ABS data indicates around 96 per cent of Australia's financial and insurance services trade in 2009-10 was delivered through commercial presence by Australia's foreign affiliates abroad ((\$35.9 billion delivered by foreign affiliates compared with \$1.3 billion by cross-border trade). AsiaLink indicates services trade through foreign affiliates in 2013 was valued at \$138 billion, more than double Australia's services exports delivered through cross-border trade. Promoting investment – both to Australia and from Australia to the region – is an important part of growing Australia's participation in global value chains.
20. The absence of current foreign affiliate trade in services data is a major gap which impacts on analysis of trade and the benefits accruing to Australian businesses from trade liberalisation. In particular, full analysis of market access trends under Australia's North-Asia FTAs will not be possible without foreign affiliate's trade data.

C. Services trade negotiations

21. Australia pursues services trade liberalisation and reform at the multilateral, regional, plurilateral and bilateral levels.

Multilateral

22. The first comprehensive multilateral rules governing trade in services were established in the General Agreement on Trade on Services (GATS) which was negotiated as part of the Uruguay Round of negotiations under the auspices of the General Agreement on Tariffs and Trade (GATT, the predecessor of the WTO). It entered into force in 1995.
23. The GATS comprises three pillars:
 - a. a Framework Agreement containing basic obligations which apply to all member countries;
 - b. national schedules of commitments containing specific national commitments; and
 - c. annexes addressing the special situations of individual services sectors (e.g. movement of labour, telecommunications, financial services, air transport).
24. An important feature of the GATS is a most-favoured-nation (MFN) provision which states that each party “shall accord immediately and unconditionally to services and service providers of any other Party, treatment no less favourable than that it accords to like services and service providers of any other country”. The Agreement recognises, however, that MFN may not be possible for every service activity and allows scope (and defines conditions) for specific MFN exemptions.
25. The market access provisions of the GATS are aimed at the progressive elimination (through negotiations) of measures that limit: the numbers of service providers; the total value of service transactions; or, the total number of service operations or people employed. Equally, restrictions on the kind of legal entity or joint venture through which a service is provided or any limitations relating to the maximum level of foreign participation are to be progressively eliminated.
26. The national treatment provision contains the obligation to treat foreign service suppliers and domestic service suppliers in the same manner. However, it does provide the possibility of different treatment being accorded to service providers of other parties to that accorded to domestic service providers. In these exceptional cases the conditions of competition should not, as a result, be modified in favour of the domestic service providers.

27. The GATS employs a 'positive list' approach to services trade commitments inscribed in countries' national schedules. Under this model, market access and national treatment obligations apply only to the services and service suppliers/investors and investments to the extent that a party makes a specific commitment to that effect in its schedule. Any services commitments not explicitly listed are deemed to be unbound (i.e. no legal obligations on market access and national treatment apply).
28. Since domestic regulations are the most significant influence on services trade, GATS provisions spell out that all such measures of general application should be administered in a reasonable, objective and impartial manner. The GATS provisions establish a requirement for parties to ensure that there is a mechanism in place to promptly review administrative decisions relating to the supply of services.
29. The GATS agreement contains obligations with respect to recognition requirements (for instance educational background) for the purpose of securing authorisations, licenses or certification in the services area. It encourages recognition requirements achieved through harmonization and internationally-agreed criteria. The agreement contains both general exceptions and security exceptions provisions similar to those in the GATT/WTO.

Doha Development Agenda (Doha Round of WTO negotiations)

30. The GATS mandates WTO member governments to progressively liberalise trade in services through successive rounds of negotiations. In March 2001, the Guidelines and Procedures for the Negotiations on Trade in Services were adopted by the WTO Council for Trade in Services. At the Doha Ministerial Conference in November 2001 the services negotiations became part of the "single undertaking" under the Doha Development Agenda, whereby all subjects under the negotiations are to be concluded at the same time.
31. Negotiations in the Doha Round are being conducted essentially on two tracks:
 - a. bilateral and/or plurilateral negotiations to improve market conditions for trade in services — this mostly involves improving specific commitments on market access and national treatment (i.e. ensuring that privileges given to local companies are also given to foreign companies) and promoting most-favoured nation treatment (more equal treatment among WTO members); and
 - b. multilateral negotiations among all WTO members to establish any necessary rules and disciplines (such as on domestic regulation, emergency safeguard measures, government procurement and subsidies) which will apply to the whole WTO membership, with certain special provisions for developing and least-developed countries.

32. The services elements of the Doha Round have been affected by the overall situation affecting the negotiations. In the most recent multilateral discussion of services among the WTO membership, the majority expressed their readiness to start defining a work program to conclude the services negotiations, but others argued that the services negotiations would have to wait until it is clearer what the work programme will contain for agriculture and industrial goods.
33. The outlook for the Doha Round is likely to be an issue for discussion at the Tenth WTO Ministerial Conference in Nairobi in December 2015.
34. Notwithstanding the difficulties confronting the negotiating arm of the WTO, it is important to recall that the WTO provides through its dispute settlement system an opportunity for Australia and all WTO member countries to raise issues of non-compliance and to seek redress. The WTO's judicial arm is functioning in a highly effective way and is currently playing a valuable role in terms of ensuring some ongoing multilateral-level momentum for liberalisation.

Bilateral, regional and plurilateral

35. Substantial progress has been made in Australia's bilateral free trade agreements (FTAs) and regional/plurilateral agreements, most notably the three FTAs negotiated with North Asian economies in 2013-14 (China, Japan and ROK) which together account for 19 per cent of our total services exports.
36. In addition to these agreements, Australia is also a party to FTAs with services provisions with NZ, ASEAN, Singapore, the United States, Thailand, Chile and Malaysia.
37. At the time of writing, Australia is engaged in regional trade negotiations, for the Trans-Pacific Partnership Agreement (TPP) as well as the Regional Comprehensive Economic Partnership (RCEP) both of which promise substantive progress toward enhanced services market access and non-discrimination. These FTAs represent important potential steps toward more liberalised global trade in services.

Australia's approach to preferential trade agreements

Australia approaches all of its FTA negotiations with clear, well-developed commercial objectives – based on extensive consultations and input from business and other stakeholders, including Austrade which provides advice on key sectors of commercial opportunity and priority barriers to trade and investment. Reflecting the prominence of the sector, services issues are accorded a priority in all trade negotiations to which Australia is a party. Key objectives include:

- a. binding (i.e. legal guarantees) existing levels of market openness to the maximum extent;
- b. negotiating new market access in sectors of priority commercial interest;
- c. securing disciplines on domestic regulation (which address licensing, qualification requirements (behind-the-border type issues));
- d. ensuring that Australian service suppliers and investors are treated no less favorably than service suppliers and investors of the negotiating partner country or any other country; and
- e. pursuing a mechanism to ensure future autonomous liberalisation by trading partners is locked in (i.e. ratchet mechanisms or future work programs).

The comprehensive and high ambition model adopted by Australia in negotiating FTAs means that, when the agreements are fully implemented, they contain tangible outcomes that are commercially meaningful for Australian business.

Key outcomes include market openings for services that promote transparency and regulatory certainty in behind the border measures and institutional provisions that ensure that the legally binding commitments contained in the agreements can be enforced through dispute settlement procedures.

While FTAs are effective in addressing a suite of barriers to trade and investment, there are of course many companies that are successful in offshore markets before any FTA enters into force, and on the other hand, a range of barriers often remain following a FTA that limit opportunities. The gains for businesses can be transformative in some sectors, while incremental gains across a larger group of sectors ensures Australian business retain a level playing field with respect to third party competitors in offshore markets.

As compared to goods, attributing changes in services trade and investment flows to the implementation of FTAs is necessarily less precise. Whereas a goods transaction will apply to take advantage of a preferential tariff at the time of clearance, service suppliers and investors are not required to fill in a particular form to order to benefit under the FTA, making utilisation more difficult to track.

Evidence of FTA utilisation by service suppliers and investors is therefore generally anecdotal. Moreover, an investor's decision to invest is generally based on a range of factors, making attribution of an investment decision to one factor somewhat problematic.

Innovations in services negotiations

In trade negotiations since the GATS, Australia has sought to introduce a number of innovations to its approach to services negotiations with the aim of achieving a broader and deeper level of liberalisation than was the case in the GATS. In practice, this has resulted in Australia pursuing to the extent possible the listing of services commitments on market access and national treatment using a so-called ‘negative list’ approach to scheduling our sectoral commitments.



Under a negative list approach, market access and national treatment obligations apply to all services and service suppliers/investors and investments unless an explicit reservation is made by a party and inscribed in its national schedule. In compiling such a negative list, a government would typically conduct an audit of relevant legislative and regulatory measures that are barriers to market access and/or national treatment. This can be a resource-intensive exercise, but it has the virtue of identifying existing barriers and promoting an assessment of the ongoing validity of the policy basis for them and whether that goal might be achieved in a less trade-distorting way.

While Australia’s clear preference is for a negative list approach, a number of our trading partners prefer a positive list. We have, therefore, taken a flexible approach to scheduling while maintaining a strong focus on securing high quality commitments that address key restrictions.

In addition, where possible we negotiate a single schedule for services and investment. Where an investment chapter is included in an FTA, the supply of services through a covered investment is often dealt with in the investment chapter rather than the services chapter. To achieve transparency, Australia’s preferred approach is to list, in one schedule, all relevant restrictions or measures that do not conform to the core obligations of the services and investment chapters.

Innovations in services negotiations (continued)

In our FTAs, in line with the GATS model, Australia has been successful in ensuring that flexibility is preserved to allow for changes in domestic policy settings in certain high priority areas as required by government. This has been the case for example in areas such as foreign investment in urban and agricultural land; agribusiness, indigenous issues; maritime transport (cabotage and coastal shipping); broadcasting and audio-visual services; creative arts and cultural heritage; provision of social services; distribution of tobacco, alcohol, firearms; and, gambling. We also exclude all services supplied in the exercise of government authority from our services trade commitments.

In relation to the digital economy, Australia's approach in all trade negotiations is to strike an appropriate balance between providing certainty for businesses and ensuring that governments maintain their ability to regulate in the public interest, including to protect privacy.

Trans-Pacific Partnership Agreement (TPP)

38. TPP negotiations commenced in 2010. The countries involved in the TPP negotiations (Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the US and Vietnam) account for 26 per cent of global trade in services. Australian services exports to TPP markets were valued at around \$20 billion in 2013-14 (almost 35 per cent of total Australian services exports).

- Five of the TPP countries were in the **top ten destinations for Australian services exports** in 2013-14 (United States, New Zealand, Malaysia, Japan and Singapore)
- Negotiating parties support the expansion of the TPP membership over time to other Asia-Pacific economies to further progress the APEC vision for an **economically integrated Asia-Pacific community**.

39. As the TPP region develops further, consumers – particularly the burgeoning middle class in Asia – will increasingly demand services of the highest quality. The commitments Australia will be striving to secure on services and investment and temporary entry will be more ambitious than Australia's existing trade agreements, thus providing a range of new opportunities for Australian businesses in the TPP markets. The TPP's ratchet mechanism will also capture and bind any liberalising reforms taken by governments in future, ensuring that the TPP is a living agreement.

40. The TPP's ground breaking new rules on state-owned enterprises (SOEs) will also assist Australian businesses to compete on a level playing field with large SOEs in the TPP region, and help ensure Australian suppliers of goods and services to SOEs can compete on equal terms with other suppliers.

Regional Comprehensive Economic Agreement (RCEP)

41. The RCEP negotiations were launched on 20 November 2012. RCEP has the potential to advance Australia's economic interests by streamlining and simplifying regional trade and investment rules. RCEP can also promote reform on issues like trade facilitation, regulatory cooperation and competition policy that enable increased trade and investment.

- . RCEP will initially include the **ten ASEAN member states** and those countries which have existing FTAs with ASEAN members – **Australia, China, India, Japan, Republic of Korea and New Zealand.**
- . RCEP has the potential to deliver significant opportunities for Australian businesses. The 16 countries participating in RCEP account for almost half of the world's population, **almost 30 per cent of global GDP and over a quarter of world exports.**
- . **Nine of Australia's top 12 trading partners** (China, Japan, Republic of Korea, Singapore, New Zealand, Malaysia, Thailand, Indonesia and India) are participating in the RCEP negotiations, and with the other six participating countries, account for **60 per cent of Australia's two-way trade in goods and services, and over 70 per cent of Australia's goods and services exports.**

42. RCEP will also support Australian businesses participation in regional and global value chains by strengthening regional commitments to trade disciplines and other measures that optimise the global value chain environment. The RCEP region offers the full range of inputs for a modern supply chain in close geographic proximity. These include access to low-cost labour, proximity to significant energy suppliers, strong regional connections, high-tech capabilities and a large pool of highly-skilled workers.
43. A key focus of RCEP negotiations is to add value to existing ASEAN+1 FTAs. These FTAs are of varying scope, scale, depth and degree of comprehensiveness. This reflects a diverse region with countries at different stages of development and varying capacities to negotiate across the full range of issues. Reflecting the different stages of development, economic and technical cooperation is a key element of the negotiations. The main focus is to support ASEAN developing countries, particularly the three Least Developed Countries (Burma, Cambodia and Laos), by enhancing their capacity to implement RCEP commitments.

Trade in Services Agreement (TiSA)

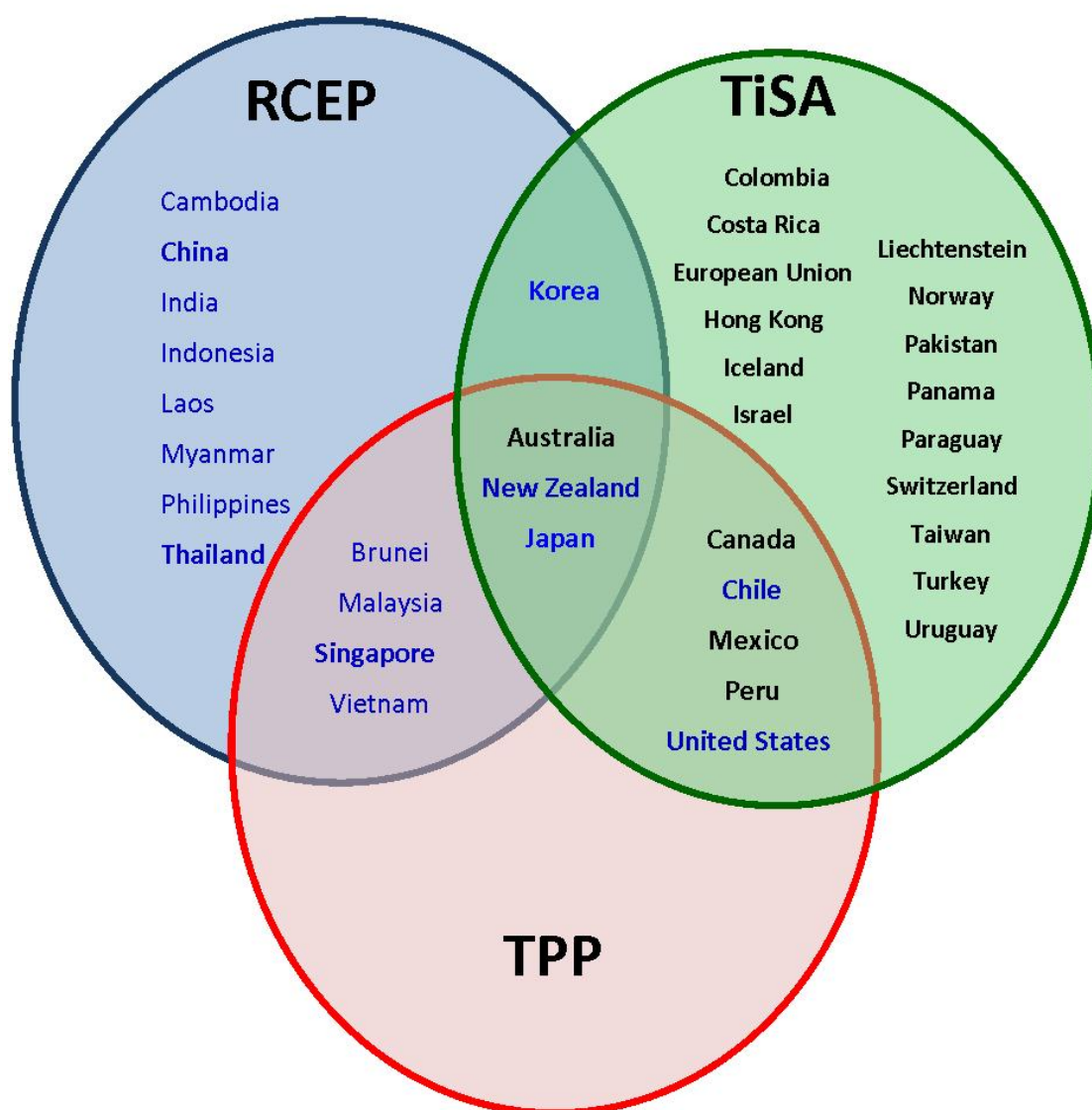
44. Formal negotiations for a Trade in Services Agreement (TiSA) began in early 2013, following 12 months of exploratory discussions. The negotiations are taking place between a subset of WTO members with an interest in and commitment to progressing services trade liberalisation in multilateral trade negotiations. The TiSA is an example of an innovative approach to post-GATS services trade liberalisation. In the TiSA negotiations, parties are looking to adopt a hybrid approach which combines a positive and a negative list: a positive list for market access commitments and a negative list approach to national treatment commitments, in an effort to raise levels of ambition. Parties which are less comfortable with adopting a negative list for market access commitments, are more comfortable with the idea that once the market is opened, foreign service providers should be treated no less favourably than domestic service providers.

- . Since discussions began, participation in the TiSA has expanded from **16 to 24 parties**, with the European Union representing its 28 Member States, for a total of **51 WTO Members**.
- . Six of the TiSA Parties were in **Australia's top ten destinations for services exports** in 2013-14 – the United States, United Kingdom (as part of EU), New Zealand, Japan, Hong Kong and Republic of Korea.
- . TiSA parties collectively account for around **70 per cent of global trade in services**.
- . The group represents a **range of developed and developing economies** and will expand to include other WTO Members as the negotiations progress.

45. The objective is to negotiate an agreement which is compatible with the WTO GATS, will attract broad participation, and will support and feed back into multilateral trade negotiations.
46. In addition to improved market access commitments, the negotiations will provide an opportunity to develop new disciplines (or trade rules) in areas where there has been significant developments since the WTO Uruguay Round negotiations.
47. The negotiations cover trade in all services, including financial services; ICT services (including telecommunications and e-commerce); professional services; transport services; delivery services; energy services; temporary entry of business persons; government procurement; and new rules on domestic regulation to ensure regulatory settings do not operate as a barrier to trade in services.

48. The TiSA will set a new standard in services trade commitments, capturing the progress that has been made through unilateral liberalisation and in FTAs outside the multilateral system. Many of the current parties already have relatively open services markets. Locking in existing market access would provide certainty for Australian services suppliers. As participation continues to expand, the TiSA could offer significant additional benefits, particularly for Australian business if countries from our region join and liberalise to meet level of ambition.

RCEP, TiSA and TPP Participants



Pacific Agreement on Closer Economic Relations (PACER Plus)

49. Australia is negotiating the Pacific Agreement on Closer Economic Relations, (PACER Plus) as part of the government's efforts to foster regional economic growth, integration and stability in the Pacific. Pacific Islands Forum Leaders launched negotiations on PACER Plus at their 40th meeting in August 2009.
50. PACER Plus aims to improve the economic growth prospects of the 14 negotiating Pacific Island Countries, many of which are not members of the WTO, by integrating them within the global trading system and building cohesive trade and investment links with Australia and New Zealand, their closest major trading partners. In recognition of the differing capacities of the Parties, Australia and New Zealand will assist the Pacific Island Countries to implement their trade and investment obligations through a Development and Economic Cooperation chapter.

- Participants in the PACER Plus negotiations include Australia, Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Nauru, New Zealand, Niue, Palau, Papua New Guinea, Republic of Marshall Islands, Samoa, Solomon Islands, Tonga, Tulavu and Vanuatu.
- The value of **Australia's merchandise trade with PACER Plus countries** was valued at **\$22.5 billion** (\$6.9 billion with Pacific Island Countries and \$15.5 billion with New Zealand) in 2013-14.
- The value of **Australia's services trade with PACER Plus countries** was valued at **\$9.7 billion** (\$2.5 billion with Pacific Island Countries (principally travel services data only), and \$7.2 billion with New Zealand) in 2013-14.⁹
- The PACER Plus negotiations will include elements of **trade capacity-building**, and trade assistance designed to strengthen Pacific Island Countries' **ability to trade**.

51. The proposed Agreement will encourage greater cross-border trade in services and investment amongst the Parties through improved rules, greater transparency and less discrimination against foreign service providers and investors. Implementation will help stimulate the development of Pacific Island Countries' domestic services sectors, which are often the dominant sectors in each economy, driving growth and employment opportunities. A more liberal and integrated regional market for goods, services and investment will increase and broaden opportunities for investment across the Pacific, and for Australian and Pacific businesses to participate in regional and global value chains.

⁹ Includes total services for Fiji, Papua New Guinea and New Zealand only and travel services component only for Cook Islands, Federated States of Micronesia, Kiribati, Nauru, Niue, Republic of Marshall Islands, Samoa, Solomon Islands, Tonga, Tulavu and Vanuatu.

Australia's participation in trade negotiations – myths versus realities

MYTH: TRADE NEGOTIATIONS WILL LEAD TO THE PRIVATISATION OF AUSTRALIA'S PUBLIC SERVICES, INCLUDING HEALTH SERVICES

Reality: No

Australia's negotiation of services as part of a bilateral, regional or multilateral trade negotiation will not prevent the Australian Government from regulating in the public interest. Australia will not agree to requirements that necessitate the privatisation of public services. It is standard practice for Australia not to offer to make any commitments that would impact on public services in our trade agreements. This includes health, public education, public utilities, social security and other public services.

MYTH: TRADE NEGOTIATIONS WILL UNDERMINE THE STABILITY OF AUSTRALIA'S BANKS

Reality: No

Australia's system of prudential measures has been central to the stability of our financial system. Nothing in our trade negotiations will require Australia to take action that limits our right to maintain prudential measures that are in Australia's economic interests. Or, affect the Government's ability to maintain the "four pillars" banking policy in Australia.

MYTH: TRADE NEGOTIATIONS WILL UNDERMINE AUSTRALIA'S WORLD CLASS PROFESSIONAL QUALIFICATIONS AND STANDARDS

Reality: No

The Australian Government wants Australian professionals to have improved access to overseas markets at the same level of openness we provide for foreign professionals in Australia. This ambition will not impact on Australia's ability to regulate professional services or result in any changes to Australia's immigration arrangements system.

MYTH: TRADE NEGOTIATIONS WILL RESULT IN A FLOOD OF FOREIGN WORKERS ENTERING AUSTRALIA

Reality: No

Participation in trade agreements will not result in foreign workers having unfettered access to the Australian labour market. Australia's existing 457 visa program, which is designed to enable employers to address labour shortages by bringing in genuinely skilled workers where they cannot find an appropriately skilled Australian, is the basis for all of Australia's temporary entry commitments and negotiations. Negotiation of trade agreements will not remove the need for employer sponsorship of skilled foreign workers, nor the need to meet market salary rates and employment conditions equivalent to Australian workers.

APEC

52. The Asia-Pacific Economic Cooperation (APEC) forum is used by Australia to advocate unilateral reform and promote open and transparent markets in the Asia Pacific region. APEC's focus is on practical, "behind the border" issues and institutional and regulatory capacity building. Services trade and investment liberalisation is a high priority for Australia within APEC. DFAT's investment work in APEC is aimed at improving the enabling "behind the border" environment for Australian services exports and investors and complements the legally binding commitments secured through trade negotiations.
53. Australia is working closely with the Philippines during its APEC host year in 2015 to develop an overarching APEC Services Cooperation Framework (ASCF). The ASCF is envisioned to be an action plan for multi-fora and multi-stakeholder dialogue and collaboration to build on and implement the services elements of APEC's work. One of its components will be an APEC Services Knowledge Centre. Building on the Australia-led APEC STAR Database¹⁰, it will be a virtual knowledge-sharing platform of information and best practices of services-related policies and programs of the 21 APEC member economies.
54. Australia is also leading work in APEC to build capacity in good practice regulation to facilitate trade and investment in specific services sectors. Since 2011, Australia has hosted seven good practice regulation workshops to encourage unilateral reform in the accounting, legal, financial, cross-border education, transport and logistics, telecommunications and ICT sectors. Further workshops are planned in 2015 on mining and energy, engineering and architecture and cross-cutting services reform issues. The workshops bring together business, regulatory and academic experts to identify barriers, agree on good practice approaches and discuss further capacity building needs.

¹⁰ APEC STAR Database: www.servicetradeforum.org

The free trade agreement consultation process

Because of the structured nature of free trade agreement negotiations, the department holds extensive consultations with stakeholders to obtain their input at the outset. Consultations with private sector stakeholders are held regularly during the negotiations. Information provided on barriers is reflected in the development of Australia's priorities and negotiating mandate. Primary stakeholders engaged during the consultation process include representatives from business, peak industry bodies, sub-federal levels of government, academia and other bodies with an interest. The following is an outline of the stakeholder outreach process during the different stages of the FTA process:



Feasibility: As part of the formal consideration of whether to initiate trade negotiations, a feasibility study is often prepared which examines the potential merits of negotiating the agreement. Information from key stakeholders is accorded a high priority, as these views assist in informing the broad judgements and detail of the study. Calls for submissions are generally publicised via the department's website, supplemented by targeted approaches to industry groups, media advertisements and consultation sessions in capital cities. The department remains open to receiving submissions through the entire negotiation process.

Launch: Decisions on whether to commence negotiations are taken by Cabinet, drawing on advice and input from the department, as well as any feasibility study. If approval to launch is granted, the new negotiating team, headed by a chief negotiator, will typically seek additional and/or more detailed information from stakeholders on barriers and, as in the feasibility phase, consultations take the form of open public sessions, one-on-one meetings with individual businesses and roundtables with industry representatives.

Negotiations: There is no set period for such negotiations, and they often take place over several years. During the negotiations, Australia's negotiators undertake ongoing consultations with interested stakeholders and provide updates on progress. These consultations often intensify as the negotiations approach conclusion. They can be in many formats including open public sessions in capital cities and roundtables with industry groups or professions.

Conclusion: At the conclusion of a trade negotiation, interested stakeholders are briefed on what was achieved to assist businesses in utilising the agreements. An advocacy program is generally conducted by government to enhance business understanding and utilisation of the agreement. Communication with businesses on the FTAs continues through the implementation and compliance phase.

The following sets out broad details of the scope of business consultations undertaken for the FTAs with China and Japan and the Trans-Pacific Partnership Agreement (TPP) negotiations.

China-Australia FTA	<ul style="list-style-type: none">• Stakeholder consultations commenced in 2004• More than 260 submissions received• Consultations undertaken with over 700 stakeholders
Japan-Australia FTA	<ul style="list-style-type: none">• Stakeholder consultations commenced in 2006• More than 90 submissions received• Consultations undertaken with over 530 stakeholders
Trans-Pacific Partnership Agreement	<ul style="list-style-type: none">• Stakeholder consultations commenced in 2008• More than 85 submissions received• Consultations undertaken with over 1000 stakeholders

D. Foreign barriers to services exports

55. The Department of Foreign Affairs and Trade and Austrade (and their respective overseas networks) as well as Efic obtain information on specific barriers and difficulties through a range of different approaches and mechanisms, including:
 - i. direct contact from the business sector, including individual firms and peak industry bodies, and other stakeholders; and
 - ii. surveys and other public sources and market intelligence.
56. In addition to domestic sources the portfolio also routinely makes use of data from international sources. A number of examples are as follows.
57. A valuable source of information is I-TIP Services, a joint initiative of the WTO and the World Bank (https://www.wto.org/english/res_e/statistics_e/itip_e.htm). It is a set of linked databases that provides information on Members' commitments under the GATS, services commitments in regional trade agreements, applied measures in services, and services statistics.
58. Another useful reference is the Global Innovation Index (GII) report (www.globalinnovationindex.org), an annual publication co-published by the World Intellectual Property Organization (WIPO), Cornell University and INSEAD. The GII Report ranks 143 world economies in terms of their innovation capabilities and results and includes indicators that go beyond the traditional measures of innovation, such as the level of research and development.
59. The World Economic Forum (WEF) Global Competitiveness Report (<http://www.weforum.org/reports/global-competitiveness-report-2014-2015>) assesses the competitiveness of 144 economies and the drivers of their productivity and prosperity. The different aspects of competitiveness are measured in 12 pillars, which compose the Global Competitiveness Index.
60. The WEF undertakes research and analysis across a broad spectrum of issues related to international trade and development. The WEF's annual report on Enabling Trade (<http://www.weforum.org/reports/enabling-trade-valuation-action>) examining means of achieving reform, including via the reduction of supply chain barriers, is a pertinent source of ideas and analysis.
61. The E15 Initiative (<http://e15initiative.org/>) convenes world-class experts and institutions to generate strategic analysis and recommendations geared towards strengthening the global trade and investment system. The E15 examines an extensive range of subject areas including competition policy, the digital economy, global value chains, investment policy, innovation, regulatory coherence and services. The work by the E15's Expert Group on Services, (<http://e15initiative.org/themes/services/>) analysing how cooperation through the WTO and other mechanisms can promote the contribution of services to growth and development, provides valuable insights into the barriers and difficulties faced by services exporters.

62. Portfolio agencies engage extensively with the services sector to ensure they retain a contemporary picture of priority access barriers and limitations on national treatment.
63. The following is a short description of the more prominent and visible services access barriers and impediments - the boxes on the following pages contain examples of how such barriers have been addressed in some of Australia's more recent FTAs, specifically, the Korean-Australia Free Trade Agreement (KAFTA) and China-Australia Free Trade Agreement (ChAFTA).

Foreign equity limitations

64. In some overseas markets, governments disallow foreign equity or limit foreign participation in services sectors, often doing so by maintaining comprehensive listings of sectors and business activities in which foreign capital is restricted (for example, to less than a 50 or 25 per cent stake). Foreign equity limitations have proven particularly difficult for some Australian service suppliers in select Asian markets.
65. Australian companies have confronted a series of restrictions such as: low equity limitations for foreign holdings in domestic banks; limits to overall foreign ownership and inter-bank financing; imposition of wholesale funding limitations; and, discriminatory prudential policies. Additional capital requirements may also prevent or delay investors from providing services in an overseas market. Australian businesses often report that rigorous and time-consuming foreign investment-approval processes and excessive red tape can act as further disincentives. In some cases, such limitations can be implemented in an inconsistent way.

Nationality/citizenship/residency restrictions

66. In some markets, services market access is limited by requirements for citizenship or residency. For example, in some countries foreign professionals are subject to additional registration requirements and foreign education providers are prohibited from teaching certain subjects. Service suppliers may also be required to meet certain residency periods in country, notably for professional services.

Quantitative restrictions/limitations

67. The ability of Australian service suppliers to enter and compete in overseas markets is also inhibited in some cases by limits on the number of service suppliers that are permitted to operate in the market. Such limitations are often operationalised through licencing or registration requirements.

Outcomes for Australian accountants in the Korea-Australia FTA (KAFTA)

KAFTA delivered substantial improvements in market access for Australian accountants in the Korean accounting market. As a result of KAFTA, Australian accountants (holders of Certified Practising Accountant and holders of Chartered Accountant qualifications) are now able to establish offices in Korea to provide accountancy consultancy services on Australian and international tax and accounting law. Within five years (by 12 December 2019), Australian accountants will be able to work and invest in Korean tax or accounting corporations. This access did not exist prior to the FTA. It represents a strong first step, bound under treaty commitments, that opens up the Korean market for Australian accountants.

The process of delivering outcomes included extensive consultation with Australia's three peak accounting bodies. Undertakings in the treaty provide for continuing discussions to further open the Korean market and to extend benefits of KAFTA to holders of other Australian accounting qualifications. Korea's accounting commitments are subject to a 'Most-Favoured-Nation' (MFN) treatment provision, which provides that any future more-beneficial treatment provided to accountants from other countries is automatically extended to Australia.

Specifications on mode of supply

68. Some markets require businesses to provide their services through a particular form of commercial presence, such as a joint venture with a local partner. In addition, foreign service providers can be subject to conditions which require that a minimum number of directors, or employees within an entity are of the local nationality.

Non-recognition of qualifications

69. In some markets, there are non-transparent or unsatisfactory procedures for the recognition of professional qualifications, effectively acting as a barrier to the export of services in these sectors. Arrangements may be agreed between countries to mutually recognise qualifications, where qualifications are of comparable quality and standard. In trade agreements governments can play an important facilitating role in establishing frameworks for countries and their professional bodies to work together by developing mechanisms such as Mutual Recognition Arrangements.

Restrictions on the temporary entry/movement of business persons

70. Limitations applying to the temporary entry of business persons are common and include labour market testing requirements, quotas or numerical limits, lengthy and complex visa processes and/or fees and uncertainty about permitted length of stay and conditions.

Outcomes for Australian lawyers in the Korea-Australia FTA and the China-Australia FTA (ChAFTA)

DFAT worked closely with Australian law firms and peak legal bodies (including the Law Council of Australia) to deliver commercially meaningful outcomes on legal services in KAFTA and ChAFTA.

New market access commitments for Australian lawyers in KAFTA include commitments enabling Australian legal firms to establish representative offices in Korea and which ensure the right of Australian lawyers to advise on Australian and public international law. By 12 December 2016, Australian law firms will be able to enter into cooperative agreements with Korean law firms and from 12 December 2019 Australian law firms will be able to establish joint venture law firms in Korea. Korea's legal services commitments are subject to a MFN treatment provision, which provides that any future more-beneficial treatment provided to lawyers from other countries is automatically extended to Australia.

China made commitments on legal services in ChAFTA that extend beyond those it has made with any other trading partner, providing Australian law firms unprecedented and integrated access to the Chinese market. China has guaranteed access for Australian law firms that seek to establish commercial associations with Chinese law firms in its Shanghai Free Trade Zone. This commitment allows Australian firms to offer Australian, Chinese and international legal services through a commercial presence, without restrictions on the location of clients. Provision of such services by Australian legal firms in China was previously denied. China and Australia also agreed to promote increased mobility for Australian and Chinese lawyers, including through secondment arrangements.

Lack of transparency/regulatory uncertainty

71. Many service suppliers report that a lack of transparency and regulatory uncertainties in many overseas business environments is the biggest barrier, particularly in terms of possible discrimination against foreign service providers.
72. The structure of some trade agreements also enables existing market openness to be locked in and to capture any future liberalisation, such that where a country eases or lifts certain existing restrictions, they will not be able to subsequently revert to the more restrictive measures in the future. Trade agreements also provide a vehicle for negotiations to address regulatory barriers, secure preferences for Australian firms and develop bilateral mechanisms which address Australian service supplier concerns in the administration of laws, regulations and policies.

Australia's International Business Survey

Australia's International Business Survey,¹¹ an annual survey commissioned by Austrade, Efic, the Export Council of Australia of Australia and University of Sydney, is an example of information on the experiences and perspectives of the services sector. The 2014 survey, of which 58 per cent of the 1600 surveyed exporters were from the services sector, identified lack of information on local culture; business practices; language; consumer requirements; local regulation and tariffs as prominent challenges of doing business overseas. As the 2014-15 survey requested that businesses indicate what percentage of their services exports are delivered through each mode¹² of supply, in future it will be possible to use the survey data to examine barriers for all modes of delivery, including to establishing a commercial presence overseas (mode three).

¹¹ See: <https://www.austrade.gov.au/about-austrade/news/latest-from-austrade/2014/australias-international-business-survey-2014>

¹² There are four modes of supply in services: Mode 1-Cross border trade; Mode 2-Consumption abroad; Mode 3-Commercial presence; and, Mode 4-Presence of natural persons.

E. Domestic issues affecting services exports

73. Ensuring Australian service suppliers and investors are competitive in an international context also requires an examination of domestic regulatory constraints.

Role of domestic reform

74. Reform in competition policy, in particular those that result in Australia's competition policies, laws, and institutions being flexible, responsive and adaptive will benefit the Australian services sector. Greater competition within Australia will provide incentives for domestic producers, including in the services sector, to innovate and lift their productivity, while greater market access will enable exporters to achieve global scale.
75. Investment in services is an increasingly significant dimension in the development of global value chains. Australia is a nation that places great value on global value chains. Australia has a global competitive advantage in services industries that sit alongside our strengths, such as in mining where we have well developed professional services industries such as engineering and environmental management to mining technology. Attracting investment to services will be increasingly important as part of the rebalancing of the economy post the mining boom.
76. The value of the stock of foreign direct investment (FDI) in the services sector in Australia has increased from \$286.4 billion in 2010 to \$334.3 billion in 2014. Despite the increase in value, the share of services in inwards FDI has dropped from 55.2 per cent to 48.6 per cent, which could in part be explained by the strong growth in FDI to the mining sector during this period. The value of outward stock of FDI in services has also grown, from \$153.1 billion in 2010 to \$198.5 billion in 2014¹³, increasing services share in outward FDI from 34.6 per cent to 36.7 per cent over the same period.
77. Often Australia's trading partners seek to address what they perceive as barriers to trade through their formal trade negotiations with us. The depth and complexity of requests to address barriers often depends on the nature of the relationship with a particular trading partner. It would be reasonable to characterise trading partners concerns with Australia as generally not relating to traditional market access barriers as defined in the GATS but rather domestic regulatory issues which are seen to impede trade. Examples of some of the issues which have been raised with Australia previously are listed on the next page.

¹³ Excludes confidential services industries: accommodation and food services; professional, scientific and technical services; administrative and support services; arts, entertainment and recreational services; and, other services.

- i. Australia's visa system, including requirements associated with obtaining visas such as:
 - English language requirements;
 - skills assessment requirements;
 - wage requirements;
 - amount of documentation required to obtain and process visas.
- ii. Australia's vocational occupation licensing system, including the complexity associated with licensing administered at a State and Territory level and the effect of this on mobility for foreign services suppliers.
- iii. The independence of Australia's professional qualifications system from government and that responsibility for professional qualifications can fall to multiple independent bodies (as opposed to a single national interface with which to negotiate mutual recognition).
- iv. A lack of recognition by Australia of financial services approaches in other jurisdictions, inhibiting the provision of financial services products in the Australian market and the ability for skills and experience obtained in negotiating partner countries to be recognised in Australia.
- v. A lack of clarity on Australia's approach to internet-based services and ability by Australia to provide market access guarantees in this area.
- vi. Access for service suppliers in occupations specific to negotiating partner countries, such as martial arts and traditional medicine, and recognition of foreign qualifications and approaches to quality assurance in this area, including by Australia's Medicare system.

F. Measures to assist services exporters

78. Austrade) and Efic play complementary roles in assisting the export of services, particularly by small and medium enterprises (SMEs), at different stages of the export process.

Austrade

79. Austrade has a presence in 48 overseas markets and uses its comprehensive sectoral knowledge to provide opportunities for Australian businesses. It provides a range of support to assist Australian services exporters including by:

- (i) articulating and promoting Australian supply, capacity capability across markets;
- (ii) identifying, building and managing clusters of internationally-competitive Australian firms in response to international customer demand;
- (iii) working with industry associations, research institutions and other government departments to develop and implement international trade strategies; and,
- (iv) providing information and advice to individual Australian companies to reduce the time, cost and barriers to exporting.

80. Austrade has also developed a number of market-based initiatives to assist Australian services exporters. In doing so, Austrade focuses on areas of comparative advantage for Australia such as education and tourism services, financial services (funds management, infrastructure financing, pension system management), legal/business advisory (international arbitration, dispute resolution and IP law), health (research, aged care, clinical trials), infrastructure services (project management design, urban sustainability, transport, logistics), ICT and disruptive technologies (as an 'enabler' across industries), beef and dairy and services, mining services (such as mine safety), advanced manufacturing services (aviation training; MRO, engineering and design services across auto, marine and aerospace).

Examples of how Austrade assists Australian services exporters	
.	Organising high level financial services delegations to Hong Kong, China, South Korea and Japan, to introduce Australian firms to in-market regulatory, diplomatic, policy making stakeholders and institutional investors.
.	Providing information on opportunities and barriers for Australian legal and advisory firms across Japan, Korea, Singapore and Indonesia. This is being delivered via a qualitative research project in partnership with the Department of Industry and Science and the Australian Services Roundtable.
.	Delivering market information sessions for Australian ICT firms, providing practical information on market entry models and regulatory requirements, across South Korea, Singapore, Taiwan, the United States and the United Kingdom.
.	Promoting Australian firms with capability in disaster management including policy, standards, regulations, training and capacity building, to key decision makers in the Philippines and other ASEAN markets.
.	Introduction of Australian infrastructure firms to multilateral aid agencies such as Asian Development Bank, World Bank and Australian Aid, to increase engagement in key projects.

81. The Export Market Development Grants (EMDG) scheme is an Australian Government financial assistance programme for small to medium aspiring and growing export-ready businesses. It encourages businesses to increase international marketing and promotion expenditure to achieve more sustainable international sales. It also provides businesses with an opportunity to enter and embed themselves in global value chains.
82. EMDG recipients include many of Australia's best known exporters. The vast majority of recipients report that the scheme is invaluable in helping them access new markets, and develop stronger international business and cultural understanding.
83. The EMDG scheme reimburses up to 50 per cent of eligible export promotion expenses above \$5 000, provided that the total expenses are at least \$15 000. The maximum grant value is \$150 000. A company can receive up to eight grants. For the 2012-13 grant year, 65 per cent of EMDG recipients were from the services sector. This was comprised of:
 - 9.3 per cent from 'tourism and related industries';
 - 11.9 per cent from 'professional, scientific and technical services';
 - per cent from 'ICT services';
 - 15.3 per cent from 'education and culture'; and,
 - 16.8 per cent from 'other services'.

84. Austrade has been responsible for the international marketing and promotion of Australia's education and training sector since 2010. Austrade helps to grow demand for Australian education and training by improving perceptions of Australia's international education sector, identifying commercial opportunities for Australian international education providers, engaging with offshore education agents, and providing market research. Austrade uses its insights from its international network, and engagement with the education sector, to advocate for pro-growth immigration and education policy settings.

Barriers to education exports

Australia's international education sector has grown rapidly in the last decade and in 2014 was valued at \$17.6 billion¹⁴. Austrade is working to substantially increase the numbers of students and visitors engaged with Australian education and training onshore, as well as deliver transnational education offshore.

Growth in Australia's education sector will need to be supported by appropriate domestic regulatory and policy settings. Australia's education sector will furthermore require a substantial increase in its student support infrastructure to support the potential growth of the sector. In addition to possible domestic constraints on future growth, the education sector may be restricted by local laws and regulations of overseas countries, such as:

- restrictions on the establishment of local officers of Australian education providers, or rules about taking local partners and repatriation of profits;
- limitations on the disciplines able to be offered by foreign education providers;
- limits on the operations of Australian education agents offshore and/or use of education agents;
- constraints on local promotional activities to support the recruitment of international students to study in Australia;
- non-recognition of Australian qualifications by local education authorities which restricts either the future local studies of Australian graduates or their local employment opportunities; and
- non-recognition of online qualifications delivered by Australian education providers.

85. Austrade is also the central co-ordination point for progressing tourism policy and regulatory reform at the Commonwealth level, including identifying regulatory burdens which inhibit growth in the sector. Austrade works across all levels of government to identify policy reforms and implement changes to increase the industry's competitiveness and growth.

¹⁴ Education services sector includes education-related travel services, royalties on education services and other education services (such as consultancy and correspondence courses).

86. Austrade is working to pursue reforms which address impediments to the growth of tourism as a services export industry around aviation access, the labour and skills market, tourism infrastructure investment, and Australia's visitor visa system. Austrade provided detailed input on each of these to the Productivity Commission's recent research paper on *Australia's International Tourism Industry*.
87. The tourism sector is a prime example of where barriers to growth primarily require domestic changes rather than for foreign market access barriers to be addressed. The key barriers to growth in Australia's tourism exports are visa costs and processing times; aviation capacity; taxation and other regulatory burdens; labour and skills challenges; and, outdated or insufficient tourism infrastructure.

Barriers to tourism exports

Australia's 6.3 million international arrivals contributed a record \$30.7 billion in tourism exports in the year ended September 2014, up 9 per cent on the previous year¹⁵.

The Australian Government is working with industry, through *Tourism 2020*, to grow overnight visitor expenditure to more than \$115 billion by 2020. Growing Australia's tourism exports is key to achieving this national objective and will need to be supported by research, policy reform to reduce barriers, and promotion of Australia as an international tourism destination.

Key reforms include:

- **Increasing cross portfolio collaboration within all levels of Australian Governments** to plan and drive reform of the visitor economy.
- **Improving visa arrangements** to encourage more people to visit Australia, improve visitor experiences and the competitiveness of Australia.
- **Improving aviation capacity and customer experience** to improve access and flexibility to meet demand in the tourism transport environment.
- **Developing a more productive labour system** to better service the visitor economy.
- **Integrating national and state tourism plans into regional development and local government planning** to generate effective infrastructure to service regional communities, provide services to visitors, and encourage private investment in tourism infrastructure.
- **Identifying partnerships**, efficiencies and opportunities to increase funding to drive demand for travel to Australia and improve conversion.

¹⁵ Refers to total trip expenditure; all expenditure made by international visitors when travelling to Australia. Includes international pre-paid airfares and packages expenditure.

The Export Finance and Insurance Corporation

88. The Export Finance and Insurance Corporation (Efic), as the Australian Government's export credit agency, facilitates the exports of Australian service suppliers through the provision of tailored financial support. Efic's core focus is on providing working capital for Small-to-Medium Enterprises (SMEs) to enable SMEs to fulfil export contracts.
89. The Government has ensured that Efic's focus is on supporting SMEs¹⁶ – the section of the market where viable exporters are most likely to be underserved by private financiers. Recent administrative and legislative amendments to the Export Finance and Insurance Corporation (Efic) Act 1991, have given Efic the capacity to make direct loans for all goods, not just capital goods. This will remove the need for exporters of non-capital goods to obtain a guarantee from Efic before securing funds from a bank, reducing the due diligence processing time and reducing the documentation and legal fees required. To ensure that Efic's additional lending flexibility does not inadvertently bring it into competition with private financiers, the Government has also amended the Efic Act to remove Efic's exemption from competitive neutrality principles.
90. Research undertaken by Efic has highlighted that accessing appropriate finance is a barrier for many SME exporters. Preliminary results from the 2015 Australian International Business Survey¹⁷ indicate that 34 per cent of applications for additional finance were unsuccessful or remain ongoing, with the most common obstacle being inadequate security. The challenge of accessing finance is likely to be compounded in the service-related industries, as many exporters are unable to offer the conventional collateral (such as "bricks and mortar" and inventory) on which banks typically base and determine their appetite for risk.
91. Efic primarily works with banks to ensure SMEs have sufficient working capital to fulfil a contract, either via a loan or guarantee, or the provision of bond(s). While it operates alongside private financiers, Efic does not compete with the private financiers and is subject to competitively neutrality principles. Efic's point of difference, is that it:
 - (i) adopts a more capability-focused approach to due diligence, which ensures that viable SMEs, who may lack tangible security, still have the finance to fulfil their export contracts; and
 - (ii) is willing to take commercial risks in distant and emerging markets. These are markets where information gaps are larger, private capital is scarce and volatile, and domestic banks immature or non-existent.

¹⁶ Efic's updated Statement of Expectations is available on its website.

¹⁷ Australia's International Business Survey (AIBS) (2015) [Report due for release in 2015]. This will be the second year the survey has been undertaken. It is a joint initiative between Efic, Australia, the Export Council of Australia and the University of Sydney.

92. In line with Efic's SME focus, it is continuing to implement initiatives to benefit SMEs. For example, Efic has expanded its SME teams in Melbourne, Perth and Brisbane and has streamlined the assessment of SME facilities to better service smaller exporters.
93. Efic will continue to implement initiatives to ensure its services are meeting the requirements of Australia's exporting SMEs, including services exporters. The main aim of these ongoing initiatives will be to ensure that Efic can efficiently and cost-effectively service smaller exporters who have smaller financing needs.

Case Study – Miles Morgan Australia

Perth-based SME, Miles Morgan Australia, was established in 1997 and provides research, policy and consultancy services.

A key area of Miles Morgan's work is providing career development and transition support, vocational education and training, and occupation and career profiling services.

Miles Morgan won a contract to design the policy framework, national quality standards and governance protocol for career education and development in Saudi Arabia. In Saudi Arabia, foreign nationals make up a significant proportion of the workforce. The Saudi Ministry of Labor and the Human Resources Development Fund (HRDF) initiated the project to encourage Saudi nationals into more diversified career pathways, as they recognised the large number of foreign nationals in the workforce was not sustainable over the long term.

How Efic helped

Under the contract, Miles Morgan was required to provide a bond (A\$113,000) to guarantee its performance under the contract, which Efic helped provide. From the bank's perspective Miles Morgan lacked the required security and was operating in what is considered a challenging export market.

Miles Morgan is now pursuing other export opportunities within Saudi Arabia and elsewhere in the Gulf.

G. Conclusion

94. Services contribute significantly to the performance of the Australian economy. While services account for around three quarters of Australia's economy, they contribute around 41 per cent of our exports on a value-added basis (and around 18 per cent in direct export terms). Conventional trade data undervalues the significant contribution to Australia's trade performance of services embedded in merchandise exports.
95. Services play a key role in global and regional value chains. Breaking down barriers to services trade will enhance Australia's linkages with global value chains and contribute to Australia's prosperity.
96. Barriers to international trade in services are complex and take a wide range of forms. In many cases, they are domestic regulations which are difficult to measure and, because their policy rationale is often non-trade related, are frequently difficult to eliminate or reduce.
97. Australian governments have placed a high priority on pursuing the liberalisation of services trade globally and on establishing a global regime of rules to ensure transparency and predictability in services trade. This has reflected a recognition of the potential benefits from new market openings in terms of future services exports growth and foreign exchange and employment benefits.
98. Pursuit of services trade liberalisation and reform in the Asia Pacific region is a high priority to underpin the continued process of economic transformation underway, most notably in China, characterised by the emergence of a large and increasingly prosperous middle class.
99. The agencies in the Foreign Affairs and Trade portfolio play an active role in providing Australian services suppliers with comprehensive support extending from utilising assets overseas to prosecute the case on behalf of Australian business, advocating Australia's interests when our trading partners are contemplating regulatory changes, and addressing concerns specifically in trade negotiations.
100. It needs to be recognised that, while much can be achieved using the approaches described in this submission, in some circumstances the ability to address behind-the-border barriers is beyond the reach of traditional trade "rules" and different approaches need to be examined (i.e. through better business to business linkages and encouraging unilateral and structural reforms and delivery related institutional and regulatory capacity building, through economic cooperation forums such as APEC, G20 and OECD). Here again, the portfolio does significant work with Australian business.

Note on services data

- i. There are two gaps in Australia's trade in services data that are not captured by the Australian Bureau of Statistics (ABS). These are:
 - a. inwards and outwards foreign affiliates trade in services statistics (FATS) (i.e., where services trade in Australia is conducted by the local representative of a foreign service supplier, and vice-versa) , and
 - b. data by 'mode of supply' (e.g., identifying whether a service is delivered on a cross-border basis from another country, or through the commercial presence of a foreign operator)¹⁸.
- ii. The result is an almost certain underestimation of the type and amount of services trade conducted in and from Australia. This has implications for the portfolio's ability to prioritise resources and accurately identify the key interests of Australia's service suppliers.
- iii. For example, a one-off study conducted by the ABS in 2002-03 found that outwards FATS was particularly significant for Australia, with nearly two-thirds of the provision of Australian services abroad being sourced from an Australian affiliate abroad. A recent study by Asia link estimates that outward FATS was valued at around \$138 billion in 2013 – more than double the figure for direct exports (\$55 billion)¹⁹.
- iv. This gap also has implications for the implementation of trade agreements. For example, many of the key gains for Australia's services exporters under the China-Australia (ChAFTA) agreement will result in increased outwards FATS activity (i.e. service suppliers will be have increased opportunities to deliver services from a presence in China). The lack of FATS data will make it difficult to monitor trends in services trade resulting from the ChAFTA agreement.
- v. The services export figures also do not capture services which are used as inputs into the export of goods (i.e. where services are part of the development of the goods).
- vi. Services contributions to exports are more fully captured on a value-added basis. In 2011 services exports accounted for only 16 per cent of gross exports and this proportion has fallen since 2005. However, the contribution of domestic services to the exports of goods and services measured by the OECD on a Trade in Value Added (TiVA) basis amounted to over 40% of gross exports.²⁰
- vii. The analysis of value-added services data has helped to identify services where Australia boasts relative comparative advantage. These include:
 - a. financial services (funds management, infrastructure financing, pension system management);
 - b. legal/business advisory (international arbitration, dispute resolution and IP law);
 - c. health (research, aged care, clinical trials);

¹⁸ There are four modes of supply in services: Mode 1-Cross border trade; Mode 2-Consumption abroad; Mode 3-Commercial presence; and, Mode 4-Presence of natural persons.

¹⁹ Asia link - [Australia's Jobs Future: The rise of Asia and the services opportunity](#)

²⁰ OECD TiVA database ([at-stats.oecd.org](#))

- d. infrastructure services (project management design, urban sustainability, transport, logistics);
 - e. ICT and disruptive technologies (as an ‘enabler’ across industries);
 - f. beef and dairy and services;
 - g. mining services (such as mine safety); and,
 - h. advanced manufacturing services (aviation training; MRO, engineering and design services across auto, marine and aerospace).
- vii. The under-estimation of trade in services as a result of the peculiarities of FATS statistics and better identification of comparative advantages in services through the work on TiVA suggest the potential for Australian services trade is even more significant than the current figures suggest.

In 2013 Austrade analysed the overseas subsidiaries of Australia’s top 2,000 public and private Australian companies, including those in the services sector. The analysis found that one third of Australia’s top 2,000 companies held direct investment in an overseas market – that is, one third have a commercial presence overseas through a subsidiary or joint venture in which they own a significant (at least 10%) stake. Companies analysed had revenue ranging from \$60 million to \$70 billion.²¹

- . Of top-2000 Australian companies in the professional, scientific and technical services sector, 50 per cent had direct investment overseas, with the top five markets including New Zealand, the United Kingdom, the United States, Singapore and Canada.
- . Of top-2000 financial and insurance services companies, 23 per cent had a direct presence overseas, with the top five markets by number of investee companies being New Zealand, the United Kingdom, the United States, Singapore and Luxembourg.
- . Of top-2000 Australian companies in the information media and telecommunications sector, 49 per cent had direct investment overseas.

²¹ Austrade, *Trade and Investment Note: Overseas Investment of Australian Companies*, April 2015