



**Australian Government**  
**Productivity Commission**

Barriers to  
Services Exports

Productivity Commission  
Issues Paper

April 2015

## The Issues Paper

The Commission has released this issues paper to assist individuals and organisations to prepare submissions to the study. It contains and outlines:

- the scope of the study
- the Commission's procedures
- matters about which the Commission is seeking comment and information
- how to make a submission.

Participants should not feel that they are restricted to comment only on matters raised in the issues paper. The Commission wishes to receive information and comment on issues which participants consider relevant to the study's terms of reference.

## Key dates

Receipt of terms of reference	4 March 2015
Due date for submissions	15 May 2015
Release of draft report	Early August
Final report released	4 December 2015

## Submissions can be made

By email:	<a href="mailto:services.exports@pc.gov.au">services.exports@pc.gov.au</a>
By post:	Australian Services Exports Productivity Commission Locked Bag 2, Collins Street Melbourne, VIC, 8003

## Contacts

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Freecall number for regional areas:	1800 020 083	
Website	<a href="http://www.pc.gov.au">www.pc.gov.au</a>	

## The Productivity Commission

The Productivity Commission is the Australian Government's independent research and advisory body on a range of economic, social and environmental issues affecting the welfare of Australians. Its role, expressed most simply, is to help governments make better policies, in the long term interest of the Australian community.

The Commission's independence is underpinned by an Act of Parliament. Its processes and outputs are open to public scrutiny and are driven by concern for the wellbeing of the community as a whole.

Further information on the Productivity Commission can be obtained from the Commission's website ([www.pc.gov.au](http://www.pc.gov.au)).

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## **Terms of reference**

### **PRODUCTIVITY COMMISSION STUDY INTO BARRIERS TO GROWTH IN AUSTRALIAN SERVICES EXPORTS**

I, Joe Hockey, Treasurer, pursuant to Parts 2 and 4 of the Productivity Commission Act 1998, hereby request that the Productivity Commission undertake a research study into barriers to growth in Australian services exports.

## **Background**

Service industries are a large and growing share of the Australian economy and world trade. While services account for approximately 70 per cent of the Australian economy, they represent only 20 per cent of Australia's total exports indicating there is scope for significant growth. Some service industries are subject to extensive regulation and barriers to entry. The Government considers there is scope to reduce these and other barriers to growth.

## **Scope of the research study**

In undertaking the study, the Commission should:

1. Consider recent trends in services exports by Australian suppliers, and draw on case studies and other material where relevant to look at drivers of Australian services exports. The study should focus on the education, financial services, health services, information technology, professional services, and tourism sectors.
2. Examine the domestic barriers to growth in Australian services exports, including any investment barriers, and consider appropriate policy remedies.
3. Examine barriers to growth in Australian services exports in economies with which Australia does not have free trade agreements/economic partnership agreements in force or substantially concluded and which are ranked in Australia's top forty trade partners.
4. Provide an assessment of the economic benefits of removing or reducing the barriers to Australian services exports in these markets.
5. Examine, where relevant, the experience of other international economies in developing policy approaches in this area.

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## **Process**

The Commission is to undertake an appropriate public consultation process and release both a draft and a final report.

Noting that the Commission has recently commenced research in the international education services and tourism sectors, in undertaking this study the Commission should avoid duplication of that work and draw on it as appropriate in its final report.

The final report should be released within nine months of receipt of these terms of reference.

J.B. HOCKEY

Treasurer

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## 1 What is this study about?

The Australian Government has asked the Productivity Commission to conduct a study into barriers to growth in Australian services exports. In particular, the Commission has been asked to:

- consider recent trends in services exports by Australian suppliers
- examine the domestic barriers to growth in Australian services exports, including any investment barriers, and consider appropriate policy responses
- examine barriers to growth in services exports in key trading partners with which Australia does not have a free trade agreement and assess the economic benefits of reducing or removing barriers to services exports in these markets
- examine the experience of other economies in developing policy approaches in this area.

The Commission has been asked to focus on the education, financial services, health services, information technology, professional services and tourism sectors.

The Commission released a research report into Australia's international tourism industry in February 2015, and is currently undertaking research into Australia's international education services. The Commission will not duplicate the areas covered in these projects in this study. However, the Commission is seeking information on whether there are barriers to exports from these sectors that were not covered in the tourism and education services projects, or if further information and evidence on the issues covered is available.

The Commission is also undertaking inquiries into Australia's workplace relations system and migrant intake into Australia. The Commission is mindful that these inquiries touch on aspects of barriers to services exports, such as the ability of businesses and the labour market to respond to changing economic conditions, and issues relating to temporary migration to Australia. The Commission will address any overlaps between these inquiries and this study as the research and consultation process progresses. Where issues are raised that are specific to services exports they will be considered in this study.

## 2 How can you contribute to this study?

The Commission is **seeking submissions** from a range of participants including, but not limited to, services industry bodies, government departments, regulators, exporters of services and aspiring services exporters, including those that have encountered barriers to exporting services. The Commission's draft report will be released in early August 2015. The Commission requests that initial submissions be provided by **Friday 15 May 2015**. A

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further round of submissions will be requested after the draft report, which will inform the final report (to be released in December 2015).

**The Commission will also be actively seeking to consult with businesses with experience relevant to penetrating services export markets.** The Commission is intending to send a questionnaire to businesses that are currently exporting, or have attempted to export, services. The questionnaire will focus on the barriers to exporting faced by these businesses, including the potential costs and benefits from removing or reducing the barrier, what should be done to address the barrier and who should be responsible for addressing the barrier.

The Commission is seeking indications of interest from services businesses in each of the sectors being considered in this study that are prepared to fill in a questionnaire and participate in a face-to-face discussion. The Commission will send the questionnaire to participants in late April/early May. Participants can express their interest in participating in this process by registering at <http://www.pc.gov.au/inquiries/current/services-exports/register>, or by emailing the Commission at [services.exports@pc.gov.au](mailto:services.exports@pc.gov.au). The Commission will conduct face-to-face discussions with selected services businesses nominated through this process between May and June 2015. The number of such discussions will be necessarily limited by the time available for this study.

This issues paper is intended to assist participants in the preparation of initial submissions. The Commission has identified broad categories of potential barriers, and outlined issues raised in previous reports into services exports as a guide only. These are not intended to be exhaustive lists of the issues and barriers in the services export industry.

Participants do not need to address every information request in this paper, nor do they need to limit submissions to areas raised in this paper — although participants should ensure that issues raised are relevant to the terms of reference. Participants should provide evidence to support their views, including data and specific examples where possible. All submissions should be provided as public documents. The Commission encourages participants wishing to submit confidential material to contact the Commission before submitting such material. Attachment A provides further details on how to make a submission.

### **3 The Commission's approach to this study**

#### **What are barriers to services exports?**

Many factors affect the ability of businesses to export services. These factors include exchange rates, costs of production (such as labour and transport), access to finance, government regulation (both in Australia and overseas), and the policy approach taken by

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other governments to Australian companies operating overseas, for example in relation to foreign direct investment.

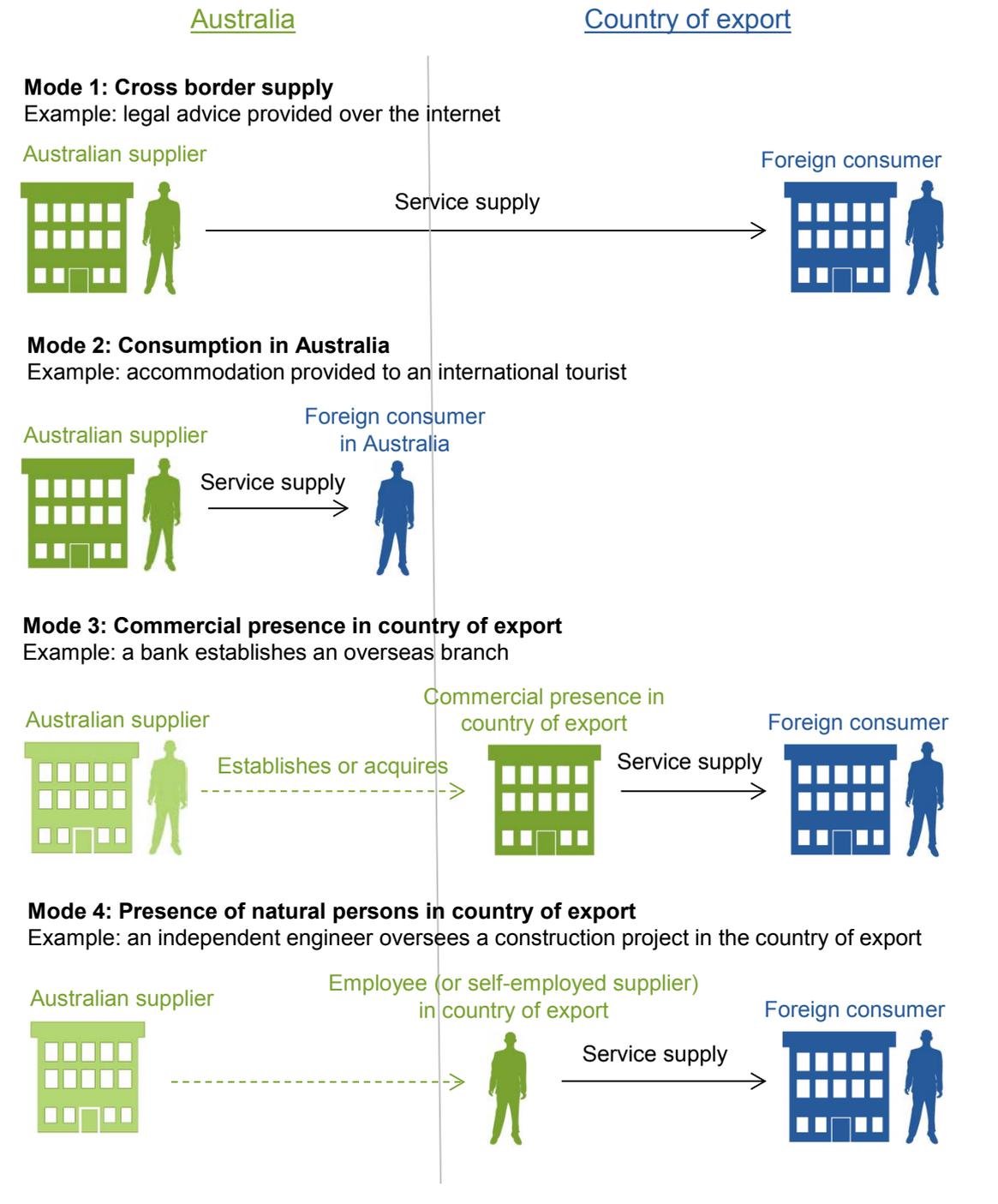
The focus of this study will be on identifying policy-relevant barriers that directly affect the export of services — those barriers that can be addressed by Australian governments either through domestic policies or regulations, or through international agreements to reduce or remove barriers in other countries. A barrier includes anything that *unnecessarily* impedes the ability of businesses to export services, either by increasing their costs, or preventing the service export from taking place. Barriers can arise either where existing regulations or policies are inadequate, or where there is a clear policy rationale for regulation that is not currently in place. Barriers can be either domestic barriers (that can be addressed by changes in government regulation or policy within Australia) or international barriers (that can only be addressed by overseas governments making changes to their regulations or policies).

When developing their submissions, participants should take care to differentiate between general costs of doing business — which are the responsibility of businesses to manage as part of day-to-day commercial operations — and policy-relevant barriers that can be addressed by governments. While there may be a range of barriers across the services industry that influence the ability of businesses to provide services to the domestic market, these are not within the scope of this study. There are four modes in which a business can export services. The Commission is seeking to identify barriers across all of these modes (figure 1).

## **Examining the costs and benefits of reform**

In examining the costs and benefits of removing barriers to services exports, the Commission's Act requires it to have regard to enhancing the wellbeing of the community as a whole. While removing a barrier to services exports may increase the volume of exports, the relevant consideration is whether the benefits of removing the barrier (in terms of increased services exports) outweigh the costs from a community wide perspective. These costs include any flow on costs to other sectors of the Australian economy.

Figure 1 Modes of services export



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## 4 Australia's services exports

The value of Australia's services exports was about \$57 billion in 2013-14, which represents 17 per cent of total exports (in gross value terms, as measured in Australia's balance of payments)<sup>1</sup> (ABS 2015a). The value of Australian services exports was almost nine times larger (in real terms) in 2013-14 than in 1973-74 (figure 2).

Australia's services exports account for a greater proportion of total exports when determined in value-added terms, which reflects the use of services inputs to produce goods exports, such as engineering services used to produce mineral exports. In 2009 (the most recent estimate available), the services sector accounted for more than 35 per cent of exports in value-added terms, compared to about 20 per cent in gross value terms (ABS 2015a; WTO 2014).

In general, services exports provided through commercial presence (mode 3) are not included in the balance of payments. There is limited recent data on exports through commercial presence. A one-off study by the ABS found that the value of Australian services exports through this mode accounted for almost two thirds of the total value of Australian services exports in 2002-03 (\$60 billion out of \$95 billion) (ABS 2004, 2015a). In the same study, the financial services sector accounted for the largest proportion of the total value of services exports through commercial presence (about 40 per cent) (ABS 2004).

### Key services export sectors

The terms of reference for this study request that the Commission focus on six services export sectors:

- *tourism* — which consists of services and personal goods, such as transportation and food, consumed by short-term visitors to foreign countries. There is some overlap between tourism exports and exports from other services sectors. For example, expenditure in Australia by international students may be considered a tourism export and an education export (as in figure 3)
- *education* — which includes services provided by universities, vocational educational and training (VET) providers, schools, and other educational institutions. Education exports are provided to international students in Australia, or to students in other countries via international branch campuses or online courses

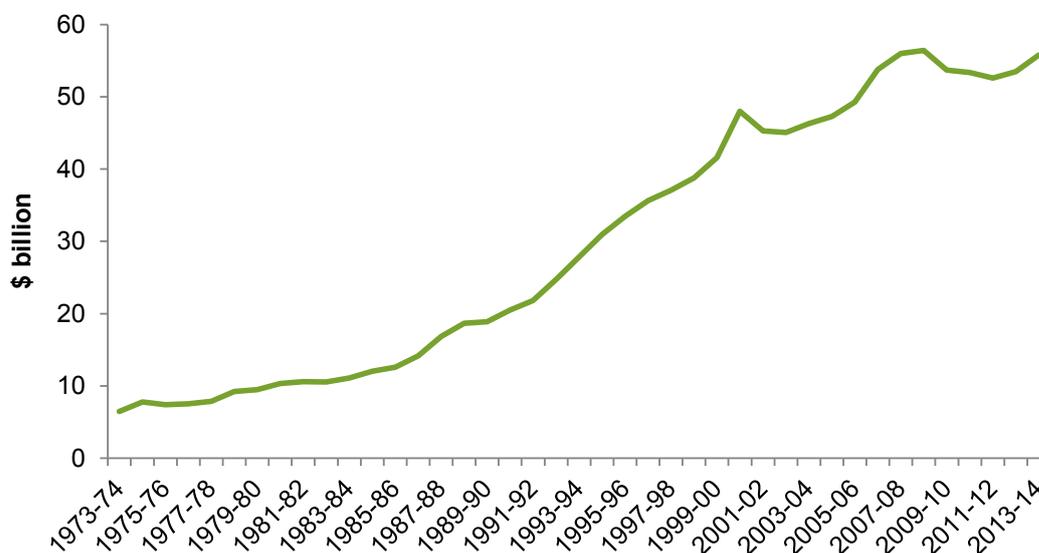
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<sup>1</sup> Services exports statistics are in gross value terms, unless specified. While measures of gross exports are widely used, they attribute all of the export value to the final industry in the production chain, and do not account for inputs that are used to produce exports.

- *professional services* — services provided by engineers, architects, accountants, lawyers, management consultants, advertisers, market researchers and other professionals
- *financial services* — which relate to financial intermediation, such as providing loans, insurance services, investment management, superannuation and pension services, stock brokerage, and investment banking services.
- *information technology* — which includes services such as hardware and software consultancy, software licensing, data processing, database services, maintenance and repair of computers, and news services
- *health services* — which relate to the diagnosis, treatment and prevention of disease, illness and injury.

In addition to the above, the Commission is seeking information from exporters in other services sectors. For example, mining services appears to be an area where expertise and capacity to export services is readily available.

**Figure 2 Australian services exports, 1973-74 to 2013-14**  
Chain volume measure<sup>a</sup>, 2012-13 prices



<sup>a</sup> Chain volume measures only vary with changes in the quantities of commodities produced or sold. They value quantities by using prices in a base period which is updated annually. These annually reweighted volume change measures are then chained together to produce a time series.

Source: ABS (2015a).

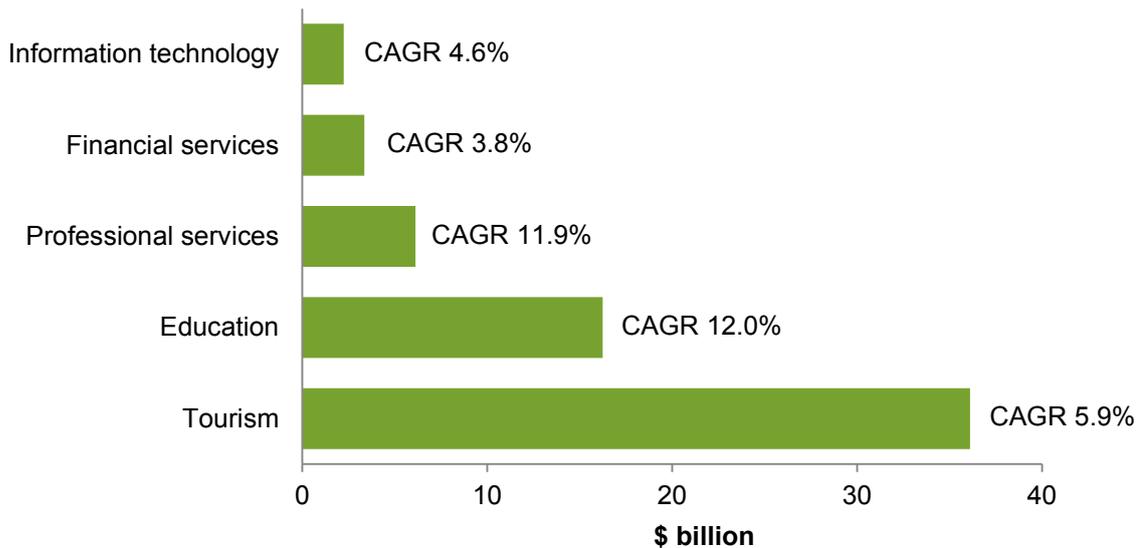
Figure 3 shows Australian exports (as measured in the balance of payments) in each of the sectors covered by this study in 2013-14 (except health services, which is too small to

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show in the figure). Combined, these sectors accounted for almost 85 per cent of the value of Australian services exports in 2013-14 (ABS 2015a).

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**Figure 3 Australian services exports in 2013-14, by sector<sup>a</sup>**  
Compound annual growth rate (CAGR), 1993-94 to 2013-14<sup>b</sup>



<sup>a</sup> Value as measured in balance of payments does not include most exports provided through commercial presence (mode 3). The value of health services exports was \$37 million, although this does not include health services received in Australia by overseas consumers (mode 2). Sectors are defined here according to balance of payments categories. 'Information technology' consists of telecommunications, computer and information services, and charges for the use of intellectual property related to computer and telecommunication services. 'Financial services' consists of financial, insurance and pension services. 'Professional services' consists of architectural, engineering, professional and management consulting services. 'Education' consists of education-related personal travel, education services, and royalties on education. 'Tourism' is equivalent to tourism related services, and consists of travel and passenger transport. <sup>b</sup> In nominal terms. Value as measured in the balance of payments: does not include most exports provided through commercial presence (mode 3).

Source: ABS (2015a).

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## Where do Australian services exports go?

The terms of reference for this study request that the Commission examine barriers to growth in Australian services exports in economies with which Australia does not have trade agreements in force or substantially concluded. Table 1 shows Australia's largest trading partners in 2013-14, Australian services exports to each of these countries in 2013-14, and whether Australia has a trade agreement with that country.

**Table 1 Australia's largest trading partners, 2013-14<sup>a</sup>**

Australia has trade agreements with the countries shaded green<sup>b</sup>

Country	Total goods trade (\$ million)	Services exports (\$ million)	Country	Total goods trade (\$ million)	Services exports (\$ million)
1 China <sup>c</sup>	149 471	7 487	21 Netherlands <sup>d</sup>	3 795	481
2 Japan <sup>d,e</sup>	66 693	2 005	22 Switzerland <sup>d</sup>	3 767	943
3 United States <sup>d,e</sup>	36 122	6 399	23 Canada <sup>d,e</sup>	3 212	855
4 South Korea <sup>d</sup>	31 725	1 635	Belgium and 24 Luxembourg <sup>d</sup>	2 870	148
5 Singapore <sup>e,f</sup>	20 345	3 580	25 Saudi Arabia <sup>k</sup>	2 578	352
6 Malaysia <sup>e,f</sup>	16 462	1 766	26 Philippines <sup>h</sup>	2 518	593
7 Thailand <sup>f</sup>	15 759	848	27 Mexico <sup>d,e</sup>	2 418	70
8 New Zealand <sup>d,e,f,g</sup>	15 337	3 876	28 Sweden <sup>d</sup>	2 408	284
9 Germany <sup>d</sup>	13 757	1 101	29 Nigeria	2 190	na
10 Indonesia <sup>h,i</sup>	11 307	1 287	30 Russia	2 128	162
11 Taiwan <sup>d</sup>	11 188	754	31 South Africa	2 124	394
12 India <sup>j</sup>	11 171	2 098	32 Ireland <sup>d</sup>	1 596	606
13 United Kingdom <sup>d</sup>	9 888	4 168	33 Turkey <sup>d</sup>	1 440	121
14 Vietnam <sup>e,h</sup>	7 236	1 084	34 Chile <sup>d,e</sup>	1 417	186
15 Italy <sup>d</sup>	6 584	515	35 Brazil	1 361	550
16 United Arab Emirates <sup>k</sup>	5 964	592	36 Denmark <sup>d</sup>	1 304	na
17 Papua New Guinea <sup>g</sup>	5 849	500	37 Congo	1 300	na
18 France <sup>d</sup>	5 293	741	38 Gabon	1 146	na
19 Hong Kong <sup>d</sup>	3 990	1 908	39 Austria <sup>d</sup>	1 136	na
20 Spain <sup>d</sup>	3 806	na	40 Qatar <sup>k</sup>	1 094	na

<sup>a</sup> By total value of goods trade (exports plus imports). <sup>b</sup> Trade agreements refers to bilateral trade agreements except for the ASEAN-Australia-New Zealand Free Trade Agreement, where indicated. <sup>c</sup> Negotiations for the China-Australia Free Trade Agreement have concluded, although it is not yet in force. <sup>d</sup> Part of the ongoing Trade in Services Agreement negotiations. <sup>e</sup> Part of the ongoing Trans-Pacific Partnership negotiations. <sup>f</sup> Bilateral trade agreement with Australia and also part of the ASEAN-Australia-New Zealand Free Trade Agreement <sup>g</sup> Part of the South Pacific Regional Trade and Economic Co-operation Agreement and the ongoing Pacific Agreement on Closer Economic Relations 'Plus' Agreement negotiations. <sup>h</sup> Part of the ASEAN-Australia-New Zealand Free Trade Agreement <sup>i</sup> The Indonesia-Australia Comprehensive Economic Partnership Agreement is currently being negotiated. <sup>j</sup> The India-Australia Comprehensive Economic Partnership Agreement is currently being negotiated. <sup>k</sup> Part of the ongoing Australia-Gulf Cooperation Council Free Trade Agreement negotiations. **na** Not available

Sources: (ABS 2015b; DFAT 2015a, 2015b).

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*The Commission is seeking information and evidence on:*

- *data on Australian services exports for each of the sectors covered in this study — particularly data on services provided through commercial presence (mode 3) over time*
  - *important trends in Australian services exports, including changes in the mode by which Australian services exports are provided, and any barriers to particular modes of delivery*
  - *the key drivers of the trends in services exports in each of the services sectors covered in this study, including the key drivers of demand for Australian services exports*
  - *which export markets are most important for services exports in the services sectors covered in this study, and which areas of services exports offer the greatest potential for growth, and why*
  - *the factors that affect the competitiveness of Australian services exports, including consideration of the strengths and weaknesses of each of the services sectors included in this study, relative to Australia's key competitors.*
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## **5 Domestic barriers to services exports**

The domestic barriers to growth in Australian services exports could be caused by a variety of issues, some of which are described below.

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*The Commission is seeking information and evidence on:*

- *what domestic barriers apply to services exports from Australia across the sectors considered in this study*
  - *the barriers that are the highest priority for reform, and who should be responsible for driving the reform process*
  - *the costs and benefits of removing any barriers to services exports, including any flow on effects to other industries or the domestic services market*
  - *how Australia's domestic policy and regulatory frameworks for facilitating services exports compare to other countries, including:*
    - *experience and lessons learned from other countries with which Australia has a trade agreement*
    - *whether there are effective approaches used overseas that could be adopted in Australia.*
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## Tax and other regulatory issues

In some cases, unnecessary or inadequate regulation may act as a barrier to increasing services exports. For example, in its study into international tourism the Commission found that while Australia's international aviation policy settings have served Australia well, it is expected that further liberalising access to Australia's major gateway airports would have net benefits for the Australian community. Participants to the Financial System Inquiry also suggested that a lack of understanding of Australia's trust law structure for managed funds was an impediment to the international integration of Australia's finance sector (FSI 2014).

Australia's taxation policy may also affect services exports, particularly if policy settings discriminate between the domestic services market and services exports. The 2009 Johnson Inquiry into Australia as a financial centre identified several taxation issues, such as impediments posed by Australia's withholding tax on foreign-raised funding (AFCF 2009). In addition, in a submission to the Financial Systems Inquiry, ANZ suggested that, because Australia does not have franking credits for profits earned offshore, offshore profits for Australian-based companies are subject to double taxation (ANZ 2014). The Commission is mindful of the review process being undertaken through the Australian Government's taxation white paper, which will cover the above issues (Australian Government 2015b).

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*The Commission is seeking information and evidence on:*

- *whether there are any domestic regulatory arrangements that limit the ability of the Australian services industry to export*
  - *possible reforms to domestic regulatory arrangements, and the costs and benefits of these reforms*
  - *whether any aspects of Australia's taxation policy creates a distortionary environment for services exports*
    - *to what extent have taxation issues, such as Australia's withholding taxes and system of franking credits, affected the competitiveness of services exporters*
    - *in relation to these issues, what would be the best mechanism to achieve reform (such as tax treaties or reform to domestic tax policy) and what would be the costs and benefits of these reforms*
  - *how Australia's domestic regulatory and taxation arrangements for services exports compare to those in key competitor countries*
  - *the extent to which recommendations of previous reviews examining the regulation of services exports, such as the Johnson Review of financial services, the Financial System Inquiry and the Chaney Review of international education, have been adopted, and whether any high priority reforms remain outstanding*
  - *participant views on the conclusions reached by the Commission in its recent report on Australia's international tourism industry, including the scope for further liberalisation of international air services arrangements.*
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## Visa arrangements

Australia's visitor visa program, and the varying requirements attached to each visa type, is designed to facilitate the entry of genuine visitors, while minimising non-compliance rates and breaches of visa conditions. Inefficient visa requirements can pose a significant barrier to exports where a visitor travels to Australia to consume Australian services (mode 2). There are several broad visa types that are relevant for services exports.

- Visitors travelling to Australia for reasons such as a holiday, to visit friends and relatives, and for business reasons, can apply for a short-term visitor visa.
- Visitors travelling to Australia for reasons such as medical treatments or consultations can apply for a medical treatment visa.
- Visitors travelling to Australia for study purposes can apply for a student visa.

The Commission considered short-term visitor visas in its report on international tourism, in which many participants raised concerns about the efficiency and cost of visa arrangements, particularly with regard to the arrangements for Chinese visitors. The Commission supported steps the Australian Government is taking to improve the efficiency of visa arrangements, such as its roll out of online visa applications (PC 2015). Student visas are being considered in the Commission's study into the international education sector. The Commission is seeking further evidence on the effectiveness of Australia's visitor visa arrangements, and the costs and benefits of any reform options.

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*The Commission is seeking information and evidence on:*

- *whether Australia's visitor visa program imposes a barrier to services exports, taking into account:*
    - *the overall objectives of visa programs*
    - *current Australian Government reforms to simplify visa arrangements*
  - *whether visa programs have affected people's decisions on whether to study in visit, or work in Australia*
  - *how Australia's current visa arrangements compare to competitor countries*
  - *what are the reform priorities to improve visa processing arrangements.*
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## Labour market issues

While sectors other than services are typically capital intensive, the services industry is heavily reliant on human capital (HRSCEFPA 2007). As a result, labour and skills issues can have a significant effect on the services sector, and thus on its ability to export.

Previous studies and inquiries have suggested that skills and labour shortages are an issue for the services industry. For example, the *Tourism 2020* plan notes that labour and skills shortages are the greatest supply side challenge for tourism, and that substantial job growth

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in the industry is required (DRET 2010). In addition, the 2009 Johnson Review into Australia's financial services sector also suggested that businesses in the financial services sector were concerned about skills shortages (AFCF 2009).

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*The Commission is seeking information and evidence on:*

- *whether skills and labour shortages have limited the ability of businesses across the services industry to export, and the possible reasons for these shortages*
  - *the priority areas for government reforms to address any skills or labour shortages, and the likely costs and benefits of these reforms.*
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## **Investment barriers**

The provision of services in Australia to overseas residents requires investment in areas such as infrastructure, research and development, and human capital. For example, the provision of tourism services requires investment in accommodation and attractions, the provision of education services requires investment in student accommodation and educational institutions, and the provision of health services requires investment in infrastructure such as hospitals and medical practices able to accommodate overseas patients. In all cases, investment in research and development, and human capital can help businesses across the services industry boost their productivity.

Government policies affect investment decisions, particularly in regulated sectors such as health and education. If not designed and applied well, regulatory arrangements could present barriers to investments needed to support services exports.

Participants in the Commission's study into Australia's international tourism industry raised concerns relating to infrastructure shortages in areas such as short-term accommodation and infrastructure in national parks (PC 2015). In addition, the Chaney Review of international education noted that there may be a need to increase the supply of affordable and safe accommodation available to international students (IEAC 2013). The Australian Government's approach to regulating foreign investment is relevant in this regard. Foreign investment helps to provide the capital necessary to finance investments in assets that support Australian businesses, including services exporters, and the Australian community.

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*The Commission is seeking information and evidence on:*

- *whether there are any barriers, including regulatory impediments, to investment in infrastructure to support services exports from Australia*
  - *what reforms are needed to Australia's frameworks for infrastructure investment to support services exports, including in relation to:*
    - *government investment in infrastructure*
    - *development approval processes for private-sector investment*
  - *whether there are any barriers to investment in areas such as research and development and human capital, and any high-priority reforms needed in these areas*
  - *the infrastructure needed to support services exports from Australia, and whether this infrastructure is adequate.*
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## **6 Barriers in Australia's key trading countries**

Although barriers to services exports can exist 'at the border', as is often the case with goods trade, many barriers to services exports occur 'behind the border' — that is, they are implicit barriers implemented through domestic regulations within the destination country.

### **The nature of international barriers to trade in services**

Barriers affect services exporters differently depending on the mode by which the service is provided and do not necessarily prevent entry into another country. For example, if cross-border supply (mode 1) is prohibited, a services exporter may still be able to export services (albeit at a higher cost) by establishing a commercial presence in the country. International impediments to services exports may relate to:

- *barriers to cross-border supply of services (mode 1)* — the development of information technology has facilitated growth in the delivery of services via cross-border supply, such as distance learning and e-commerce, and partially eliminated distance as a barrier to trade in some services. An example of a barrier to the provision of services exports via cross-border supply is non-recognition of degrees obtained through distance mode (Raychaudhuri and De 2007)
- *barriers to establishing a commercial presence in another country (mode 3)* — it may be necessary for Australian services exporters to establish a commercial presence abroad where they require close contact with consumers. Some potential barriers to establishing a commercial presence include: restrictions on the proportion of a business that can be owned by foreign entities; inability or difficulty gaining registration for a company; or restrictions on the use of international and foreign firm names
- *barriers to the provision of services exports by natural persons (mode 4)* — there may also be instances where individual services exporters (such as doctors, lawyers,

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accountants, and teachers) are restricted from temporarily travelling to another country to provide a service. These barriers could take the form of nationality or residency requirements that prohibit services exporters providing a specific service; standards and technical regulations, such as unnecessarily burdensome or opaque accreditation, registration and/or licensing requirements; or visa and entry restrictions

- *other barriers* — there may be other barriers to services exports that apply across all modes of service delivery or do not fit neatly into the modes outlined above. These could relate to: lack of information, including in relation to business practices or local culture; problems enforcing contracts (including obtaining customer payment); or problems protecting intellectual property rights or with the repatriation of profits. Businesses may also be concerned about potential operational and reputational risks arising from less stringent regulatory standards in other jurisdictions (occupational health and safety or bribery and corruption laws, for example). Restrictions on cross-border data flows, such as privacy laws that restrict the flow of personal information, or requirements to use locally based data services, can also act as an impediment to services exports (IIS 2015).

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*The Commission is seeking information and evidence on:*

- *barriers to the export of services by mode of supply and country, for each of the services sectors considered in this study*
- *which barriers (by country) are the highest priority for reform and who should be responsible for driving the reform process*
- *whether the barrier applies equally to Australian and domestic firms in the relevant country or whether the barrier discriminates against (or is more burdensome for) Australian firms*
- *the costs for Australian services exporters, and the community more broadly, arising from the barrier, including:*
  - *the extent to which there are greater barriers (and costs) faced by small businesses that are seeking to export services relative to larger firms*
  - *whether and to what extent barriers in one mode are resulting in services exporters accessing foreign markets via other, potentially more costly, modes*
- *standards and technical regulations, including qualifications and licensing requirements, that are not based on objective and transparent criteria, and are more burdensome for Australian services exporters than is necessary to ensure quality and/or safety*
- *whether there are any concerns about possible reputational risks for services exporters flowing from standards and technical regulations that are less stringent than they are in Australia, and/or from bribery and corruption concerns in key overseas markets*
  - *whether there is anything the Australian Government can and should do to help mitigate these risks*
- *the extent to which rules and regulations governing the international trade of services has kept pace with technological change, such as growing use of information technology as a means of exporting services, and to what extent restrictions on cross-border data flows have increased costs for services exporters.*

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## Mechanisms for addressing barriers to services exports

Aside from identifying barriers and assessing the likely net benefits to Australia of reducing or removing barriers to services exports, the Commission is seeking information on the best mechanism for removing barriers. Mechanisms to address barriers include:

- *trade agreements* — bilateral, plurilateral, regional or multilateral agreements. As outlined in table 1, Australia has negotiated trade agreements with a number of countries. These agreements include provisions for liberalising market access for services exports. Australia is also jointly leading, with the United States and the European Union, negotiations on a services-only trade agreement known as the Trade in Services Agreement
- *integration through intergovernmental forums* — such as the Association of Southeast Asian Nations (ASEAN) and the Asia-Pacific Economic Cooperation (APEC). An example is countries working together under the umbrella of APEC to develop the Asia Region Funds Passport which, once implemented, will provide a framework to facilitate the cross-border marketing of managed funds across participating economies (Australian Government 2015a)
- *direct negotiation between regulators* — for example, in 2008 the Australian Securities and Investment Commission signed a declaration of mutual recognition with the Hong Kong Securities and Futures Commission to facilitate the sale of retail funds to investors in each other's market (ASIC 2008)
- *direct negotiation between professional bodies* — for example, Engineers Australia has established mutual recognition agreements with professional bodies in a number of countries, where members of the professional body are accorded an equivalent level of membership in Australia and vice versa (Engineers Australia 2009).

Mutual recognition arrangements — for example, where a person registered or licensed to practice in one country (or jurisdiction) is entitled to practice in another country without the need for additional approvals — could occur through any of the above mechanisms.

The mechanism that is most effective in addressing a barrier to services exports may depend on the nature of the barrier. For example, where countries rely on self-regulation of professional services by industry it may not be possible for governments to make firm commitments through trade negotiations. Similarly, regulators may not be able to negotiate binding arrangements without a mandate from the relevant government.

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*The Commission is seeking information and evidence on:*

- *the circumstances when different mechanisms for addressing barriers are likely to be most effective, including whether particular barriers are better addressed through one type of mechanism over another, and the relative advantages and disadvantages of different mechanisms*
  - *whether there are any aspects of the Trade in Services Agreement that require further consideration or modification to ensure the agreement is effective in addressing barriers to services exports*
  - *whether and how the approach to addressing barriers to services exports through trade agreements, or other mechanisms, could be improved. For example:*
    - *after arrangements have been negotiated whether sufficient attention is paid to ensuring the necessary architecture (for example in relation to mutual recognition) and resourcing are in place to maximise the benefits flowing from the arrangements*
    - *whether there is scope for greater coordination between trade agreements and double taxation agreements*
    - *the application and associated consequences of rules of origin for services exports and investment*
  - *the role of government in facilitating arrangements to reduce or remove barriers by professional bodies or regulators*
  - *whether there are barriers to the import of services to Australia that other countries are seeking to be removed before they will remove or reduce their own barriers*
  - *approaches that have been used to address barriers to services exports in other countries that could be adopted by Australia.*
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## **Export assistance schemes**

Services exporters, like goods exporters, are able to apply for government support to facilitate exports. This support is primarily provided through Austrade, and can take many forms, including cash grants and advice on how to access export markets (box 1). It is important that these schemes are designed well and are targeted to where there is a clear case for addressing a policy-relevant barrier to exports. If there are difficulties for services exporters accessing programs, then this could constitute a barrier to services exports.

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**Box 1           Types of export assistance schemes**

The key Australian Government grants program for exporters is the Export Market Development Grants scheme. This scheme reimburses up to 50 per cent of eligible export promotion services for small and medium businesses. It is used by services exporters to varying degrees across the sector. For example, in 2012-13:

- the information, media and telecommunications sectors received \$18.2 million in assistance
- the financial and insurance services sectors received \$0.8 million in assistance
- the education and training sectors received \$7.6 million in assistance.

The Export Market Development Grants scheme is currently subject to a review within Austrade. This review will assess whether the scheme is effective and whether it should be extended, and is due to report by 30 June 2015.

Austrade provides a range of other services to exporters. These include general information and advice on exporting, and tailored services such as market research (which is cost recovered). In addition, the Export Finance and Insurance Corporation provides insurance and financial services to exporters, and state and territory governments provide varying levels of assistance (such as export grants and advice provided through Business Victoria). The tourism industry is also supported by the destination marketing provided by Tourism Australia and state and territory tourism agencies — this support was considered in the Commission’s study into Australia’s international tourism industry (PC 2015).

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*The Commission is seeking information and evidence on:*

- *the role of government in providing assistance to services exporters, including in relation to the provision of:*
    - *insurance services and financial assistance for exporters*
    - *information and advice to exporters (accessed in Australia or overseas)*
    - *funding for destination marketing and major events*
  - *whether current export assistance programs best meet the needs of services exporters or whether they could be improved, and if so, how*
  - *whether there are any (perverse or positive) consequences associated with cost recovery of some export support.*
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## **Attachment A**

### **How to make a submission**

This Commission invites interested people and organisations to make a written submission.

Each submission, except for any information supplied in confidence (see below), will be published on the Commission's website shortly after receipt, and will remain there indefinitely as a public document. The Commission reserves the right to not publish material on its website that is offensive, potentially defamatory, or clearly out of scope for the inquiry or study in question.

When providing a submission to the Commission, you may wish to remain anonymous or use a pseudonym. Please note that, if you choose to remain anonymous or use a pseudonym, the Commission may place less weight on your submission.

Copyright in submissions sent to the Commission resides with the author(s), not with the Commission. Submitters should ensure that they hold copyright in any submitted documents, or that the copyright holder has authorised the publication of any relevant documents on the Commission's website.

### **How to prepare a submission**

Submissions may range from a short letter outlining your views on a particular topic to a much more substantial document covering a range of issues. Where possible, you should provide evidence, such as relevant data and documentation, to support your views.

This is a public review and all submissions should be provided as public documents that can be placed on the Commission's website for others to read and comment on. However, information which is of a confidential nature or which is submitted in confidence can be treated as such by the Commission, provided the cause for such treatment is shown. The Commission may also request a non-confidential summary of the confidential material it is given, or the reasons why a summary cannot be provided. You are encouraged to contact the Commission for further information and advice before submitting such material. Material supplied in confidence should be provided under separate cover and clearly marked 'IN CONFIDENCE'.

### **How to lodge a submission**

Each submission should be accompanied by a submission cover sheet. The submission cover sheet is available on the study web page. For submissions received from individuals,

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all **personal** details (eg home and email address, signatures, phone, mobile and fax numbers) will be removed before they are published on the website for privacy reasons.

The Commission prefers to receive submissions as a Microsoft Word (.docx) files. PDF files are acceptable if produced from a Word document or similar text based software. You may wish to research the Internet on how to make your documents more accessible or for the more technical, follow advice from Web Content Accessibility Guidelines (WCAG) 2.0 <<http://www.w3.org/TR/WCAG20/>>.

Do not send password protected files. Do not send us material for which you are not the copyright owner — such as newspaper articles — you should just reference or link to this material in your submission.

Track changes, editing marks, hidden text and internal links should be removed from submissions before sending to the Commission. To ensure hyperlinks work in your submission, the Commission recommends that you type the full web address (eg <http://www.referred-website.com/folder/file-name.html>).

Submissions sent by email must not exceed 20 megabytes in size as our email system cannot accept anything larger. If your submission is greater than 20 mb in size, please contact the Administrative Officer for the relevant project to organise another method of sending your submission to the Commission.

Submissions can be accepted by email or post:

Email*	services.exports@pc.gov.au
Post	Australian Services Exports Productivity Commission Locked Bag 2, Collins Street Melbourne, VIC, 8003

\* If you do not receive notification of receipt of an email message you have sent to the Commission within two working days of sending, please contact the Administrative Officer.

**Due date for submissions**

Please provide submissions to the Commission by **Friday 15 May 2015**.

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