Note to the Productivity Commission Inquiry into Service Exports

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On financial services:

A standard strategy for a company planning to export services is to establish a minority position in a company in the target offshore market. After learning about the market, the choice can then be made to expand or to exit. My question is whether in banking, regulation makes it difficult to pursue this logical expansion strategy.

Specifically it is important that APRA allow Australian banks to compete to buy minority stakes in offshore banks on equal terms with international banks. As I understand the current situation, Australian banks must fund such minority stakes completely from Tier 1 equity, but that is not the case for banks from other jurisdictions. This raises the cost to Australians of buying a minority holding relative to the cost for offshore banks and thereby inhibiting their offshore expansion. It may even be leading to some of the sell down of such stakes by groups like ANZ.

You discuss the trade-offs between prudential regulation and competitiveness but do not really discuss expansion strategies for banks.

On service exports more generally:

Public enterprises seem less likely to export than private businesses. One wonders whether CSL, Telstra, CBA and other former public businesses would be seeking to export services if they were still in public ownership.

Looking across the service sector as a whole, much is still in the public sector. There is no necessary reason for public businesses to eschew export markets but the politics will normally work against them.

It would be helpful to have some discussion in the section in the report on barriers to exports of the inhibiting effect on service exports of public ownership.