

**The Voice for  
Australia's exporters**



# **Productivity Commission review into barriers to growth in Australian services exports**

May 2015

**Submission by the Export Council of Australia  
(Australian Institute of Export)**

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Productivity Commission

# 1.0 Introduction

## 1.1 About the Export Council of Australia

A not-for-profit, membership based organisation, the Export Council of Australia (ECA) is the peak industry body representing Australia's exporters and importers, particularly SMEs. With a membership base of 1,000 and a reach of 15,000, the ECA represents companies of all sizes and across a wide range of industry sectors, including services exporters. The ECA's core activities include research, advocacy, skills development and events.

The ECA works collaboratively with a number of Federal and State Government Departments to advance the interests of its members and the broader business community; these include Efic, the Department of Foreign Affairs and Trade (DFAT), Austrade, the Australian Customs and Border Protection Service (Customs), Department of Industry and Science, and the Department of Agriculture.

The ECA regularly provides submissions to agencies and government on various reviews, as well as to parliamentary inquiries. These have included submissions relating to the Korea-Australia Free Trade Agreement (KAFTA) and the KAFTA Customs Bills, the Japan-Australia Economic Partnership Agreement (JAEPA) and the JAEPA Customs Bills, the Trade in Services Agreement (TiSA), and more recently the EMDG Review. The ECA also releases annual Trade Policy Recommendations (TPR), and the latest document, TPR 2014/15, includes commentary and recommendations regarding the Government's Free Trade Agreement (FTA) agenda and ways in which Government should work with industry to raise the level of use of FTAs.

In 2014 the ECA launched a collaborative project with Austrade, Efic and the University of Sydney to undertake a longitudinal survey, Australia's International Business Survey (AIBS), designed to capture data on the international business activity of Australian companies. The first survey, conducted in 2014, captured data from over 1,600 Australian exporters, making it the most comprehensive investigation into Australia's international business activity in more than 15 years. The 2015 AIBS results will be publically released in July; however, some of these results are referred to in this submission.

The ECA would like to note that it supports the submissions to this inquiry from the Australian Information Industry Association and the Australian Tourism Export Council.

## 1.2 Overview

The ECA welcomes the opportunity to provide input into the Productivity Committee's Review into barriers to Australia's services exports.

There is significant potential to increase Australia's services exports and the ECA fully supports efforts by the Government to open new market opportunities and provide necessary assistance to companies wanting to expand internationally. Services exporters face unique challenges that arguably have not been well addressed through traditional trade liberalising mechanisms, such as FTAs, in the past. The ECA is pleased, however, to note that greater focus has been placed on non-tariff outcomes in recent FTAs and that the government is jointly leading the Trade in Services Agreement (TiSA) negotiations, which, when concluded, will ultimately improve market access and introduce new trade rules in areas where there has been significant development since the WTO Uruguay Round of negotiations.

However, as articulated in the ECA's 2013/14 TPR, 'international competitiveness begins at home' and there are issues that can be addressed in the domestic policy context, which will help Australia achieve growth in services exports.

In this submission the ECA provides a number of recommendations based on evidence gathered through the AIBS, ECA research, case studies and anecdotal evidence, which we trust will be of assistance to the Productivity Commission in its review.

## 2.0 Addressing the Terms of Reference

### 2.1 Trends and drivers in services exports

Australia's services sector is world class and the mainstay of the Australian economy. The sector employs four out of five Australians and, in 2014, represented 71 per cent of Australia's GDP. Services recovered strongly after the GFC but Australia retains a services deficit with the value of services receipts valued at roughly AUD 57 billion while the value of services payments in the same period was just below AUD 70 billion in 2014<sup>1</sup>.

In 2014, services exports constituted 17.3 per cent of Australia's total exports. The value of services exports has grown at an average rate of 4 per cent per annum over the past decade, increasing from roughly AUD 36 billion in 2003 to AUD 57 billion in 2014. DFAT reports that Australia's five largest services exports in 2012/13 were education related travel services (AUD 14.5 billion), recreational travel services (AUD 12.6 billion), business travel services (AUD 4.1 billion), professional services (AUD 4.1 billion) and technical and other business services (AUD 3.5 billion)<sup>2</sup>.

A newly released study conducted by ANZ, PwC and Asialink uses new statistical analysis and reports that services accounted for 41 per cent of Australia's exports in 2014 as compared with 37 per cent for minerals, and 23 per cent for manufacturing and agricultural production combined. The report also calculates that sales of services by foreign affiliates of Australian companies were estimated at AUD 138 billion in 2013<sup>3</sup>. The difference between these statistics and official government statistics can in part be explained by the fact the study attempts to account for services embodied in goods exports, which is not captured in conventional trade statistics, as well as drawing on recent research from the OECD and the USA.

Australia's trade is increasingly being conducted with our Asian neighbours, with seven of our top 10 export markets located in Asia for both goods and services. However, there is the potential for Australia to substantially increase our services exports to Asia and other emerging markets, where rapid economic growth is creating greater demand for the world-class services Australia is well positioned to supply. These drivers, coupled with the greater market access afforded by the FTAs concluded with some of Australia's key trade partners in Asia, namely Japan, Korea and China, will improve the conditions for trade in services. Australia's leadership role in TiSA will also be a driving force behind Australia's increase in services exports to Asia and beyond. Moreover, the Trans-Pacific Partnership (TPP), the Australia-India Comprehensive Economic Cooperation Agreement (CECA), the Regional Comprehensive Economic Partnership (RCEP) and the WTO Government Procurement Agreement (GPA) to which Australia is looking to accede, are all agreements currently under negotiation that also stand to benefit services exporters.

The ECA now wishes to provide some case studies from exporters within its network on services issues. These case studies specifically look at the driving forces behind export decision making, barriers affecting trade, as well as policies that would assist them in growing their exports.

<sup>1</sup> WTO, Trade Policy Review Report by the Secretariat: Australia, [https://www.wto.org/english/tratop\\_e/tpr\\_e/tp412\\_e.htm](https://www.wto.org/english/tratop_e/tpr_e/tp412_e.htm), page 112.

<sup>2</sup> DFAT, The importance of services trade to Australia, <http://dfat.gov.au/international-relations/international-organisations/wto/Pages/the-importance-of-services-trade-to-australia.aspx>

<sup>3</sup> [http://asialink.unimelb.edu.au/asialink\\_dialogue/pwc\\_melbourne\\_institute\\_asialink\\_index\\_ANZ\\_Services\\_Report](http://asialink.unimelb.edu.au/asialink_dialogue/pwc_melbourne_institute_asialink_index_ANZ_Services_Report)



## Populous Case Study

**Company:** Populous

**Name:** Michele Fleming

**Title:** Associate Principal

**Industry sector:** Architecture

**Top export markets by revenue (up to 5):** India, China, PNG, Taiwan, New Zealand

**How many years have you been exporting?** 15 (from Australia)

### What are the trends or driving forces that are behind your company's decision to export?

We are a specialist global architecture company, designing major public infrastructure venues, such as stadia, arenas, convention centres, or the planning for major international Events such as an Olympic Games. The venues we design are complicated and expensive to build and so often the Client is either a local or national Government. Our business is driven by major events around the world, so by necessity we need to work in many markets. From our Australian base we direct and manage all work in the Asian and Pacific region.

### What domestic barriers, if any, inhibit your export growth?

Perception of Australia in the market may inhibit growth. Some countries look to the USA or Europe as leaders and often overlook more local offerings, such as Australia. We work hard to be world's best practice. Our clients all over the world are looking for leading edge consultants, so it is important to position ourselves not as "regional leaders" but as "world's best". Language skills and mobility of local staff can inhibit our export growth.

### What barriers, if any, inhibit your growth in the export markets in which you currently operate? Please provide specific examples if possible.

We maintain a small disciplined presence of key marketers in several Asian countries including China, Indonesia, Singapore, and India. The cost of maintaining staff and offices abroad as well as the costs of keeping our international staff connected need to be constantly monitored.

Language and cultural barriers can limit growth. Legal restrictions over what we can and cannot do in other countries can also be a limiting factor (e.g. the word Architect is legally protected in many countries, including Australia, and this can limit the work we can bid for). The distance and time required to get to our clients can limit our growth, although we pride ourselves on being nimble and flexible. Lack of eyes and ears on the ground can also be a significant barrier in large countries such as China.

Lack of Australian trade links in a country can inhibit growth. Where trade links exist, a lack of communication from the links to inform us of potential/actual work opportunities can inhibit our ability to respond quickly enough.

A high Australian dollar can be a barrier to trade. There are also currency restrictions in some territories, which can limit how and when we can be paid. This includes both physical currency restrictions (e.g. Chinese Yuan) but also barriers such as withholding taxes.

Negative international issues involving Australians in other countries can inhibit growth, as trade relationships inevitably slow down often for many months, meaning we lose momentum.

### **What government policy changes would help you grow your services exports more rapidly?**

We value greatly Ministerial visits to our key markets at the highest level. Government to Government contacts open doors and provide introductions especially as so many of our clients are Government.

Greater support from the Australian Government, whether through travel concessions or reduced cost on Austrade organised Missions would be a great help.

### **Do the tools and services offered by State/Federal government agencies adequately address the needs of services exporters?**

We greatly value the work of both Austrade and the Overseas Commissions. We find everyone from the highest level such as the Ambassador or High Commissioner, to all the overseas staff in Austrade offices are pro export and focused on the Services industry. Any further help from international trade offices seeking out opportunities for Australian exporters and passing that information back to the service providers would be appreciated. We do not expect the Federal Government resources to operate as a “marketing firm” for Australian exporters but local trade offices often have local and ready access to information and passing this back to Australia by way of monthly or weekly (as appropriate) ‘opportunity newsletters’ would be helpful to all Australian firms.

### **Please add any other comments/insights about Australia’s services exports and how we can reach our export potential:**

Generally, we are very well supported by the Government in our export quests and we understand that Government cannot show favour to one local firm over another. But we urge the Government to be as proactive as possible in supporting exporters, particularly when the contracts can often be worth many professional jobs to Australia, in the way that we notice our European colleagues such as the French and German Governments are. Similarly legal/financial services assistance would be invaluable when dealing with contracts or payment patterns in unfamiliar territories.

## Health Projects International Case Study

**Company:** Health Projects International / TAHPI

**Name:** Chris Hayward Brown, Robert Martin

**Title:** Directors (of TAHPI)

**Industry sector:** Health Planning and Design/Architecture

**Top export markets by revenue:** UAE, Saudi Arabia, Hong Kong, Malaysia, India

**How many years have you been exporting?** 8 Years

### What are the trends or driving forces that are behind your company's decision to continue exporting?

Increasing opportunities to deliver planning and design services (according to our specific methodology), because of prevailing and growing needs in a range of developing markets.

### What domestic barriers, if any, inhibit your export growth?

Lack of consistent government health policy on the kinds of export services we deliver, specifically access to health service utilisation data/information that could assist in the development of useful planning products.

### What barriers, if any, inhibit your growth in the export markets in which you currently operate? Please provide specific examples if possible.

The high cost of developing and delivering services from Australia e.g. high wages and high operating costs in Australia and high travelling costs to overseas markets.

Clients think more highly of American and European companies.

### What government policy changes would help you grow your services exports more rapidly?

A stronger focus from the Federal Government on the support systems necessary for professional health planning and design companies to be competitive in international markets, particularly as they relate to the understanding of health systems and the use of health information in the international context. The promotion of a more open and co-operative environment between local regulators, providers and exporters would help drive excellence in product development.

Giving tax exemption to Australia employees working overseas so that employees from Australia are more willing to work in overseas branches.

### Do the tools and services offered by State/Federal Government agencies adequately address the needs of services exporters?

No. Refer question responses above.

### Please add any other comments/insights you might have about Australia's services exports and how we can reach our export potential here:

We have welcomed the opportunities for trade workshops and the like; however sessions we have attended have been highly general in nature and have covered a broad range of industries and services. We would like to see more sessions that focus more on the services sector and particularly health services.

We applaud the Export Market Development Grant (EMDG) but query the time limits applied to these and restrictions on eligibility of expenses that can be claimed. Longer periods of eligibility may assist in vital support at critical industry development phases and in developing more markets over the longer period. Local sub consultants' costs and internal costs for website development in developing the overseas markets are not eligible for the EMDG.

## Polyglot Group Case Study

**Company:** Polyglot Group Pty Ltd

**Name:** Jacques Reynaud

**Title:** MD

**Industry sector:** Professional Services

**Top export markets by revenue (up to 5):**

Top 5 export markets (Financial Year 2013-2014)

1. Netherlands (52% of Polyglot total export income)
2. France (13%)
3. USA (12%)
4. Sudan (6%)
5. Luxembourg (4%)

**How many years have you been exporting?** 13 years

**What are the trends or driving forces that are behind your company's decision to continue exporting?**

The DNA of our company is to support companies expanding or optimizing operations in new countries, hence the need for us to be closer to them and have offices in their time zones.

**What government policy changes would help you grow your services exports more rapidly?**

- Profit tax rebate for money invested in expanding presence overseas.
- Extensive teaching of language skills in Australian schools.
- Incentives for large companies to exchange workers with overseas companies.

**Do the tools and services offered by State/Federal Government agencies adequately address the needs of services exporters?**

Yes



## Education Exporter

### What are the trends or driving forces behind your company's decision to continue exporting?

- The attractiveness of Australia as a destination for international students.
- Every year we are getting more international exposure by broadening our education partner base and by having the Marketing Managers' present at global education expos and other major international education events.

### What domestic barriers, if any, inhibit your export growth?

- Students' access to cheap accommodation and travel discounts.
- Not enough clarity for students around visa risk and assessment levels.

### What barriers, if any, inhibit your growth in the export markets in which you currently operate? Please provide specific examples if possible.

- Visa requirements for international students.
- Recognition/understanding of the Australian VET sector overseas.
- Growing competition from other markets. For example, studies in English are offered in most of European countries and they aggressively promote their programs in different markets.

### What government policy changes would help you grow your services exports more rapidly?

- Clear guidelines regarding visa assessment rules and legislation.

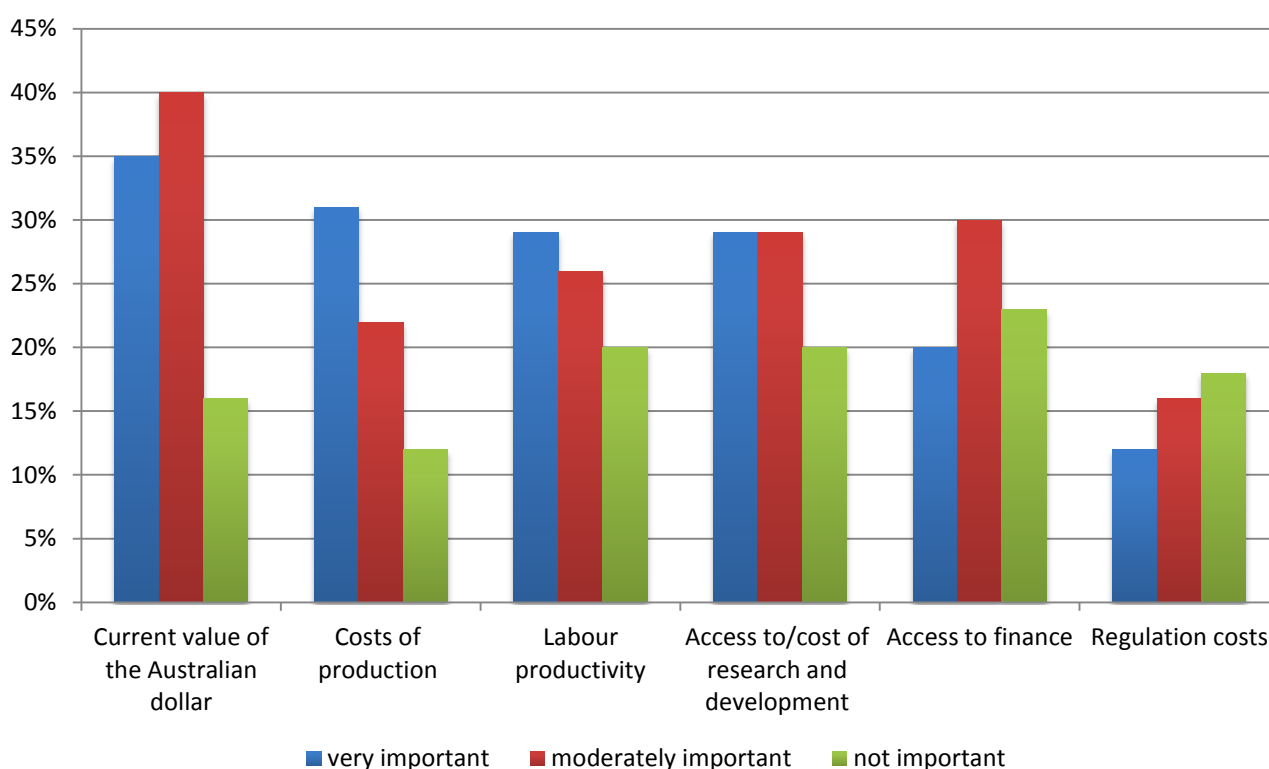
## 2.2 Domestic and in-market barriers to growth in Australian services exports

In the following section of this submission the domestic and in-market barriers to growth in each of the six services sub-sectors that form the focus of this review are examined.

### **Professional Services**

According to Australia's International Business Survey 2015, professional services exporters' nominate the value of the Australian dollar (35 per cent) and cost of production (31 per cent) as the two most important factors in Australia restricting their ability to take advantage of new international business opportunities. Access to/ the cost of R&D (29 per cent) and labour productivity (29 per cent) are the next two most important factors nominated by respondents, followed by access to finance, with 20 per cent ranking it as very important, while a further 30 per cent claim it is a moderately important barrier (see Figure 1).<sup>4</sup>

**Figure 1. Domestic barriers to growth in professional services exports**



Source: AIBS 2015; number of respondents: 179

AIBS 2015 results indicate that the most important in-market barriers that inhibit export growth for professional services exporters include the requirement to partner with a local firm (31 per cent), access to finance (31 per cent), and regulation or subsidies that benefit only local companies (23 per cent)<sup>5</sup>. AIBS 2014 professional services respondents also, cited a lack of information on local culture, business practices and language, followed by customer payment issues and a lack of information on local regulations and tariffs as in-market barriers to doing business in their most difficult export market.

<sup>4</sup> Multiple responses were possible.

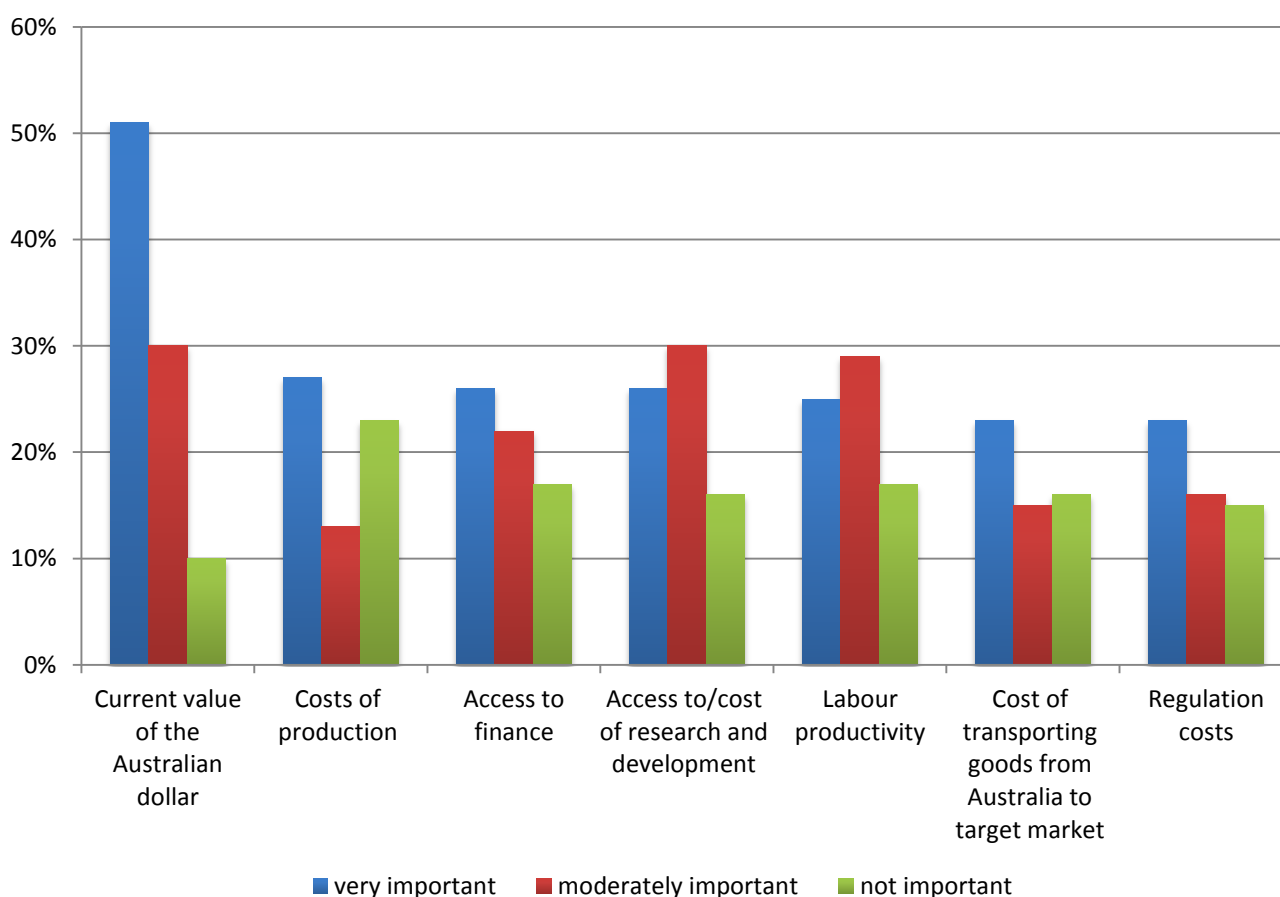
<sup>5</sup> Multiple responses were possible.

The professional services and consulting industry report based on AIBS 2014 results also found that roughly 12 per cent of professional services providers earned revenue from the sale of products and/or intellectual property in addition to providing services. Moreover the study found that 31 per cent of professional services companies outsourced part of their business process, which is lower than the overall survey sample.

## **Education**

Education exporters are heavily impacted by fluctuations in the exchange rate and consequently just over 50 per cent of AIBS 2015 respondents cite the value of the Australian dollar as a very important factor affecting their ability to take advantage of new international business opportunities. It is worth noting that while the AIBS 2015 survey was in the field in late 2014 the Australian dollar was almost at parity with the USA dollar and has since fallen to around 80 cents. Other domestic barriers, such as the cost of production and access to finance, were other somewhat less significant hurdles noted by education exporters, as can be seen in Figure 2.

**Figure 2. Domestic barriers to growth in education exports**



Sources: AIBS 2015; number of respondents = 93

Difficulties obtaining licenses and recognition of qualifications, as well as restrictions on foreigners operating in specific professions, and difficulties obtaining visas or work permits are three of the in-market barriers identified by education exporters in AIBS 2015.

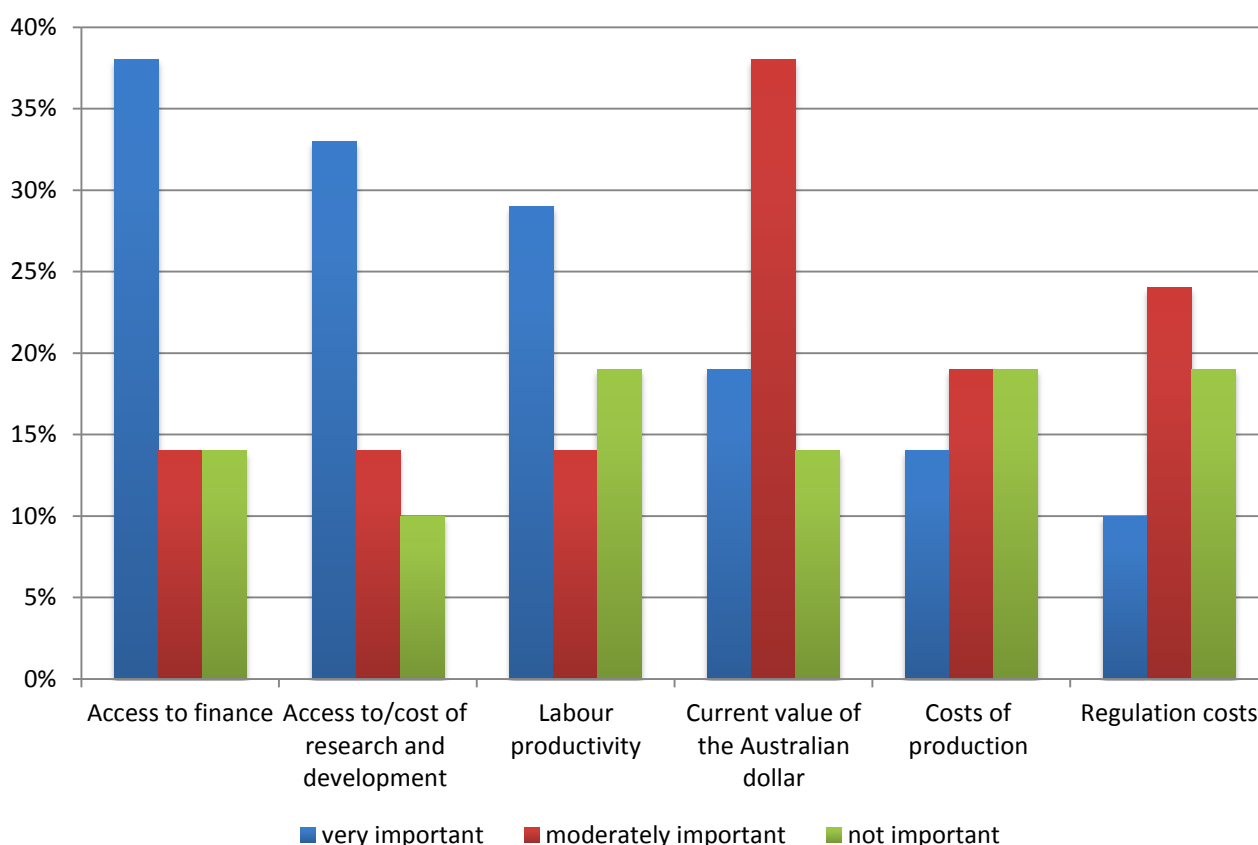
In AIBS 2014, education and training companies most frequently cited a lack of information on local culture, business practices and language, followed by customer payment issues and a lack of information on local regulations and tariffs as in-market barriers to doing business in their most difficult export market, which for 40 per cent of companies in this sector was China.

The AIBS 2014 industry report on education and training also found that the sector earned most of its revenue from the sale of services. A total of 21 per cent earned some revenue from the sale of IP and 20 per cent from the sale of products.

## **Financial Services**

Financial services exporters cited access to finance (38 per cent), access to/the cost of R&D (33 per cent) and labour productivity (29 per cent) as very important domestic factors restricting their ability to take advantage of new international business opportunities according to AIBS 2015 (see Figure 3).

**Figure 3. Domestic barriers to growth in financial services exports**



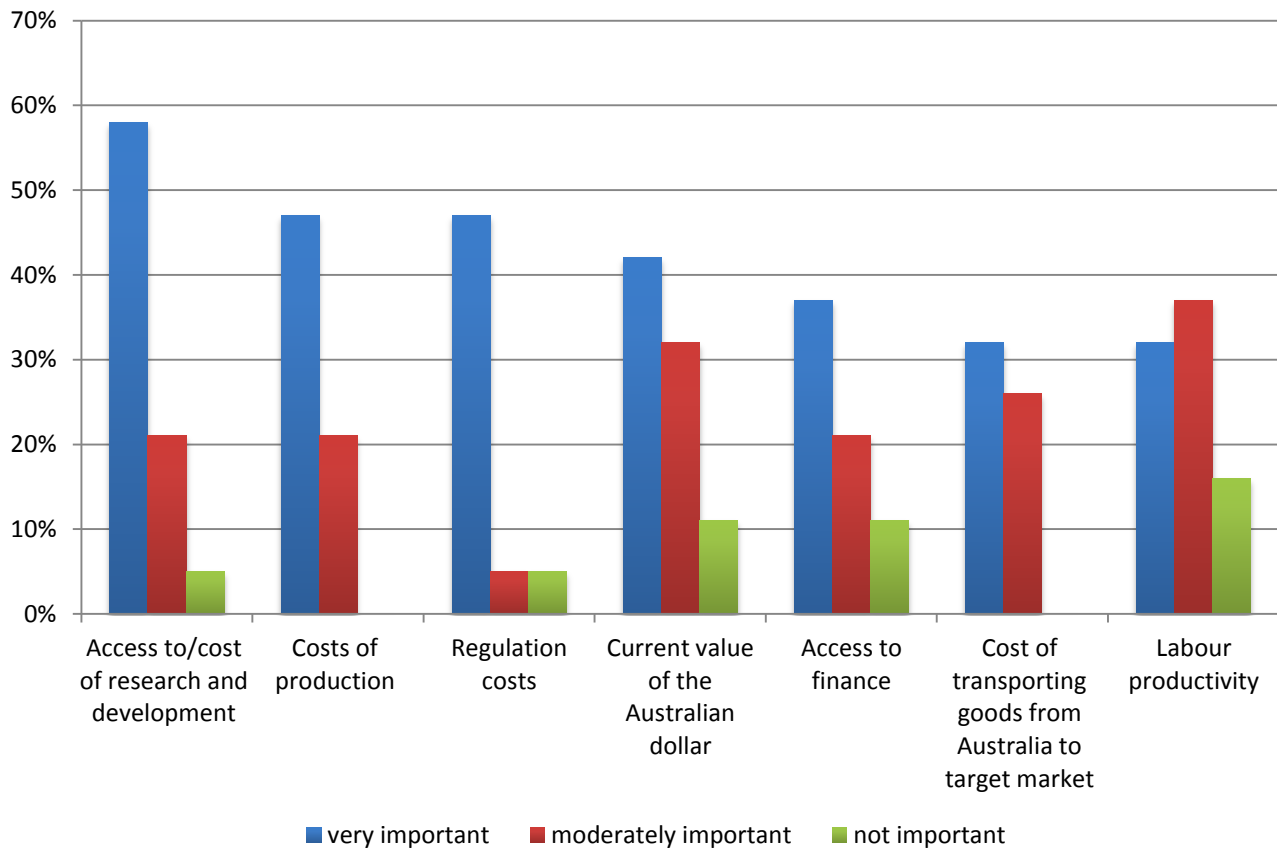
Source: AIBS 2015; number of respondents: 21

According to the same study, the most important barriers to developing in-market operations for financial services exporters were access to finance (38 per cent), the requirement to partner with a local firm (38%), and need to use a local supplier (38%).

## **Health Services**

As can be seen in Figure 4 below, health services exporters cited access to/ cost of R&D, the cost of production and regulatory costs as the three most important domestic factors restricting their ability to take advantage of new international business opportunities.

**Figure 4. Domestic barriers to growth in health services exports**



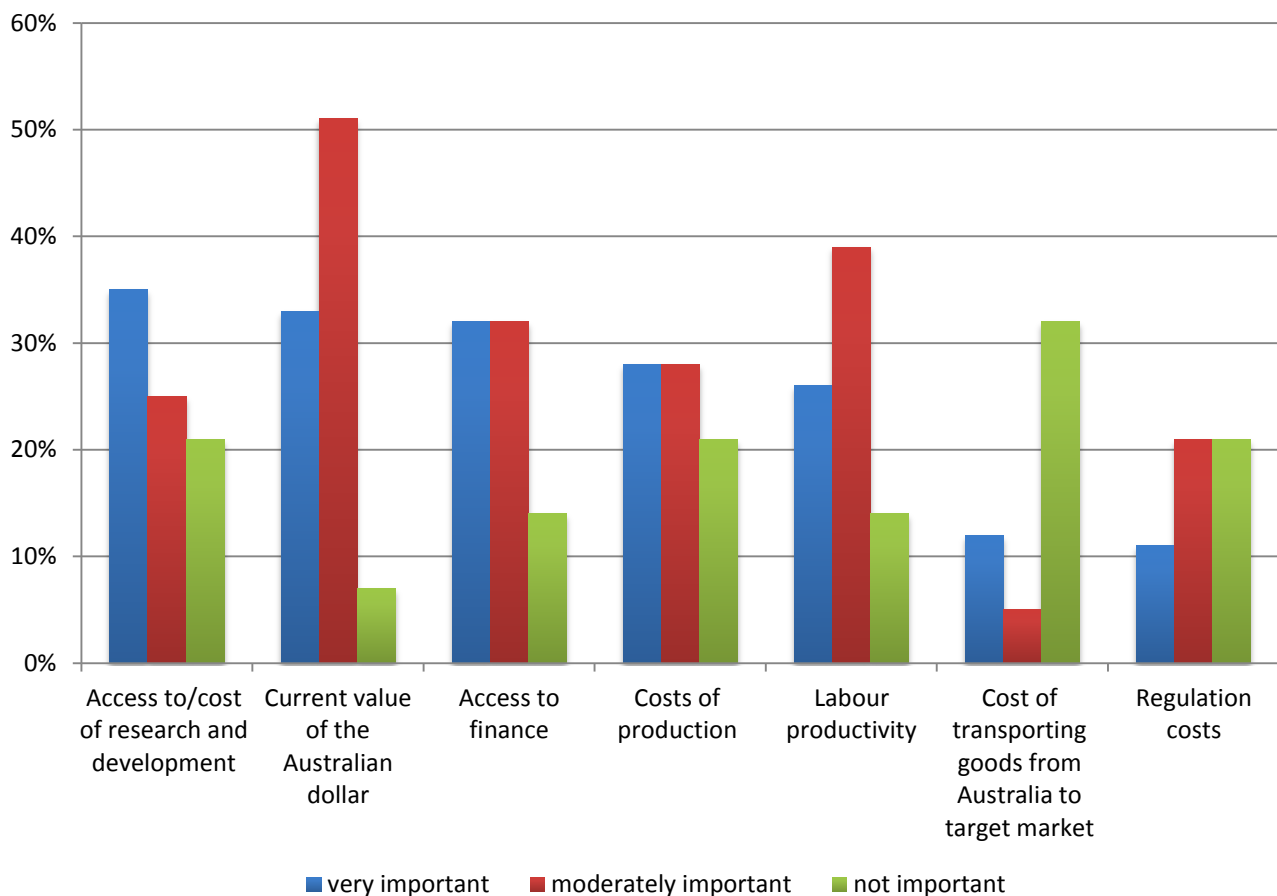
Source: AIBS 2015; number of respondents = 19

## **Information Technology**

IT exporters cited access to/ cost of R&D, the value of the Australian dollar and access to finance as the most significant domestic barriers, as can be seen in Figure 5. As was noted earlier, the value of the Australian dollar has fallen substantially since the survey was in the field so it reasonable to assume this result is a sign of the times but does indicate this sector is significantly impacted by exchange rate fluctuations.



**Figure 5. Domestic barriers to growth in IT services exports**



Source: AIBS 2015; number of respondents = 57

Moreover, the ability of IT companies to build their domestic capacity in order to sustain and grow exports is hindered by Australia's deficit in science, technology, engineering and mathematics (STEM) skills. Some of Australia's key competitors are investing in building their STEM capability and we should be doing the same. It is therefore imperative that, in order to grow ICT exports, the government encourages the development of skills and expertise to build and support a robust IT services export market.

AIBS 2015 respondents from the IT sector identified difficulties in obtaining visas or work permits and transferring payments or profits offshore as the two most significant in-market barriers that affected their ability to develop international operations in their most important export market.

The Software, Media and ICT Industry Report generated from AIBS 2014 found services providers in these sectors also cited a lack of information on local culture, business practices and language, followed by customer payment issues and a lack of information on market opportunities as the in-market barriers that make doing business in their most challenging export markets so difficult.

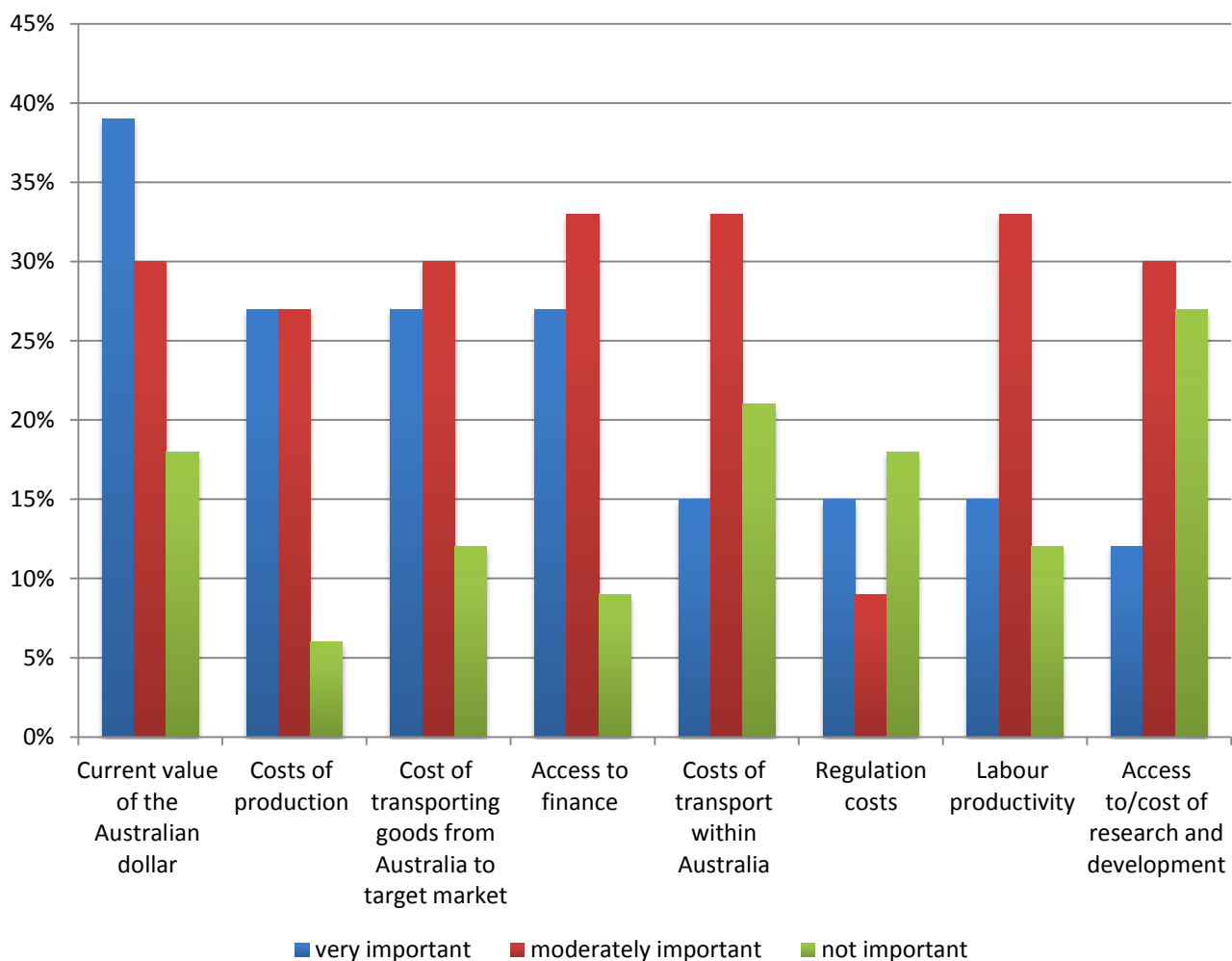
The industry report on also reveals that software, media and ICT businesses earned international revenue from a combination of services, IP and products (possibly products

delivered electronically). Moreover the study found that 28 per cent of software, media and ICT businesses outsourced part of their business process, which is lower than the overall survey sample.

## **Tourism**

Tourism is unsurprisingly another sector heavily impacted by fluctuations in the exchange rate. The cost of production and access to finance are two additional domestic barriers identified as limiting the sector from being able to pursue new international business opportunities.

**Figure 6. Domestic barriers to growth in tourism services exports**



Source: AIBS 2015; number of respondents = 33

The tourism industry is a major contributor to the Australian economy and while the potential to expand this export sector is significant, Australia faces increasing international competition. In particular Australia needs to reduce impediments to inbound travel through improving visa policies, passenger facilitation and maintaining internationally competitive passenger movement charges.

## **Barriers in Most Challenging Markets**

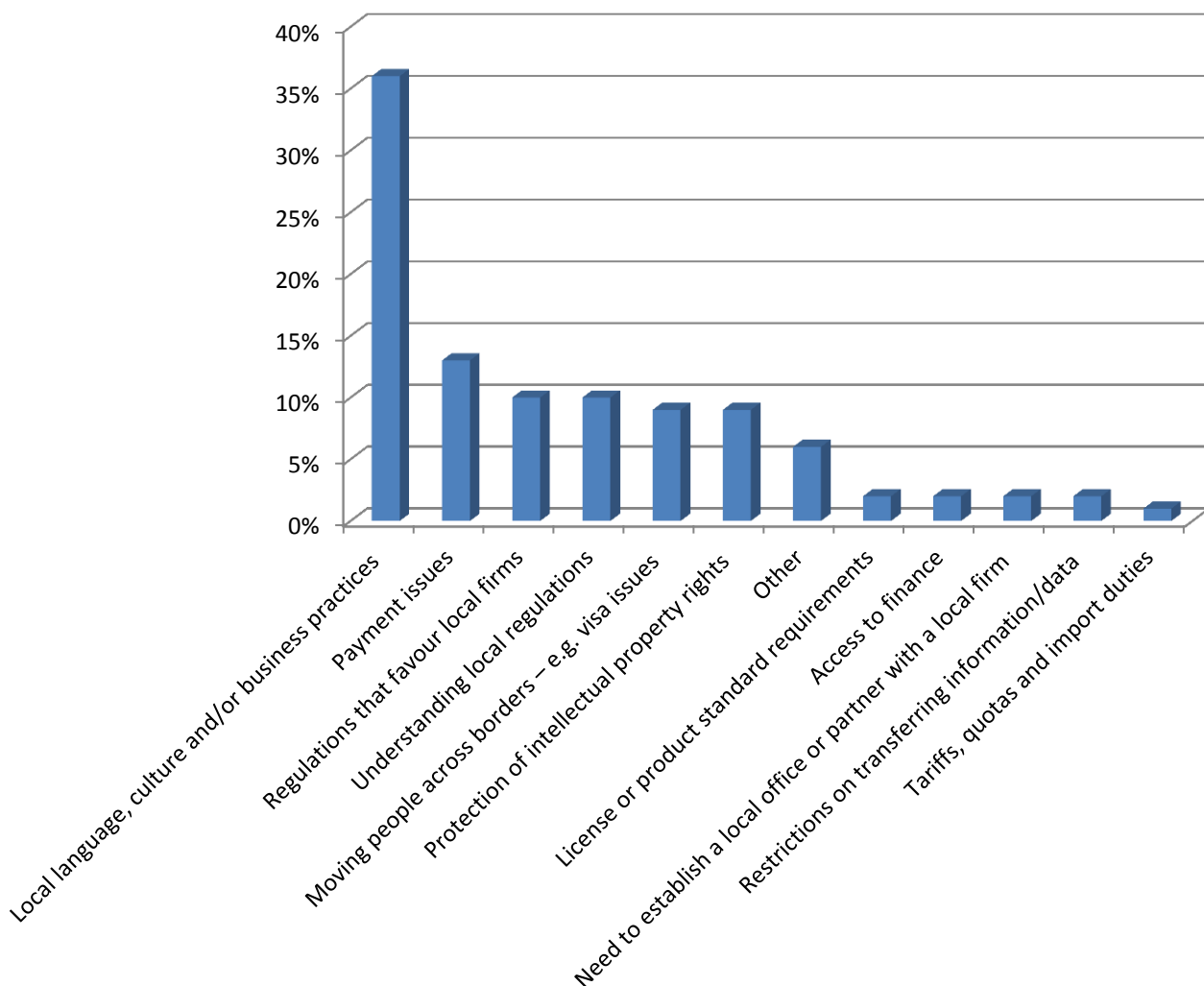
AIBS 2015 results indicate that for all six services sectors combined, China, the United States, India and Indonesia are the most challenging markets.

**Table 1**      ***The most difficult markets (all six services sectors combined)***

<i>Response</i>	<i>Frequency</i>
China	105
USA	39
India	38
Indonesia	14

In China, the most significant barrier for exporters from the six services sectors that form the focus of this review, is a lack of information about local culture, language and/or business practices, as can be seen in Figure 7. Payment issues, understanding local regulations and regulations that favour local firms are also important barriers for companies exporting services to China.

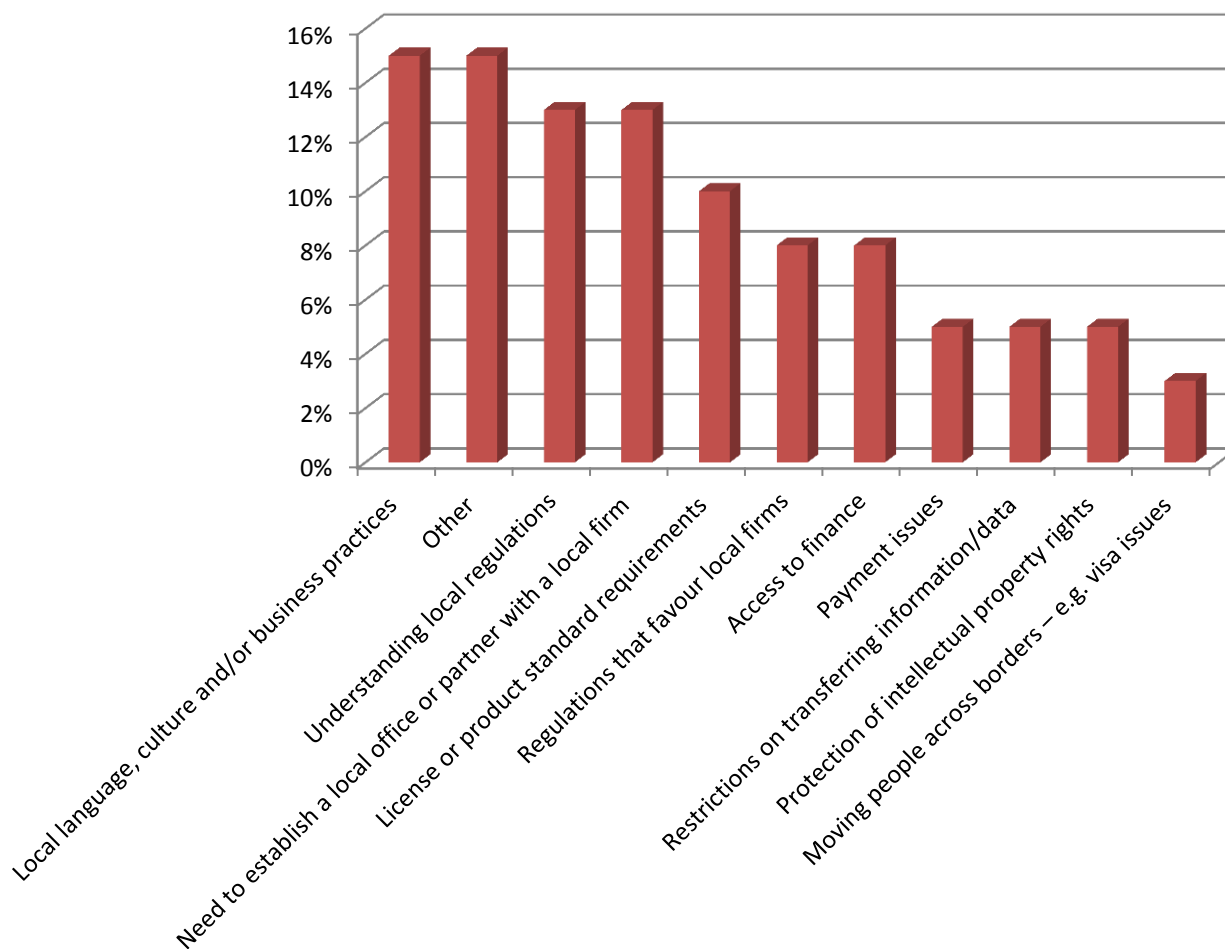
**Figure 7.**      ***Barriers faced when doing business with China***



Source: AIBS 2015; Number of respondents 105

In the USA, the barriers are more evenly distributed, nevertheless, a lack of information about local culture, language and/or business practices is also the highest barrier nominated by AIBS 2015 respondents from the six services sectors that form the focus of this review.

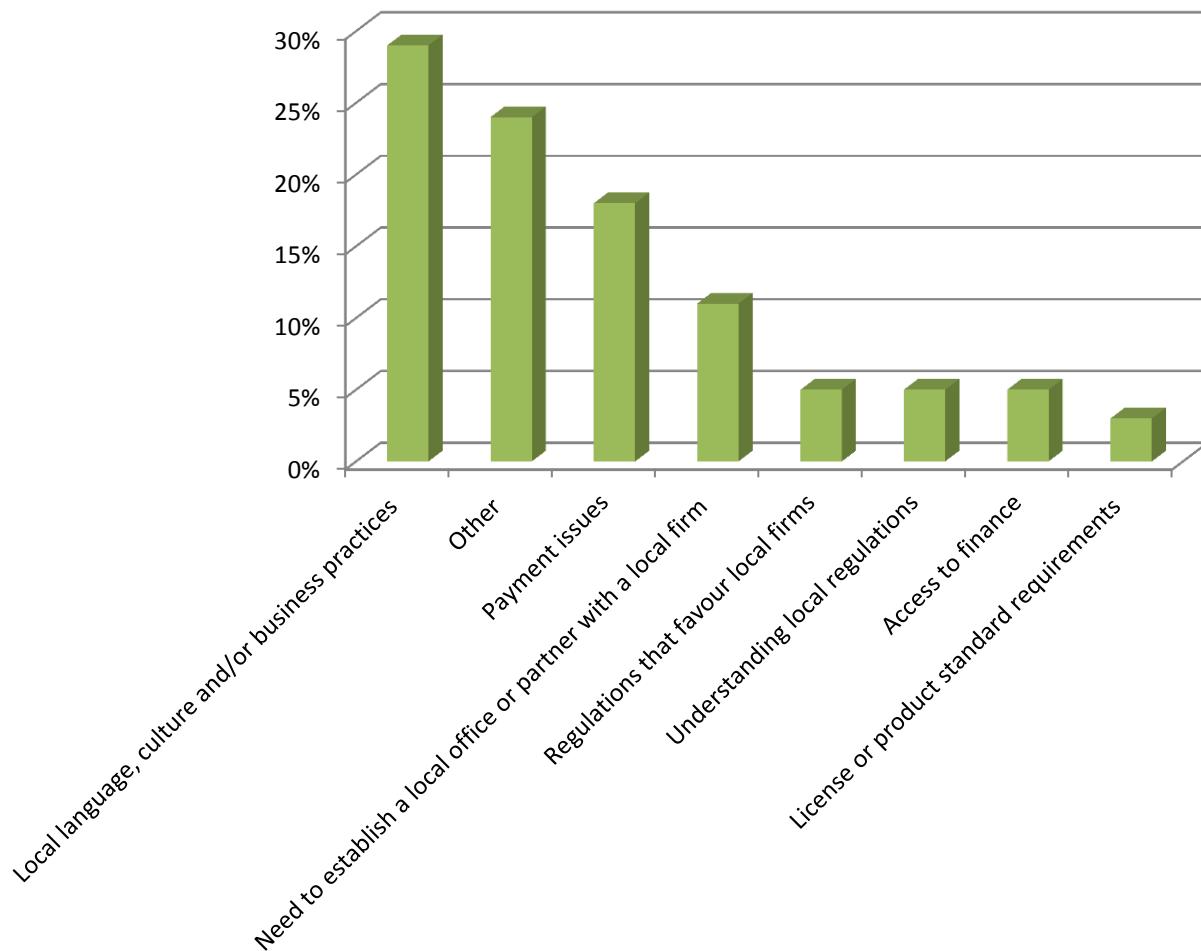
**Figure 8. Barriers faced when doing business with the USA**



Source: AIBS 2015; number of respondents 39

In India, the third most challenging market identified by AIBS 2015 respondents, the most significant barrier is again a lack of information about local culture, language and/or business practices, while payment issues is also a notable barrier. While Australia already has trade agreements with the USA and China (concluded but yet to enter into force), Australia is currently negotiating an agreement with India and has the opportunity to address some of the below listed barriers through the negotiation process. The ECA provided a submission to DFAT on the Australia-India CECA negotiations and put forward specific recommendations regarding addressing barriers to trade. This submission is not currently publically available as it contains confidential data but the ECA would be happy to send the Productivity Commission a copy of this submission if so desired.

**Figure 9. Barriers faced when doing business with India**



Source: AIBS 2015; Number of respondents 38

### **Top Export Markets & Modes of Service**

In terms of the top countries from which Australian business in the six services sectors that form the focus of this review earned international revenue, AIBS 2015 data echoes government statistics, with the USA and China leading the pack by a significant margin. The breakdown of top export market by services sector based on AIBS 2015 data can be seen in Table 1 below.



**Table 1** *Top export markets (by revenue)<sup>6</sup>*

<b>Tourism (31)</b>	<b>Health Services (16)</b>
China	United States
United States	China
United Kingdom	Thailand
<b>Professional services (118)</b>	<b>Financial Services (18)</b>
United States	United States
China	China
Singapore	United Kingdom
<b>IT (47)</b>	<b>Education (68)</b>
United States	China
United Kingdom	India
New Zealand	Japan

Source: AIBS 2015

**Modes of service and target markets**

According to AIBS 2014, professional services exporters tend to service China and the USA predominately directly from Australia. While the United Kingdom, Singapore and New Zealand are more commonly serviced through an agent (see Figure 10).

**Figure 10** *Modes of service for professional services (for top two export markets)*

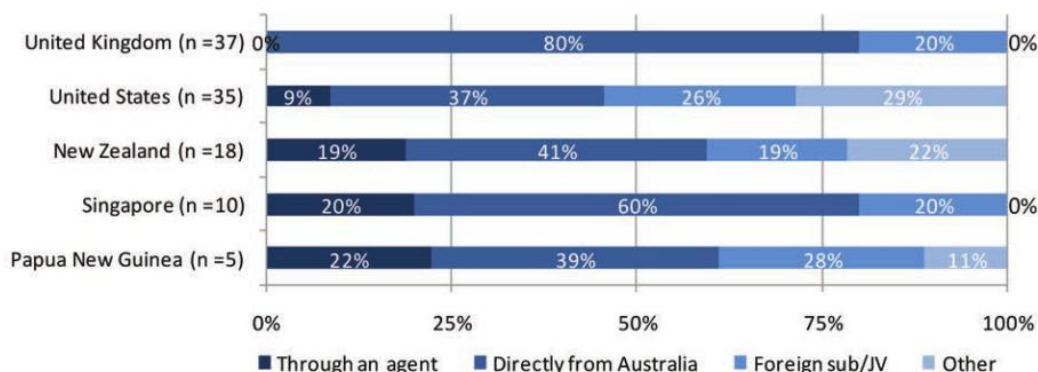
Source: AIBS 2014

Of the top ten markets professional services companies identified as targets for future business, four are countries with which Australia does not currently have a bilateral FTA, namely Indonesia, India, Germany and the United Kingdom.

In the software, media and ICT sector, AIBS 2014 data reveals that companies mainly serviced the United Kingdom and Singapore directly from Australia. A quarter of respondents said their main mode of servicing the USA was through a subsidiary or joint venture, compared to a fifth in the United Kingdom and Singapore.

<sup>6</sup> This information may differ from ABS and other government statistics as it is drawn from AIBS 2015 data only and the number of respondents varies for each services sub-sector. The number of respondents is noted in brackets.

**Figure 11 Modes of service for software, media and ICT (for top two export markets)**



Source: AIBS 2014

Of the top ten markets software, media and ICT companies identified as targets for future business, four are countries with which Australia does not currently have an FTA, namely the United Kingdom, India, Canada and Germany.

According to AIBS 2014, education and training exporters sold their products and services through different modes in different markets. For example, companies mainly served Japan, Korea, India and China through an agent but serviced the USA through a variety of modes. (see Figure 12).

**Figure 12 Modes of service for education and training (for top two export markets)**



Source: AIBS 2014

Of the top ten markets education and training businesses identified as targets for future business, seven are countries with which Australia does not currently have a bilateral FTA, namely India, Vietnam, Brazil, Indonesia, Saudi Arabia, United Kingdom and Taiwan.

### **Services Exporters and the EMDG Scheme**

The Australian Trade Commission, Austrade, administers the Export Market Development (EMDG) scheme, which is the country's principal financial assistance program for aspiring and developing exporters. The purpose of the scheme, as described in the Export Market Development Grants Act 1997 (EMDG Act), is to "provide for the grant of financial

assistance to Australian SMEs to provide incentives for them to develop export markets.” It aims to spur grant recipients’ export promotional efforts, leading to increased exports of Australian-produced goods and services such that exporting becomes a regular part of their business.

Australian businesses exporting abroad are competing with companies from around the world that are receiving varying levels of government support, financial or otherwise. As the ECA highlights in its report, *Advancing Trade Development*, to be released in July 2015, since the late 1980s, national trade promotion organisations (TPOs) have tripled in number. Indeed, the review of the EMDG scheme conducted by David Mortimer AO (Mortimer Review) in 2008 highlights that, at the time the report was written:

- All but two of the 19 economies examined in the report provided some financial support for their exporters.
- Australia was in the minority with only a single financial assistance program for exporters.
- The availability of financial support programs appeared to be increasing.

The ECA, therefore, believes that maintaining the EMDG scheme is critical, especially given the increasingly competitive global environment and the need for Australia to foster broad-based economic growth. A report by McKinsey Australia entitled, *Compete to Prosper: Improving Australia’s Global Competitiveness*, published in July 2014, highlights the importance of trade to unlocking Australia’s growth potential. The report makes a compelling case for an increased focus on growing Australia’s exports, highlighting that:

- The Australian economy remains less traded and more domestically focused than many of its peers; Australia is the 12th largest economy in the world but the 21st largest trader.
- Increasing trade in goods and services will be key to unlocking economic growth.
- Research shows that firms with international exposure have more than double the rate of productivity growth.
- Increased trade creates wealth by allocating work to its most productive use and creates jobs in sectors where Australian businesses are most productive.
- Businesses that are productive and innovative, and make the most of global markets and global supply chains will prosper<sup>7</sup>.

The EMDG scheme has proven itself time and time again to be an effective catalyst for encouraging businesses to export to new markets. The Mortimer Review notes:

*The EMDG scheme has been helpful in introducing smaller Australian businesses and new exporters to the global market and can be considered both effective and efficient in supporting the development of Australia’s exports.*

Additionally, a 2005 survey of EMDG recipients conducted by the Centre for International Economics found that the scheme:

- Induced export promotion
- Boosted exports
- Helped SMEs export on a regular (sustained) basis
- Had a positive impact on export culture<sup>8</sup>.

Furthermore, data gathered from AIBS 2015 indicates that from a pool of 1,237 exporters, on average 45 per cent had received an EMDG in the past. Of those, 63 per cent state that

<sup>7</sup> Lydon, J et al, 2014, McKinsey Australia, *Compete to Prosper: Improving Australia’s Global Competitiveness*.

<sup>8</sup> Mortimer, D 2008, *Winning in World Markets, Review of the Export Market development Scheme*, ISBN 9781921244841, page 14.

it was very important to their international marketing efforts, while a further 31 per cent state it was moderately important (see Table 2).

**Table 2** *Importance of the EMDG scheme to international marketing efforts*

<i>Response</i>	<i>Share</i>
very important	63%
moderately important	31%
not important	6%

Source: AIBS 2015

A breakdown of the utilisation/awareness of the EMDG scheme for some services sectors, where data was available, can be seen in Table 3 below.

**Table 3** *EMDG utilisation and awareness*

*Q: Has your company received an EMDG in the past?*

	Yes	No, applied but not successful	No, eligible but did not apply	No, not eligible so did not apply	Have not heard of the scheme
IT	54%	2%	19%	12%	12%
Education	43%	0%	20%	15%	22%
Professional Services	34%	1%	22%	22%	21%
Financial Services	24%	0%	10%	24%	43%
Health Services	53%	11%	0%	21%	16%
Other Services	45%	1%	19%	19%	16%
Overall Average	45%	2%	19%	18%	17%

Source: AIBS 2015

Between one-third and one half of respondents from the services sectors listed stated they had received an EMDG grant, while on average roughly a fifth indicated they were eligible to receive a grant but hadn't applied. Generally, between 12 and 22 percent of companies stated they had not heard of the scheme while, this figure was significantly higher at 43 per cent for the financial services sector. These results indicate that there is room to improve the promotion and marketing of the scheme as it is important to the success of international marketing efforts for both goods and services exporters.

The ECA has called for the continuation of the EMDG scheme in its recent submission to the 2015 EMDG Review. The submission contains a range of recommendations to improve the scheme and maximise its benefit for exporters. This submission is not currently publically available as it contains confidential data but the ECA would be happy to send the Productivity Commission a copy if so desired.

## 2.3 Learning from the experience of other international economies

### Country Highlight: The UK

The UK, as part of its broader Industrial Strategy, published in September 2012, has developed sector specific strategies for growth. In 2013 the UK published its *Growth is our business: A strategy for Professional and Business Services*, which looks at the medium and long-term challenges and opportunities for the sector.

It identifies two specific areas key to ensuring the future strength of the industry:

- Increasing access to the high level of skills demanded by client-focused professional firms.
- **Capitalising on the excellence of the UK professional and business services sector to increase exports to emerging markets.**

The latter will be of the most relevance and use to the Productivity Commission's Review as it sets out how the UK plans to enhance its international competitiveness by identifying and working to bring down trade barriers. This strategy sits alongside UK Trade and Investment's *Britain Open for Business* and *Britain Open for Business: The Next Phase* documents, linking in with the operations of the national TPO to advance trade development.

### Creating the Strategy

In 2011, in response to ongoing economic stagnation, the British Government announced a plan to boost economic growth through trade and investment. It established clear goals and objectives for trade promotion and committed to promoting trade and investment as a means to ensure long-term growth and prosperity.

The United Kingdom's trade and investment strategy and objectives are outlined in a series of key documents which include:

- The Trade and Investment for Growth White Paper (February 2011)
- The Plan for Growth White Paper (March 2011)
- UKTI's five-year strategy- Britain Open for Business (May 2011)
- Industrial Strategy (September 2012)
- Sector specific strategies, including: *A strategy for Professional and Business Services* (2013)
- Britain Open for Business: The Next Phase (January 2014)

In February 2011, the government released a White Paper, *Trade and Investment for Growth*, which sets out the overarching strategy to rebalance the economy through a framework for trade and investment. The three overarching goals of the strategy are to:

- Maximise and realise the opportunities for businesses in the United Kingdom to trade and invest, and attract investment to the United Kingdom
- Strengthen the multilateral trading system
- Enable developing countries to benefit from trade and investment

The successful delivery of the White Paper's goals demands a whole-of-government approach to export promotion, which is being led by the Minister of State for Trade and Investment through the Cabinet's Economic Affairs Trade Committee. The committee is responsible for overseeing the implementation of detailed action plans to tackle policy issues inhibiting trade and investment.



This whole-of-government approach also includes the United Kingdom's overseas diplomatic network and a renewed focus on commercial diplomacy by the Foreign and Commonwealth Office (FCO). UKTI continues to work closely with the Department for Business, Innovation and Skills (BIS) on developing the key industry strengths, and the Export Credits Guarantee Department (ECGD) in supporting SMEs. The White Paper also emphasises other partnerships– for instance the partnership between UKTI and Infrastructure UK – to ensure that the United Kingdom takes advantage of international opportunities.

The other government policy document driving the United Kingdom's broader economic growth strategy is *The Plan for Growth White Paper*, published in March 2011, which sets out a program of structural reforms to remove barriers to growth for businesses and to equip the United Kingdom to compete in international markets. The reforms span a range of policies and include improving the United Kingdom's infrastructure, cutting red tape, root and branch reform of the planning system and boosting trade and inbound investment to achieve the government's four ambitions for growth, which are to:

- Create the most competitive tax system in the G20
- Encourage investment and exports as a route to a more balanced economy
- Make the United Kingdom the best place in Europe to start, finance and grow a business
- Create a more educated workforce that is the most flexible in Europe.

These White Papers, *The Plan for Growth* and *Trade and Investment for Growth*, form the basis for UKTI's five-year strategy, *Britain Open for Business*, which sets out how UKTI will provide practical support to exporters and investors so as to achieve the overarching goals set by the Government.

### **The Five-Year Strategy: Britain Open for Business**

In November 2010, Secretary of State Vince Cable and Chancellor George Osborne announced a fundamental review of what the government was doing to create the best possible conditions for private sector growth. Trade and investment was one of the six cross-cutting themes of this Growth Review, because exports, imports and investment were understood to have a “vital role” in driving growth in Britain's economy. Then UKTI Chief Executive, Nick Baird, launched the *Britain Open for Business* strategy in May 2011 in response to the challenging economic climate and the United Kingdom's dire need to improve its export performance and attract greater levels of investment. The strategy involves the reorganisation of UKTI around four key priority areas which are:

1. Increasing the number of high-growth and innovative SMEs which export
2. Campaigning for the highest value opportunities overseas
3. Creating an even stronger pipeline of inbound investment
4. Building strategic relationships with some of the biggest trade and investment clients.

*Britain Open for Business: The Next Phase* was released at the mid-point of the Britain Open for Business five-year strategy and outlines the progress made thus far and the plans moving forward. While the four priority areas outlined in Britain Open for Business remain the same, in its most recent plan, UKTI lists additional priorities, which are to:

- Provide more tailored support for large companies
- Increase the support provided to medium-sized businesses
- Enhance support for SMEs and increase promotion of SME services
- Focus strongly on China and India, with an increased focus on parts of Africa and Central America
- Help businesses to reap the benefits of FTAs Secure more export-focused foreign direct investment

- Focus on sectors where trade and investment are most effectively supported by the Government
- Work more closely with other government and non-government agencies.

The Industrial Strategy, published in 2012, and the subsequent sector specific strategies mentioned previously, are the next step in shaping the medium and long-term challenges and opportunities for the UK's most competitive sectors.

The ECA's ATD report highlights the need for Australia to have a more strategic approach to advancing trade development. It calls for the development of a national strategy for trade and, through broad stakeholder engagement, the creation a national plan for trade, which sets out how to achieve the countries strategic goals. The UK is a country that Australia can look to and learn from in this regard.

It would be beneficial for the Productivity Commission to analyse the UK's strategy for its professional and business services sector and see what lessons can be learnt and applied in the Australian context as both countries are attempting to achieve similar objectives, namely to capitalise on the excellence of the professional and business services sector to increase exports to emerging markets. Moreover, the ECA encourages the Productivity Commission to review the other case studies in the ATD report when it is released in July, as the activities of these countries might be of relevance to the review.

## 3.0 Recommendations

The ECA provides the following recommendations to the Productivity Commission and believes the implementation of these recommendations will assist in breaking down barriers to services export growth in Australia.

### Adopt a more strategic approach

1. Explore ways to more accurately capture services exports data so as to better inform policy making. The ABS doesn't currently capture the full extent of services exports because it excludes sales made through a foreign sales branch, subsidiary or other overseas presence of an Australian services company, and it is difficult to measure services embodied in goods exported.
2. Create a National Strategy that sets Australia's medium to long-term framework for advancing trade development, including strategies for key growth sectors such as services.

The ECA's soon to be released ATD report, which examines the activities of ten trade promotion agencies around the world, supports this recommendation. It draws on the strategic approach taken by the United Kingdom in setting a strategy for trade, as well as for service exports in its paper, *Growth is Our Business: A Strategy for Professional and Business Services*.

3. Develop a National Plan for trade, as recommended in the ECA's ATD report, and involve a broad consultative group consisting of representatives from government, peak industry bodies and the business community in setting the priorities and policies for trade, including trade in services.

### Improve the competitiveness of Australia's business environment

4. Continue to work to improve access to finance for SMEs in Australia. This could include exploring ways to further expand the supply of finance available to SMEs. The ECA is supportive of the recent changes to Efic's mandate and their increased marketing push to reach newer industries not typically targeted before, including the services sector. These changes will help address the access to finance issue highlighted by some services sub-sectors in this submission.
5. Explore ways to address access to/cost of research and development and the cost of production so as to encourage a business friendly environment in Australia. Creating balanced regulatory and taxation systems and developing a culture of support for innovation are critical in this regard. High potential companies are often approached by foreign governments, such as the United Kingdom and Singapore, that offer them substantial incentives to re-locate to their jurisdiction.

### Better Leverage FTAs

6. Ensure Australia leverages the benefits from FTAs with its trading partners by placing greater emphasis and investment in raising the overall awareness of their tangible and intangible benefits. This includes providing practical, user-friendly information to assist individual businesses, especially services companies, utilise these agreements. The ECA welcomes the recent announcement in the 2015 Budget that the Government is investing in improving business' understanding of the recently concluded Free Trade Agreements in North Asia and assisting businesses to access and maximise their benefits under these agreements.
7. DFAT should engage in more sector specific consultations, including with services sectors, to ensure there is a clear understanding of the outcomes industry is seeking from FTAs with a particular country/region.

8. Encourage the swift conclusion of TiSA, TPP, and support Australia's accession to the WTO GPA. These agreements will increase market access for Australian services exporters and offer non-tariff benefits.

### **Increase well targeted government support**

9. Ensure trade promotion programmes and services offered by government adequately address the needs of services exporters and in marketing these programs, ensure the language is geared towards services companies.
10. Increase Austrade's international representation, especially in established markets such as the US and UK where the number of trade focused staff has been reduced, as there remains demand for trade support services in these markets.
11. Increase the support for training and skills development specifically tailored to meet the needs of services companies looking to expand into global markets. This training could cover common barriers services companies identify, such as a lack of information about local culture and business practices, payment issues, understanding local regulations, IP protection and more. Export related training and skill development should be an eligible expense under the EMDG scheme.
12. Encourage the government to create online resources and programmes that are easily accessible, user friendly and current. In addition, services exporters could benefit from access to a comprehensive global business navigator that guides them through the entire journey, from getting ready to export, to expanding into new markets, and provides useful checklists and links along the way. This could be developed by the private sector and link in with complimentary government tools.
13. Encourage the government to increase funding for EMDG to \$175 million. In the 2015 Budget the government announced it would aim to increase the total number of EMDG recipients to 3,800, which is in line with the recommendation the ECA made in its submission to the 2015 EMDG Review. This can be achieved in part through greater promotion of the program to exporters, especially those in non-traditional export sectors—including some services sub-sectors—and sectors that are currently underutilising the scheme. The ECA would now like to see the level of funding increased to \$175 million and maintained at that level to meet growing demand and improve business confidence in the scheme.
14. Increase support from the Australian Government, whether through travel concessions or reduced cost, on Austrade organised Missions. Moreover, the ECA would also like to see a greater commitment by ministerial and diplomatic representatives to provide physical support on trade missions and for Australian companies involved in tendering for major, often Government funded projects overseas—as was recommended in our 2013/14 Trade Policy Recommendations. This level of support is provided by other Governments and has proven to be of great benefit to the companies they assist.
15. The ECA is pleased to see that a modest amount of funding has been invested to expand Austrade's Match Australia sports business program, which establishes business networking events aimed at linking Australian firms with business partners by leveraging major sporting events in Australia and overseas. The program has proven highly successful over the years and the ECA would like to see it further expanded so that more services exporters can access the benefits of such a program.
16. Address the skills deficit in science, technology, engineering and mathematics (STEM) in Australia. The government should commit to developing Australia's workforce capability in these fields as sufficient STEM skills are important to the future growth of Australia's services exports.
17. Reduce impediments to inbound travel by improving visa policies, passenger facilitation and maintaining internationally competitive passenger movement charges.

18. Encourage the government to address the in-market barriers faced by services exporters, as highlighted in this submission, in their trade negotiations and through other diplomatic channels.

## 4.0 Conclusion

Trade is a key driver of jobs, innovation and long-term prosperity for Australia. Increasing trade and investment is absolutely crucial to unlocking Australia's future economic growth. Therefore, the ECA strongly recommends actions aimed at increasing Australia's services exports. Breaking down domestic and in-market barriers to trade in services and providing the right environment for businesses to grow and develop their export capability in Australia will be crucial to achieving this objective.

In considering how to grow Australia's services exports, the ECA has offered a series of recommendations that we believe will help break down barriers to trade and better equip businesses to take advantage of international business opportunities.

The ECA is happy to discuss these recommendations further with the Productivity Commission if so desired.



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