



Australian Services  
Roundtable

**An Invitation  
to the Rudd Government  
to partner in a**

***“Services Stocktake”***

**of**

**Business Perspectives on the  
*Competitiveness of, and Outlook for,*  
Australia’s Services Exports**

6 December 2007

## **EXECUTIVE SUMMARY**

The Australian Services Roundtable (ASR) is seeking Government assistance to undertake a sector-wide Stocktake of services industry perspectives on the opportunities and challenges facing Australian services exports, commencing in the financial year 2007/08.

The Services Stocktake will gather valuable, currently unavailable business data on services export activity together with new insights into the current state of Australia's services export culture and the drivers of Australia's competitiveness in services. It will supplement official statistics and aim to throw new light on the nature and extent of services.

The Stocktake will be facilitated by ASR's four Services Industry Focus Groups, each chaired by a services industry leader and by its new Services Association Forum. There will be important inputs from business via ASR's own work, and from university researchers working in the area.

The Stocktake process will consist of extensive business surveys and consultation, commissioned research from several academic specialists, integration and analysis by ASR, and broad dissemination of outcomes.

The Stocktake results would be available to support government and business decision-making from 2008-09 and be widely disseminated in 2008-09 and 2009-10 via high-level public/private dialogues.

The Stocktake will feed into the services industry's own strategic export planning.

The Stocktake results will feed through to Government in a variety of important ways, including via researched and coordinated industry input and submissions for trade negotiating and other trade policy purposes. The guiding motivation is to enhance Australian services export performance.

The Australian Services Roundtable invites the Minister for the Service Economy, to consider, along with other relevant Ministers, entering into a partnership with the services industries by offering a grant totalling \$1.05 million, to be applied over three years commencing in 2007-08, which will leverage ASR's own resources and enable the peak industry body in the sector to achieve an early roll out of its proposed Services Stocktake project.

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### **ATTACHMENT 1: Key Questions about the Stocktake**

## A. Why Services Matter

In Australia, the services sector accounts for 78 percent of GDP, 60 percent of domestic investment and employs 85 of every 100 Australians. 82 percent of Australian firms are services firms, yet only 3 percent of them are exporting. Most are small and medium sized enterprises.

In 2005, Australia recorded services exports of more than \$37 billion or about 23 percent of total national exports. Services exports are growing by about 4 percent a year.

The services sector, in fact, makes a much larger contribution to exports than its direct share, as services are often integrated with other goods. On average the ABS data suggests that about one-fifth of the value of Australia's goods exports is composed of services.

ASR believes that these statistics under-represent the true value of the export market for the Australian services sector. Much more work needs to be done to determine the true value of the sector's share of exports.

Ensuring that Australia's services trade interests are taken fully into account in bilateral and multilateral trade negotiations is an important objective both for Government and for industry because the potential gains are so large.

According to one estimate, cutting global services trade barriers by half would be worth about US\$250 billion in additional annual global services exports. Full services sector liberalisation could result in global welfare gains of US\$1.7 trillion. That is more than double the potential gain from liberalisation of barriers to trade in industrial goods and 31 times the projected gains from liberalisation of global agricultural trade.

Looking at the potential gains specifically for Australia, earlier Productivity Commission estimates suggested that the gains from liberalisation of trade in services could amount to double or even triple the potential gains which DFAT estimates suggested might accrue from agriculture.

## B. Services Trade Needs More Focus

With growing community and political consciousness of the central role which services will play in Australia's economic future, **Government policy** needs to fully reflect the value of the services sector.

The Board of ASR strongly urges the Government to interact more closely with representatives of the services sector by forming an industry partnership which will ensure that a stronger policy research base can be developed to better inform development of a national trade strategy for services, and policies on services competitiveness generally.

The Australian Services Roundtable's principal role is to provide a focal point for high-level interaction between the Federal Government and its agencies, on the one hand, and services industries, on the other, in regard to *issues common to all our services industries*. The ASR plays an integral role in pulling the sector together and providing one voice to Government on these issues, including trade negotiations, innovation, labour market structure, technology infrastructure, private/public sector interaction and other high-level drivers of services productivity and competitiveness.

As part of its role, the ASR is an active member of the ABS' International Trade in Services User Group, contributing to the direction for official statistics. Through this forum, the ASR is aware of the developments and gaps in the official statistics, both for international trade in services and for measurement of domestic service flows.

The business case for Government support of any proposed ASR research activity lies partly in the Government's own increasing need for services-related business information and partly in the Government's evident need for a more consistent, more high profile partnership and interaction with services industry champions.

Opportunities for services exports and the need for improved competitiveness in domestic markets also need more attention across the **private sector**. Increased consciousness within business of the impact of globalisation in an increasing percentage of services markets is essential. ASR's Stocktake will be an important input to business strategic planning by helping draw attention to evolving market realities, changing business perceptions and attitudes, and providing hard data to which business can respond.

A number of leading businesses and services industry associations are already joining in this work through their participation in ASR. It is expected that many more will join the process over the course of the Stocktake project.

Australia needs a better developed, more robust understanding of what currently drives competitiveness in the services sector, and its consequent export-readiness and actual participation in trade. ASR's Stocktake will be a major step in filling this gap in understanding.

### **C. Proposed ASR Services Stocktake**

The primary focus of official statistics is to provide data for compilation of Australia's Balance of Payments. As such, the official statistics could be considered to be constrained by the international standards governing this framework when trying to put them to other analytical uses. The ABS is aware of this constraint and has been actively seeking funding to improve the quality of the official statistics and to extend the statistics to cover the

provision of services by Australian-controlled businesses resident in other economies( also referred to as 'Foreign Affiliates Statistics').

Other than these arrangements and the arrangements established by ASR itself, there are no institutional arrangements in place anywhere in Australia (including no appropriate government programmes) which are focussed on improving the range of information available on sector-wide 'whole-of-services' matters.

There exists, as a result, no national programme of policy research underway which would help determine the main directions of development in the services sector as a whole.

The Australian Services Roundtable has been doing what it can to draw on the resources of all of its members to address this missing piece in the public institutional landscape.

**The time has come for the ASR's collaborative work to be taken to the next level via the Stocktake process, involving:**

- **a landmark cross-sectoral business survey**
- **focussed research by academic specialists in the area and**
- **analysis by ASR to draw this research together into deliverables that will make a meaningful difference for both Government and for services industries**

The Australian Services Roundtable aims to coordinate a concerted effort on the part of services firms and services organisations, assisted by academic research partners, to take stock of their current position in domestic and international markets and together analyse the challenges and opportunities ahead.

The proposed ASR Services Stocktake will focus on the factors affecting competitiveness of Australia's services industries and in particular the resulting outlook for Australia's services exports. The Services Stocktake will examine the factors influencing all four modes of export delivery.

The Stocktake will generate information which is needed for ongoing industry submissions to Government, especially for the purposes of trade policy formulation. It will build on the information available in the official statistics and be an important complement to the ABS intentions to measure foreign affiliates statistics. The Stocktake will offer an invaluable means of improving the regularity and depth of services industry input to Government for trade negotiation purposes. Services industry input to Government is much more fragmented and irregular than is the case for the other major sectors. The Stocktake results will enable services industry input to Government of a more consistent, more accurate and more policy relevant nature.

## **SERVICES STOCKTAKE DELIVERABLES**

**Business Stocktake Reports on the competitiveness of and outlook for Australia's services exports**

**Industry-based services trade data**

**High profile public/private services sector dialogue**

**Government access to ASR's Services Industry Focus Groups**

**New, better coordinated industry inputs to Government policy processes**

**Key inputs to business decision-making on export and growth strategies**

The Australian Services Roundtable has drawn attention to the need in Australia for a coordinated "whole of services" approach to key issues affecting competitiveness of the sector. As the peak body advocating the common interests of the services sector, the ASR will establish four new Services Industry Focus Groups as mechanisms to enable closer business study of a variety of cross-sectoral policy issues which the membership has identified as of immediate policy priority. The work of these Focus Groups will be pulled together to culminate in an overall Stocktake of Australian services industry trends. Further details of the Stocktake process are provided in Section G below.

### **D. An invitation to partner with ASR**

The Australian Services Roundtable's resources are not sufficient to ensure early commencement and timely completion of this important work.

**The Australian Services Roundtable is therefore inviting the Minister for the Service Economy, along with other relevant Ministers, to partner with industry by making a 3 year grant commencing in 2007-08 to leverage ASR's own resources and ensure completion of the Services Stocktake project within this timeframe.**

The Australian Services Roundtable would also welcome a temporary or rotating secondment to the ASR Services Stocktake Secretariat of an officer from the Trade, Innovation or Deregulation portfolios and is pleased to invite consideration of that initiative by the relevant Ministers.

## **E. Funding the Partnership**

The overall budget for the 3-year Stocktake project is estimated at around \$1.8 million.

This will be applied to:

- ASR business survey
- Academic research partner projects (likely 3)
- ASR analysis
- Public/private sector dialogues
- Other activities to disseminate project outputs

ASR members will be able to contribute an estimated \$0.75 million of the total amount in cash and in-kind contributions, representing a significant proportion of ASR's own budget.

To enable the full programme to be undertaken as soon as possible, ASR is therefore seeking a grant from Government of \$350,000 per annum for three years totalling \$1.05 million over 2007-10.

## **G. Implementing the Stocktake**

The Stocktake will be undertaken through 4 main streams of activity.

- Australian Services Roundtable member and public events are already designed to facilitate policy networking and interactive sharing of perspectives across all of the services sub-sectors and between the small-and medium-sized and larger Australian firms. These events will provide important input to the Stocktake.
- ASR will survey business data, attitudes and perceptions in regard to globalisation of services industries, complementing official statistics and studies by government agencies.
- Some university-based expert research groups will be commissioned to commence planned studies of a small number of key issues including use of the various modes of services export delivery by Australian firms, services innovation processes and Australia's place in newly-emerging services industries such as new media and the digital economy generally.
- The ASR Secretariat will synthesise research outputs to produce project deliverables.

These activities will be managed by the ASR Secretariat, in collaboration with Government sponsors and organised through four new ASR Focus Groups and a Services Associations Forum within ASR. Each Group will be chaired by

a services industry 'champion' and relevant Government officials will be invited to participate. The issues covered by each group is outlined below.

### **EXPORT FOCUS GROUP**

*(Strategic Opportunities and Behind-the-Border Challenges)*

This Group will identify barriers to Australian services exports, as experienced by firms in the potential export business, focussed on delivery via modes 1, 2 and 4, both on a country-by-country basis and globally. The Group will survey business perspectives on why and how identified barriers amount to 'barriers', how such barriers affect the outlook for services exports and how such barriers might best be addressed, including by the business community itself. The Focus Group findings will assist in preparing coordinated submissions to Government in the context of multilateral and bilateral agreements affecting trade and investment in services. This Group will act as a clearing house for export market intelligence, in collaboration with Government agencies and offer opportunities, especially for small- and medium-sized firms, for business networking including into offshore supply chains.

### **INVESTMENT FOCUS GROUP**

This Focus Group will focus on all Mode 3 issues affecting market access and national treatment, including capital controls, foreign equity limits, investment screening, asset requirements and prudential controls, repatriation of profits and capital, performance requirements, discriminatory taxation arrangements, legal and documentary obstacles, licensing requirements, restrictions on management and staff transfers and government procurement practices. This Group will also co-ordinate ASR input into the work of the International Financial Services Working Group.

### **COMPETITIVENESS FOCUS GROUP**

This Focus Group will focus on issues in the domestic regulatory environment affecting competitiveness, import competition and export readiness, including competition policy, skills shortages, enabling infrastructure investment and transparency and harmonisation of regulation within the federal system. This Group will consider means of enhancing productivity across the services industries, including via education and training, ICT infrastructure and promotion of Public/Private Partnerships as a means of improving productivity in services delivery.

### **TRENDS IN SERVICES FOCUS GROUP**

This Group will oversight and coordinate the complete Services Stocktake, including preparing the associated analytical and statistical outcomes.

The Group will oversight management of outsourced research including any successful ARC Linkage project applications which enjoy Stocktake support. Identified business research priorities include three separate multi-year projects currently being developed with Macquarie University, the University of Adelaide and the Australian National University on topics relevant to each of the above Focus Groups, but which to date ASR has not had sufficient resources to “seed”. This Group will support ASR’s participation in the ABS User Group on Trade in Services Statistics.

### ***SERVICES ASSOCIATION FORUM***

At the membership’s request, ASR is simultaneously establishing an internal ASR Services Association Forum which will specifically provide opportunities for all services sector industry bodies (31 are already ASR members) to co-ordinate their views and jointly present them to Government on a regular basis. This Forum will provide a useful additional conduit through which to both gather information and disseminate Services Stocktake results.

#### **F. Mutual Benefits**

The Australian Services Roundtable is a 100 percent industry funded organisation. The proposed Federal Government grant will allow the Australian Services Roundtable to make an immediate start on the full proposed range of business stocktaking activities. The deliverables will be of enormous benefit to both services firms themselves and a wide variety of Federal and State government agencies.

Even in the OECD countries, services statistics are notoriously difficult to compile accurately. Australia is no exception in facing difficulties in compiling high quality services statistics. Even as the ABS works to improve and extend the scope of the official collections, it is essential, for good policy formulation, to supplement the official services export data with industry-driven business survey work. ASR is already experienced in successfully partnering with the Office of Trade in the South Australian Department of Trade and Economic Development to undertake services exporter business survey analysis. Based on the survey results emerging in the State context, ASR is confident that the proposed Services Stocktake will deliver a key new national resource of services export-related information.

The Stocktake will also facilitate a better response rate to Government calls for coordinated services sector input and submissions across the full range of services trade-related issues.

This is of critical importance to a healthy ongoing process of trade policy formulation because Government evidently needs to understand better what the Australian services industries really need to meet the challenges of globalisation and to maximise the benefits of negotiated offshore market opening.

The fact is that services exports are “different”. The barriers they face behind-the-border are often extremely opaque. Services are also traded “differently”. Their delivery is deeply tied up with cross-border people movement and with international investment flows. The bilateral trade agreements Australia is negotiating on services frequently raise new conceptual issues for which there is no global precedent. The Department of Foreign Affairs and Trade is pushing the envelope in this area – but often without an adequate industry research base to draw upon.

Through this invitation to partner in the Services Stocktake, the Australian Services Roundtable is offering the Minister for Trade an important opportunity to interact with services sector champions to improve national understanding of all of these matters.

In responding positively to the efforts that industry itself has made to bring the services sector closer to the forefront of trade policy attention, the Government will be taking an important step forward in securing a place in the global economy for Australia’s most people intensive, most skills intensive, most knowledge-intensive modern emerging industries.

This would be widely recognised as a significant step to open up a new partnership with the services sector:

- A partnership to assist the business community continue to identify the drivers of competitiveness for the future and to deliver the results of its research to government attention.
- A partnership to facilitate more effective interaction between the bulk of the Australian business community and the Minister for Trade.
- A partnership for positive services outcomes in international trade and investment negotiations
- A partnership to deliver gains in services sector innovation, productivity and competitiveness
- A partnership to enhance Australia’s services export performance



## ATTACHMENT 1: Key Questions about the Stocktake

### Question 1: Why does Government need the Stocktake?

The services industries have a unique identity and perspective, despite their diversity, and in many contexts need to be considered as a group for policy-making purposes. Government requires a “whole of services” position on today’s key policy themes:

- Competitiveness
  - Labour market – skills/education/training/Mode 4
  - Innovation and Productivity
  - Means of delivery of public services
  - Access to enabling infrastructure eg broadband capacity
- Services exports
  - Export barriers (Modes 1 & 2)
  - Offshore investment (Mode 3)
  - Positioning Australia as a services economy
  - Improving the range of statistics
  - Trade and Investment negotiating positions

Industry data and perspectives on these issues need to be assembled to fulfill the needs of:

- government policy-making – government needs a consolidated sectoral view on these issues and better understanding of the potential impacts of policy
- industry strategic planning - services industries generally need a better understanding of how they will be affected by ongoing globalisation of the services sector and what they should be seeking from government policy to assist in their response to globalisation,

There needs to be a better ongoing process of policy coordination between the services sector and government.

Australia needs a coordinated national approach to services strategy, focussed on achieving and maintaining international competitiveness. National strategy needs to be formulated on the basis of detailed and accurate information and in close consultation not only with industry but also across every relevant portfolio and level of government.

In addition, community consciousness of services’ current and future role in the economy needs to be raised through dissemination of the outputs from the proposed research work and as a consequence, increasing the profile of the official statistics which the Stocktake complements.

## **Question2: Why is ASR the right organisation to undertake it?**

Over the past four years ASR has established a solid base of membership, a network of partnerships, including the media and international sister organisations, and effective working relationships with Federal and State policymakers. ASR increasingly makes a substantial contribution to public policy on key issues affecting the services sector and provides input to strategic decision-making for its members.

The Australian Services Roundtable offers a mechanism by which industry can partner with the Federal Government to improve the services policy research base and deepen and broaden industry stakeholder consultation on the factors driving innovation, productivity and international competitiveness in Australia's services sector. ASR has the required:

- organisational structure
- existing good coverage of the services sector,
- deep understanding of Government policy requirements
- ability to consolidate industry data and opinion
- ability to mobilize substantial inputs in-kind by companies and industry associations in parallel with Government funding.

Attitudinal and perception-based information is a useful complement to the official statistics to assist in the interpretation of those data for policy purposes, but does not fall naturally within the frameworks under which the official statistics are collected. The ASR is well-placed to conduct this research, and has a well-developed relationship with the ABS to ensure the maximum utility for understanding the official statistics as well as providing a rich information set in its own right.

## **Question 3: How will the Services Stocktake be undertaken?**

The Stocktake will

- be driven by ASR Focus Groups coordinated by ASR Secretariat, liaising with Departmental sponsors (via a steering group)
- focus particularly on attitudes, perceptions, non-quantifiable issues not captured by official statistics
- source data from services businesses themselves, official statistics and from academic researchers
- undertake a major survey – a combination of quantitative questionnaires and qualitative interviews
- include input from a new Services Associations Forum within ASR
- operate under the guidance of each of ASR's member-driven Focus Groups (Exports, Investment, Competitiveness, Services Trends)
- provide comprehensive analysis and presentation of results,
- provide appropriate action recommendations for industry and government on future co-ordination of policy-making for the sector

The key output will be a Stocktake Report for use by Government and industry. ASR will disseminate the results directly and through its member associations.

The strategic goal is enhancement of Australia's services export performance.

An important by-product of the project will be a more visible high-level partnership with government that the sector has historically lacked.