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Australian Services Exports
Productivity Commission
Locked Bag 2, Collins Street
Melbourne VIC 8003

By email: **services.exports@pc.gov.au**

Dear Assistant Commissioner Heaney

Barriers to Growth in Services Exports - Draft Report

Thank you for the opportunity to comment on the Draft Report on Barriers to Growth in Services Exports.

ANZ appreciates the work of the Productivity Commission and believes it will improve growth in services exports and the wider economy. As you are aware, the ANZ PwC Asialink Report, *Australia's Jobs Future*, estimated services exports could be worth up to $163 billion and support a million Australian jobs by 2030. As the Australian economy transitions from the reliance on mining exports, the role of the services sector is becoming more important to Australian jobs and growth.

ANZ particularly values the focus in the Draft Report on the importance of a commercial presence abroad, including the estimates shown in Figure 3.4 indicating the contribution of service exports from this source. This has been a neglected area of policy discussion and the Commission's work is helpful in raising understanding.

Tax issues

Our recent report, *Winning the Away Game*, focuses on the economic contribution of Australia-based global companies, that is companies with a commercial presence abroad, and related tax issues. We refer to the international research, also noted in your Draft Report, that shows the strong contribution of such companies to their home economies.

Winning the Away Game argues that while there are many examples of successful Australia based global companies, Australian outward direct investment as a proportion of GDP compared to the OECD average has fallen steadily over the last decade. In the decade to 2004, Australia was at 126 per cent of the OECD average of outward FDI to GDP. This figure has fallen steadily since then to reach 68 per cent in 2013.

We believe that Australian taxation arrangements have contributed to a fall in Australia's performance relative to the OECD average. Our report notes that Australian investors will generally face a 30% higher rate of tax on dividends sourced from foreign profits than on dividends from domestic profits. As a result, dividends from foreign assets will be more valuable to offshore investors than to Australian investors. This creates an economic incentive for Australia owned offshore assets to be sold to offshore investors.

Based on modelling by Independent Economics, we estimated the benefits from reform of the present arrangements. A foreign tax credit of 20% is estimated to generate a net economic benefit of more than AU$1bn per year over and above costs to revenue of around AU$1.75bn. An additional AU$300bn of foreign assets would be owned by Australians, contributing to the diversification of our economy.

In the Draft Report, Recommendation 6.4 on dividend taxation recommends that that these issues should be considered as part of the Tax White Paper process. We support this approach and similarly support the related Recommendation 6.3 on withholding taxes.

We do suggest a minor change to the wording of Recommendations 6.3 and 6.4. These recommendations refer to "domestic and international investment markets, and on the supply of financial services by Australian providers". The economic issues that are raised relate to investment in non-financial assets and many services, not just financial markets or services. We suggest that to avoid a narrow interpretation, the recommendations should refer to "domestic and international investment, and on the supply of services by Australian providers".

Improving data

We strongly support your conclusion that assessments of Australia's service exports would be much enhanced with the inclusion of data on exports through a commercial presence abroad. We believe that including data calculated on a 'value added' basis would also be valuable for decision-makers and wider community understanding. We note that the ABS is currently reviewing its approach to international accounts and expects to announce decisions this month.

Asia Region Funds Passport

We support Draft Recommendation 6.1 that the Australian Government should continue to progress the Asia Region Funds Passport. We congratulate the Government on the Statement of Understanding signed on the 11 September by Australia, Japan, Korea, New Zealand, the Philippines and Thailand. The Funds Passport will help create jobs and investment for Australian companies.

Trade liberalisation and related regulation

We strongly support Draft Recommendation 9.2 to develop and implement mutual recognition arrangements with trading partners. Mutual recognition arrangements greatly assist companies that face different regulatory regimes across nations. They reduce barriers to new and potential entrants, fostering competition and growth.

We also strongly support Draft Recommendation 9.3 on cross-border movement of data. Protecting the privacy and security of consumer, business and government data is a goal of all governments. ANZ believes however that many nations implement burdensome and costly regulations in seeking to achieve the sought outcome. Raising this issue in trade negotiations and international forums would be an important step forward.

ANZ supports the Draft Report's recognition of the benefit of Free Trade Agreements in lowering barriers to trade, and the role of regulatory harmonisation between trading partners. The Draft Report recognises a range of barriers to operation, and costs imposed behind-the-border and at-the-border including foreign equity caps, branch and product licensing restrictions, and prudential regulations.

ANZ thanks the Commission for this important study. We encourage the Commission and the Government to continue to explore measure to lower barriers to, and the cost of, exporting Australian services. We would be happy to contribute further information where this would assist the Commission, subject to the sensitivities of any current negotiations.

Sincerely

Rob Lomdahl
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