FORTHCOMING PUBLICATION

Government of South Australia

Department of Trade and Economic Development

Australian Services Roundtable

TOWARDS A SERVICES EXPORT STRATEGY FOR SOUTH AUSTRALIA

Steering Group for Services Exports

2007-2008

FOREWORD

In partnership with the Australian Services Roundtable (ASR), the national peak business body for the services industries, the South Australian Department of Trade and Economic Development formed a Steering Group for Services Exports (SGSE) to oversight development and initial implementation of a services export strategy for South Australia. The Steering Group included representatives from a wide range of the services sub sectors identified as having export potential for South Australia.

The Steering Group's objectives were to:

- develop a services sector export strategy for South Australia
- describe, scope and promote services exports from South Australia
- grow Australian Services Roundtable membership in South Australia
- plan and execute significant events including those that will match service providers with market opportunities and attract new ASR members
- create a directory/data base of South Australian exporters of services
- consider future organisational options to carry forward the Steering Group's recommendations.

The Steering Group members, in partnership with the Australian Services Roundtable membership in South Australia, will continue to take a supervisory role in implementing or otherwise taking forward the recommendations presented in this Strategy paper. In pursuing this work, the Steering Group sought input from a wide variety of interested businesses and other stakeholders. All interested firms and organisations were encouraged to register their interest in Steering Group activities and outcomes.

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South Australian Export of Services Strategy

EXECUTIVE SUMMARY

This strategic report was prepared to help fill a gap in the public policy research base with respect to the State's services exports. The immediate task was to identify the nature, scope and potential of the South Australian services export sector and consider what action could be taken, by the State Government and by industry itself, to boost services export growth.

Given the limitations associated with Australia's services export data, especially at individual State level, supplementary data was collected via a comprehensive business survey to identify those services sub-sectors and those kinds of services firms, which are most likely to be in need of additional export assistance and where such additional assistance is likely to have the greatest impact on the State's export performance. This valuable new data has provided many new insights into the nature of the State's small and medium sized services sector and is in the process of being compiled into a comprehensive and accessible Services Exporter Directory to assist both industry and Government in the process of matching South Australian services capabilities with potential new market opportunities.

With services exports at $1.7 billion in 2005-6, and Education and Tourism alone accounting for over $1 billion, the Steering Group considered there was value is setting an aspirational goal of 5 percent services export growth per annum, with a strong focus on sectors showing apparent export potential, such as business, professional and technical services and personal, cultural and recreational services sectors.

The Steering Group considered that a number of further studies need to be undertaken to explore key specific issues in greater detail. A study needs to be undertaken, for example, to confirm the Steering Group's findings that South Australia appears to have specialised niche services capabilities including in Environment/waste disposal, water resource management, franchise management, R&D services and mining technology services. Although the Steering Group has commenced the process, more work also needs to be done to assess more fully South Australia's effective competitive position, especially with respect to certain identified target geographic markets in Asia Europe and the Middle East, for these specialised niche services capabilities.

The Steering Group considers that considerable scope exists for clustering and partnering among South Australian based services firms as well as within a wider national network of services organisations to deliver export outcomes. It is therefore of critical importance to encourage services firms to continue to get together. Ongoing development of a services industry network is required to seek and promote potential joint export sales opportunities, especially given that the services sector has long been underrepresented in the traditional established industry fora.

There is, for example, a relative absence of specialised services oriented export information available to actual and would-be services exporters not only in the State but also nation-wide. The Steering Group proposes that centralised information resources should be assembled in Adelaide for ready distribution to potential exporters in South Australia. In particular, there is a need to assemble appropriate services market intelligence including: information on the regulatory challenges faced in the top 10 markets/services sectors; and a business guide to exporting services.

The Steering Group was also of the view that new mechanisms need to be found to leverage commonly required support such as for marketing/branding, financial backing, risk management and protection of intellectual property. State-based resources could usefully be devoted to kick-starting industry's own efforts in these directions.

The Steering Group has undertaken a wide variety of promotional activities among potential stakeholders to inform them of the Steering Group's work and to build the profile of the services sector in South Australia. An effort has been made to gather the views of other players in the sector and to enlist corporate support and sponsorship for the ongoing work which will be needed to enhance South Australian services export growth.

To ensure that the Steering Group's work on all the above identified matters is sustained and its strategic recommendations implemented, the Steering Group recommends that the Australian Services Roundtable (ASR) be encouraged and supported to partner with the Department of Trade and Economic Development to undertake all the required support activities identified in this report.

Ideally, an office would be established in Adelaide to house a readily accessible centralised services export information resource and should facilitate provision of training to actual and potential services exporters. A comprehensive South Australian Services Exporters Directory should be completed and made available on-line via a separately identifiable website.

A three year action plan on how to best leverage identified South Australian services capabilities with identified market opportunities should be prepared. The Steering Group sees value in setting an immediate aspirational goal of growing South Australian niche services exports at a target growth rate of 5 percent per annum.

A first review of the programme of activities proposed in this report, and its outcomes should be undertaken by the Steering Group by the end of 2008.

CHAPTER 1: INTRODUCTION TO THE SERVICES SECTOR

1.1 Understanding the Services Sector

Defining Services

Services encompasses a very broad and diverse range of activities, but tend to be intangible and difficult to measure. While there is no one accepted definition, in its broadest sense, and to aid in the classification of statistical data, the services sector traditionally tends to be defined negatively – as all *residual* or economic activity other than mining, manufacturing, agriculture, forestry and fishing, our primary and secondary industries. Services are generally poorly understood, therefore, as tertiary activities that do not produce 'things' or 'goods'. Defining services by what they are *not*, however, doesn't necessarily help us to understand what they *are*.

The negative official definition of services is also somewhat nonsensical in practice. Many services activities do in fact result, incidentally, in production of a 'thing' eg a restaurant 'meal', a South Australian 'movie' or a published consultancy 'report'. Similarly, significant services sector activities are embedded within every goods-producing industry. Industry policy analysts have become increasingly aware that services incidental to or embedded in manufacturing, mining and agriculture account for critical added value and competitive advantage.

A more positive and more insightful definition of services is needed, therefore, in order to help focus attention directly on services activities in their own right, rather than merely as 'residual to', 'incidental to', 'embedded in' or 'bundled with' the various goods producing industries. This is important if we are to make progress in identifying the drivers of Australian and South Australian competition advantage specifically in services activities and hence in defining a strategy to help meet the policy needs of actual and potential Australian services providers, including services exports.

One early effort at defining services was to look for common features or 'peculiarities' that make them different form other types of economic activities. This approach tended to focus on their intangible or immaterial nature, the need for interaction between producers and consumers, their non-storability and their non-transferability. More recently, however, advances in information and communications technology have reduced the need for personal contact between producers and consumers and have allowed services to become more readily transferable.

The best available conceptual definition which emerged from Australian private sector research efforts at the end of the 1990s, is that services deliver help, utility or care; an experience, information or other intellectual content – and the majority of the value of that activity is intangible rather than residing in any physical product.

Measuring Services

The traditional classification of services is industry-based. *(Problems with this means of classification, and approaches adopted for this project are discussed separately below).* The United Nations International Standard Industrial Classification of All Economic Activities (ISIC) forms the basis upon which most countries collect and publish economic data. In Australia's case, the industry classification adopted in the Australian and New Zealand Standard Industrial Classification (ANZSIC) identifies 14 separate industries as services –related. These are:

- Electricity, Gas and Water
- Construction
- Wholesale trade
- Retail trade
- Accommodation, Cafes and Restaurants
- Transport and Storage
- Communications
- Finance and Insurance
- Property and Business
- Government Administration and Defence
- Education
- Health and Community Services
- Cultural and Recreational
- Personal and Other

Based on Australian Bureau of Statistics (ABS) information, collected on the basis of these 14 identified industries, the Australian services sector makes up the largest proportion of the Australian economy in output terms. According to ABS data, the services sector accounted in 2004/5 for:

- 77.9 percent of Australia's GDP ($554 billion)
- 84.1 percent of employment (8,230,000 people)
- 60 percent of investment ($71.1 billion)
- 22.8 percent of exports ($35 billion)

In 2004-05, services sector GDP, employment, investment and exports grew at an average annual rate of 3.0 percent, 3.4 percent, 11.7 percent and 3.0 percent respectively. Department of Foreign Affairs and Trade figures indicate that services exports rose another 4 percent in 2005 to reach a record $37.2 billion.

Gross Domestic Product (GDP)

The services clearly accounts for well over three quarters of the economy and close to four fifths. This is high by international standards, the share of services in the national economy having seen a rapid increase over the last 15 years with the shift to a knowledge-based economy. The economy will keep moving in this direction as services, especially business services, act as a catalyst for change and competitiveness not only in the services sector itself but also in other sectors of the economy.

Industry Value Added (GVA)

In 2004-05, the service industries' share of Australia's total industry gross value added was 66.8%. In volume terms, GVA for total service industries grew very rapidly by 13.4% between 2000-01 and 2004-05, compared with 10.1% for total goods producing industries. Estimates for 2006 suggest this figure has now risen to closer to 78 percent. The largest service industry is property and business services, which account for 13.8% of the total industry GVA, followed by finance and insurance services (8.3%). While tourism is not an industry in the conventional sense, it can be measured and compared to other industries by considering the relationship between the demand for goods and services by tourists and the value added of those industries which meet that demand. The tourism share of total GVA in 2004-05 was 3.2%.

Number of Services Firms

As shown in Figure 1 below, Austrade estimates that as many as 82 percent of Australian firms are services firms and remarkably, services firms account for 67 percent of the total population of 25,000 Australian firms that export. But this is only a tiny segment (3 percent) of this vast services sector that is exporting (17,700 firms out of 577,158 services firms in Australia).

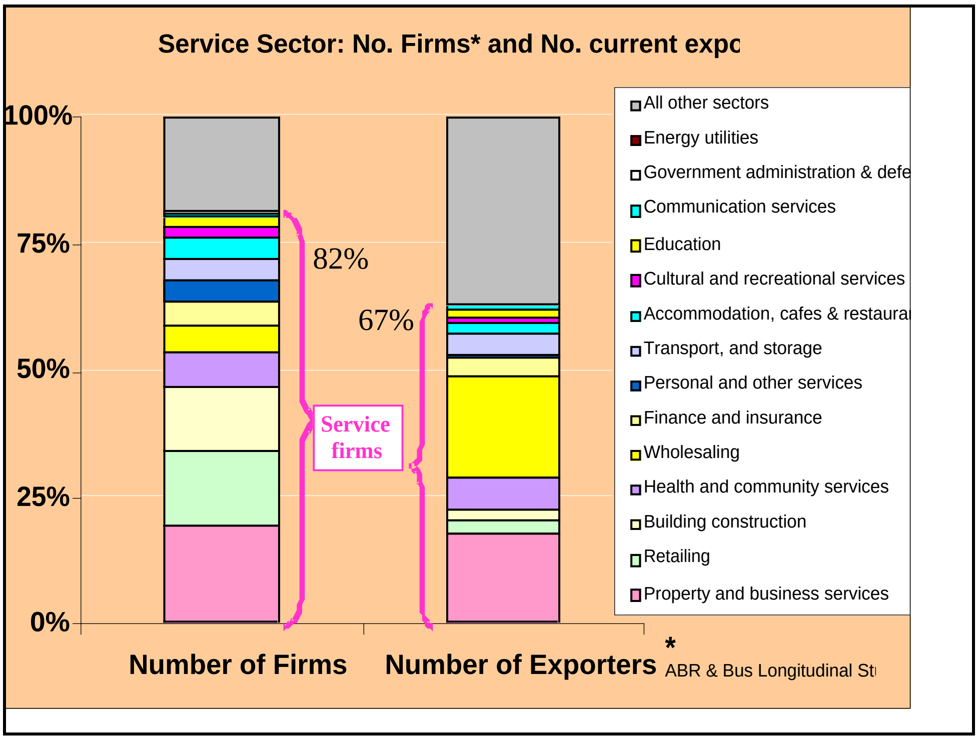

Fig. 1: Reprinted from *KNOWLEDGE-BASED SERVICES GLOBAL INITIATIVE*, Austrade Internal Working Paper, 2002

Small and Medium Sized Businesses

Business and professional services, especially consultancy, legal services, accountancy, communications and the media are among the fastest growing industries in Australia, with the numbers of firms doubling between 1994 and 1998. The vast bulk of these 120,000 odd firms in 1998 had less than 5 employees. But collectively, in 1998, they generated some $34 billion of GDP.

Employment

Services industries already employ 8 out of every 10 Australians and no net job has been created in any other sector for the last two decades. The largest employer is retail trade, accounting for 20% of total services employment. Other large employing industries are property and business services, health and community services and education. Tourism related activities accounted in 2004-05 for 5.6% of total employment.

1.2 Australia's Services Export Performance

Department of Foreign Affairs and Trade estimates that Australia's services exports rose by 4 percent in 2005 to reach $37.2 billion.

- Exports of travel services rose by 5 percent to $19.6 billion
- Transportation services exports rose by 2 percent to $8.1 billion
- Short-term visitor arrivals rose 5 percent to $5.5 million
- Other services exports were up 1 percent to $9.4 billion, led by architectural and engineering services, legal, accounting and management services, insurance services and R & D services.

For 2005-06 total services exports were $ 42 billion.

For Australia as a whole, the 2005-6 ABS data shows tourism-related travel and education-related travel at about $11 billion and $10 billion respectively and together they account for roughly half of Australia's services exports. Both these categories of exports exceed by a factor of ten any other services export category. The next largest are Computer and IT services and Architectural, Engineering and other Technical services, both of these categories registering nearly $1.2 billion in total exports. Financial and insurance services together account for $1.7 billion, communication services for $800 million and personal, cultural and recreational services for $660 million. There is another $1 billion in "services between affiliated enterprises" not otherwise counted in individual categories.

Exports of Services are Underestimated

At nearly 23 percent of exports, official estimates of Australia's services exports are now roughly on a par with manufactures exports and outdo Australia's rural exports. But trade in services is know to be notoriously difficult to measure and there is no doubt that the above figures are significant understatements.

First, Australia's services sector makes a much larger contribution to exports than its direct share, as services are often integrated with other goods; on average about one fifth of the value of Australia's goods exports is estimated to be composed of services. It is important to recognise that exporting rural goods of manufactures is not only about producing a world class Australian product but also about the efficiency of the services underpinning that product; services such as distribution and logistics, research and design, finance, communications, and business services of many different kinds.

Second, Balance of Payments statistics underestimate international trade in services by omitting

- Sales of services through Australian owned businesses operating in another country, i.e through franchises or through establishment of a subsidiary commercial presence in a foreign market
- Individuals temporarily travelling abroad to provide a service

Initial survey work undertaken by the ABS in 2005 of 100 percent Australian owned offshore affiliates suggests that the official data on services exports as measured by the Balance of Payments (BoP) has probably therefore been measuring less than one third of Australia's actual exports of services.

Top Export Performers

Tourism is said to be Australia's largest services export, and second largest export overall, representing 11.1 percent of total exports of goods and services, contributing $18 billion in income and employing 550,000 Australians. (Strictly, tourism is no classified as an 'industry' (it encompasses restaurants, wineries, transport operators, tour guides, hotels and a wide range of other businesses.) and is not defined separately as such within Australia's export statistics.)

Education is Australia's second largest services export industry and fourth largest export industry overall, behind coal, tourism and iron ore. According to the Department of Education, Science and Training, international education contributes more than $7.5 billion to the Australian economy and supports over 50,000 jobs. There are now about 340,000 international students studying in Australia and about 100,000 students undertaking Australian courses overseas.

Export Destinations/Export Deficits

In current price terms, Australia's international trade in services balance in 2004-05 recorded a deficit of $1.5 billion, a turnaround of $2 billion on the $0.5 billion surplus recorded in 2003-04. Services exports rose $1.3 billion (3.7%) to $36.5 billion and services imports rose $3.3 billion to $38 billion (9.6%).

The largest country contributor to the overall deficit on services was the United States of America, with a deficit of $2 billion. Deficits were recorded for most European trading partners, with Switzerland the largest at $0.6 billion. Australia recorded a net surplus with a number of its Asian trading partners, the largest being Japan at $1.3 billion. Australia also recorded a net surplus of $0.6 billion with New Zealand.

Future Export Opportunities

The Productivity Commission maintains that international opportunities for Australian services exporters are likely to continue to grow in line with current trends. Australia has identified significant new export opportunities for Australian services firms in diverse markets across the globe, in business and finance, education and training, culture, media and entertainment, health and medical, ICT and tourism and hospitality.

Box 1: Australian Services Statistics Made Simple

- The services sector accounts for 78% of GDP, 78% of gross industry value added and 60% of Investment- close to 4/5 of the economy.
- Services industries employ 85 of every 100 Australians.
- 82% of Australian firms are services firms; most are small and medium and only 3% of them are exporting.
- Services exports in 2005 were recorded as $37b (Tourism $11b, Passenger Transport $7.5b, Education $7b, Finance & Insurance $1.5b).

BUT…

- Balance of Payments (BoP) data does not measure services exports delivered via offshore commercial presence (branches overseas) or franchises. Recent ABS surveys of Australian-owned foreign affiliates shows the BoP is probably picking up less than 1/3 of the actual exports of services taking place.
- Even as currently measured, services exports, at 23% of total exports, are larger than rural exports and almost on a par with manufactures exports.
- Embedded services account for about 1/5 of the value of exported goods.
- Australia's top services markets are US, Japan, UK, NZ, and China.

1.3 South Australia's Services Exports: the Official Picture

The official ABS statistics show South Australia exporting $1.7 billion for 2005-06. (This revised export figure is such an improvement on the previous reported figure of $1.1 billion for 2005 that the difference is not all explicable by growth in the first half of 2006. Annex I attached separately provides an explanation of the revised statistical methodology involved.)

Table 1 sets out the most recent revised services export data for the State showing how the $1.7 billion is broken down by category of services export. This data is shown graphically in Figure 1. Unfortunately the data are not very enlightening from a services policy perspective. The data is very patchy and comes with the usual ABS caveat advising users to exercise care.

It can be seen from the Table that three quarters of the State's services exports are "transportation and travel services". On the "travel" side, which alone accounts for 66 percent of the total, Education-related travel bulks larger than the remainder which is described as "other" and is presumably Tourism-related. Both sectors each earn respectively just over and just under $500 million in export revenue.

While it is less important relative to Education for the State than it is for Australia as a whole, Tourism nevertheless amounts to four fifths of the State's education exports. Interestingly, for South Australia, these two categories of services exports exceed all others by a factor of 5 (rather than the factor of 10 applying for Australia as a whole). The Table tells us nothing more about Education or about Tourism, the State's, indeed Australia's, two largest export 'industries'. In particular, we have no information in Table 1 about the specific earnings of education suppliers.

Looking at what made up the remaining one quarter of the State's exports for 2005-06, the Table shows that the next largest item, accounting for $109 million was Personal, Cultural and Recreational (including Audio-Visual) services. This fully confirms the South Australian Government data which also shows over $100 million in Personal, Cultural and Recreational services. This represents a stronger relative performance than the rest of Australia in this category of services exports. For confidentiality reasons, however, the Table provides us with no insight whatsoever into the relative breakdown between audio-visual and other sub components of this sector.

Another $107 million is accounted for by Communication services and $76 million by "Other Business services". More than half of the $76 million of "Other Business services" was in the category of confidential information not for publication; this includes all the State's exports of professional services, R&D services, agricultural, mining and on-site processing services, merchanting, other trade related services and operational leasing services.

Within this category of "Other Business services", the table shows only that $5 million was architecture, engineering and other technical services, $4 million was "services between affiliated enterprises" and $22 million is even more opaquely described as "other".

Another insight that Table 1 provides is that the State earned $55 million in royalties and licence fees (presumably from offshore affiliates or franchises, but we do not know in what industries) and that $7 million was earned from Government services.

It is important to note from Table 1 that another $31 million of Construction services and Computer and IT services falls into the confidential and cannot be separately identified.

The new revised data for 2005-06 is encouraging in that it shows South Australia is exporting considerably more services exports than previously estimated. And it confirms State Government and anecdotal business evidence that the State's relative strengths lie (beyond Education and Tourism) in Cultural services which show a very healthy export performance and in Business, Professional and Technical services.

A much better understanding is nevertheless required of what is actually going on than the official data can provide. This is especially the case with respect to audiovisual services, cultural and recreational services, professional services, R&D services, agriculture and mining services, construction services and computer and IT services.

Ultimately even this new improved official data does not provide a sufficient level of detail for export strategy development purposes.

Box 2: South Australian Services Statistics Made Simple

- South Australia exported $1.7 b of services in 2005-6.
- 3/4 of these exports are transportation and travel
- Education and Tourism both earn the State respectively just over and just under $500m
- Personal Cultural and Recreational services (including audiovisual) exports are performing strongly and are worth $109m
- Communication services exports are worth $107m
- Other business services exports account for $76m but half of this amount is in the confidential category, including all the State's exports of R&D services, professional services and agricultural and mining services.
- Architecture, engineering and other technical services are worth $5m
- $55m was earned in royalties and licence fees
- Construction services and computer and IT services together account for $31m of exports; but for confidentiality reasons these can not be separately identified.
- The State's strengths appear to lie in Education, Tourism, Cultural services and technical and professional services.

Figure 1: South Australia' Services Exports by Category 2005-06

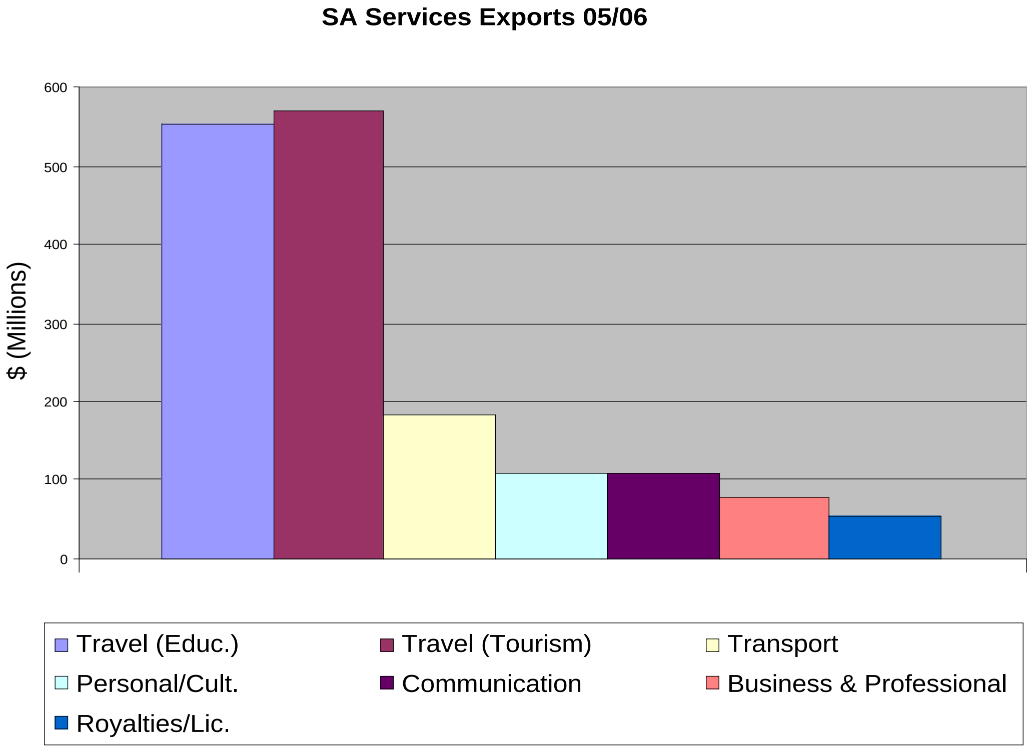

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Table 1: Services Exports from South Australia- financial year basis.

Australian Bureau of Statistics **cat. no. 5368.0.55.003 International Trade in Services by Country, by State and by Detailed Services Category, Financial Year** **Table 1. International Trade in Services, Credits, State by Financial Year, $m**

South Australia	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Transportation services	**122**	**150**	**129**	**123**	**137**	**151**	**182**
Travel services	**642**	**706**	**720**	**788**	**821**	**923**	**1,123**
Business	**59**	**49**	**65**	**36**	**43**	**49**	**94**
Personal	**583**	**656**	**655**	**752**	**778**	**874**	**1,029**
Education related	184	228	279	318	378	470	553
Other	399	429	376	434	400	405	476
Communication services (a)	**162**	**151**	**101**	**104**	**95**	**104**	**107**
Construction services	**np**	**np**	**np**	**np**	**np**	**np**	**np**
Insurance services	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Financial services	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Computer & information services	**np**	**25**	**59**	**np**	**np**	**19**	**np**
Royalties and licence fees	**np**	**np**	**np**	**29**	**62**	**57**	**55**
Other business services	**44**	**66**	**74**	**138**	**110**	**57**	**76**
Merchanting	np	np	-	np	np	np	np
Other trade related services	-	np	np	np	2	np	np
Operational leasing services	-	-	-	-	-	-	-
Professional services	3	3	6	14	np	2	np
Research and development	6	np	7	7	21	14	np
Architectual, engineering and other technical services	-	4	4	2	np	2	5
Agriculture, mining, and on-site processing	np	np	np	np	np	-	np
Services between affiliated enterprises n.i.e.	np	np	np	13	4	8	4

South Australia	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Other(a)	np	5	18	88	42	19	22
Confidential items - other business services(b)	35	53	38	14	41	13	45
Personal, cultural, and recreational services	**62**	**52**	**89**	**90**	**96**	**np**	**109**
Audiovisual and related services	np	np	np	np	np	np	np
Other personal, cultural and recreational services	np	np	np	np	np	np	np
Government services n.i.e.	**53**	**51**	**34**	**26**	**9**	**7**	**7**
Total confidential items	**45**	**22**	**28**	**10**	**5**	**101**	**31**
Total	**1,130**	**1,222**	**1,234**	**1,308**	**1,334**	**1,418**	**1,690**

(a) - Communication services includes other services nie
(b) - For cells annotated ' np' the data are included in Confidential Items
- nil or rounded to zero (including null cells)
np not available for publication

1.4 South Australia's Services Exporters: Colouring in the Picture

In order to paint a somewhat more complete picture, this section takes into account and summarises, in addition to the ABS data in Table 1, what supplementary information has been collected from various State Government and industry sources.

Education services account consistently for roughly one quarter of the State's services export earnings and have roughly doubled in income generated between 2003-4 and 2005-6 Education services accounted for 2,000 jobs for the State in 2003-04.

Tourism-related services are the next most important export earners for South Australia, with total visitor expenditure in South Australia amounting to almost $4 billion in 2003-04. Overall, the sector employed around 44,000 people in 2003-4, in the equivalent of 36,800 full-time jobs, with a significant number of these in regional areas.

In 2003-4, the South Australian **communications services** industry employed approximately 13,000 people, or just under 2 per cent of the state's workforce, with just over half employed in the telecommunications services sector, and the rest in the postal and courier services sector. The communications services industry is a significant source of services exports for the state, exporting services worth $100 million to overseas markets in 2003-04.

South Australia has a number of particular strengths in this area, especially in communications-related technologies, where there is a high degree of convergence between manufacturing and service activities. This specialisation is arguably one of the reasons why the State accounted for almost 12 per cent of Australia's communications services exports during 2003-04, which is well above its share of the national economy. It is the intention of this strategy development to show that the communications industry is not alone in being able to leverage services exports from a convergence with manufacturing.

The **finance and insurance** industry is one of the largest in the State, generating output worth $2.7 billion in 2003-4, and accounting for around 6.4 per cent of gross state product. The industry employed approximately 20,000 people, or 2.8 per cent of the state's workforce, with more than half of these (57.8 per cent) employed in finance, 16 per cent in insurance and the rest in services to finance & insurance. Despite significant levels of activity in these areas, South Australia does not currently record any service exports in either finance or insurance to any overseas markets.

As with Australia, which is responsible for 60 per cent of global mining software, South Australia has a number of strengths in the area **of mining-related electronics and associated services** – as exemplified by companies such as Minelab and I-SiTE Pty Ltd.

South Australia has many strengths in **the food, agriculture and fisheries sector**, and has the potential to gain significantly from progress in services activity incidental to these activities. Riverland orchard managers are already active, for example, in China, exporting their expertise in orchard management. Similarly, sales of live dairy cattle to China have the potential to translate into important opportunities in dairy herd management and quality control in milk production. The State's aquaculture specialists are also understood to be in active discussions with Chinese buyers on assisting China with technical aspects of fish farming. Winemaking expertise is another service that South Australia obviously has available to sell to the Chinese and there is every indication that they will be keen to buy these services in the future.

According to a comprehensive 2001 survey, the South Australian "**environmental services** industry" is a nascent industry, dominated by companies in environment protection and water and waste management. It includes around five large businesses that account for the majority of employment, revenue, capital expenditure and probably R&D expenditure, along with approximately 40 middle size firms (with between 5 and 100 employees) and a large number of much smaller businesses. While only a small proportion of these companies have direct business interests in Asia and the capacity to export in their own right, a number of companies have strong links with other environment businesses in South Australia and elsewhere in Australia, and may have the capacity to participate in joint ventures and strategic alliance in overseas markets.

Table 2 below suggests that **business and professional services** may not be as relatively important for South Australia as this category is for other States, accounting for only 2 percent of Australia's exports in this category. Compared to NSW and Victoria, South Australia would seem to have much work to do to become a major international player in this area. South Australia also does not seem to be a major exporter of Engineering, Architectural or Construction services to world markets.

Table 2: Professional and Technical Services Export Values ($m)

	South Australia	Australia Total	% South Australia
Professional Services	11	743	1.5%
Research and Development	14	309	4.5%
Architectural, engineering and other technical services	3	545	0.6%
Sub-total	28	1597	1.8%
Government Services n.i.e.	20	799	2.5%
Total	48	2396	2.0%

(Source: ABS Year Book Australia, International accounts and trade, International Trade in Services by State – 2003)

The Steering Group was of the view that given their relative underdevelopment in South Australia, the business and professional Services categories could be worthy of special attention. Business-to-business services such as consultancy, legal services and accountancy are important because they are among the most rapidly growing sectors nation-wide; indeed they constitute much of the infrastructure of any modern economy. They also act as a catalyst for change and competitiveness in other sectors. The recent rapid growth in business services nation-wide is partly in response to the increased outsourcing by firms of activities they had previously conducted internally. But globalisation and internet technology means some of these activities are also going offshore. Local industry and Government may need to act fast to ensure that local firms retain their competitiveness, both for export and in terms of competing with potential imports.

Meanwhile, $100 million worth of exports are attributed to what can broadly be defined as the “creative industries” or **personal, cultural and recreational services.** Given the State’s small share of national output in most of the relevant areas, and given the State’s relatively low value of service exports aside from Tourism and Education services, this is actually a remarkably strong performance.

The South Australian Export Council nevertheless reported in *Beyond Local* that the “creative industries” were generally characterised by relatively low maturity, in which there is some exporting at the firm level, but a lack of “critical mass” within the relevant sectors overall. Although not specifically defined, it can be inferred from the report that the “creative industries” comprise a range of different sectors, such as film, television, multi-media, games production and the arts.

There are a number of sectors within the creative industries that are of particular importance to South Australia, including the feature film, television and audio-visual sectors. Each of these sectors is already identified explicitly in targets in South Australia’s Strategic Plan. South Australia is already home to a small number of companies with international reputations in these areas, such as Kojo Group, Nylon Films, Rising Sun Pictures, Fusion, Anifex, and Best FX.

Despite increasing prices, per head consumption of these services has traditionally tended to rise as a share of total consumption, indicating a strong shift in preferences towards cultural and recreational services as incomes rise. Since 2000, however, that share has declined. This is partly as a result of the increased expenditure on home entertainment and the internet. Personal services, on the other hand, have experienced some recent growth as disposable incomes have risen and more domestic activities are “outsourced”.

CHAPTER 2: BUILDING A SERVICES EXPORTER BUSINESS DIRECTORY FOR SOUTH AUSTRALIA

Given the significant deficiencies outlined above in the official services export statistics, the Steering Group considered there was an urgent need to conduct business survey work in order to supplement the existing official data. Supplementary data was clearly needed in order to better inform the Steering Group's policy development work. The Steering Group considered the information could also usefully be presented in the form of a Services Exporter Business Directory which by itself would represent a useful output from the Steering Group's work and one which could be used as an export promotional tool both by government and industry itself.

An initial pilot industry survey was undertaken and the results confirmed that the lack of a relevant services industry Directory could by itself be hampering potential export growth. The Steering Group agreed that creation of a business directory offered an immediate opportunity to meet one of its own immediate objectives of raising industry awareness and connectedness. The Directory information would also de designed to serve as a contact list to facilitate industry interaction with the Steering Group through the strategy implementation phase.

The Steering Group agreed on a telephone-based survey and the Office of Trade in DTED committed a resource for a period of time to enable a draft Directory to be created. Table 2 below shows a sample resulting company entry in the draft Directory.

Firms and other organisations listed in the Directory needed to be classified into appropriate and policy-relevant industry sub-sectors. The Steering Committee considered that the traditional industry-based ANZSIC classification of the services sector needed some adjustment to ensure the desired appropriate focus on export potential and also to take into account the reality that export data is very scarce and that many local services firms are small and medium sized.

Guidance for classification with respect to export potential, and for benchmarking South Australia's services export performance internationally into the future for example, lies in the classification set out in the World Trade Organisation (WTO) General Agreement on Services (GATS). But the scarcity of relevant export data for South Australia makes full use of this classification unworkable.

The initial basis adopted, on which to build a Directory or database of services export industries in South Australia was ANZSIC 2006 and its ISIC correspondence table with some customisation for South Australia. The classification was modified to create a list of services that includes all the WTO list of services. In particular, a number of services incidental to Agriculture, Forestry and Fishing, Mining and Manufacturing were added. The structure was simplified to remove services considered unlikely in the near future to be traded internationally out of South Australia, including Retail, Wholesale Trade, Public Administration and Safety.

Special attention was given to the professional and technical services industries because the published ABS data for the professional and technical services exports from the State seem to be particularly affected by confidentiality issues. The relevant ANZSIC codes covered fall within Subdivision 69, Professional Scientific and Technical services.

The final resulting ANZSIC classification list used, showing the ISIC correspondence, is set out in Annex.

The Steering Group also considered it would be useful, given its export focus, to attempt wherever possible to categorise services industries within the Directory on the basis of size especially as indicated by number of employees. The professional and technical services sub-sector, for example, is known to be typically characterised by a very high proportion of micro-enterprises. For Australia as a whole, 92.8% of employing enterprises in the sector have a turnover of $1 million or less. And only 0.3% of enterprises in this services sub-sector nationally have a turnover equal to or greater than $20 million. Exports currently represent about 1 percent of total sector turnover and are concentrated with the small number of larger companies. The Steering Group was interested to determine the extent to which this situation might be mirrored at State level.

The preliminary results of an initial telephone survey designed to produce the first building blocks for a Services Exporter Data Base or Directory are set out in Chapter 3 below.