



**Submission to**

**the Productivity Commission inquiry into**

**Cost recovery by Commonwealth regulatory,  
administrative and information agencies**

**November 2000**

## **Austrade Submission to the Productivity Commission Inquiry into Cost Recovery**

### **Introduction**

This submission provides policy and strategy background to the information set out in Austrade's questionnaire response, as a basis for discussion at the 6 December 2000 hearing. It explains:

- Austrade's role, services and fees
- how Austrade recovers an element of its costs through charging fees to its clients, using a sliding scale of fees to balance the competing objectives of
  - maximising access to Austrade's services
  - providing for efficient resource allocation, and
  - seeking an appropriate client contribution to the cost of service provision.

### **1. Role of Austrade**

The Australian Trade Commission (Austrade) is the federal government's primary export and investment agency.

Austrade, through its global network of 108 offices in 63 countries, helps Australian businesses, particularly small to medium sized enterprises (SMEs), to export their goods and services into overseas markets.

Austrade also works to attract overseas investment for Australian enterprises and helps Australian companies make export related investments overseas.

Austrade works in close collaboration with other Commonwealth agencies, State and Territory Governments and industry bodies.

Austrade uses sophisticated techniques to measure its performance. In 1999/2000, Austrade assisted Australian companies to win export sales worth approximately \$7.47 billion and introduced more than 1,200 firms to exporting. Austrade also distributed \$135.7 million of Export Market Development Grants (EMDG) to approximately 3,000 companies, which in turn generated approximately \$4.5 billion in exports.

Further details are provided in the attached *Corporate Overview* and *1999-2000 Annual Report*.

### **2. Austrade's three-tiered Client Service Policy**

Austrade services reflect the three different stages of the international business learning curve. Our services are designed to help Australian companies move along the curve faster than normal, while also reducing the risks and costs associated with developing an export business.

Austrade's services are grouped into three broad segments.

*Tier 1: Seeking general information and advice about exporting.* At the start, Austrade helps Australians thinking about export, by providing a range of general information and advice that will assist them in the decision making process.

*Tier 2: Selecting, understanding and entering new markets.* When companies are ready to export, Austrade helps them select, understand and enter export markets, through focused advice and assistance in Australia and overseas.

*Tier 3: Expanding overseas business.* Austrade provides tailored assistance and strategic advice to existing exporters looking to expand their overseas business.

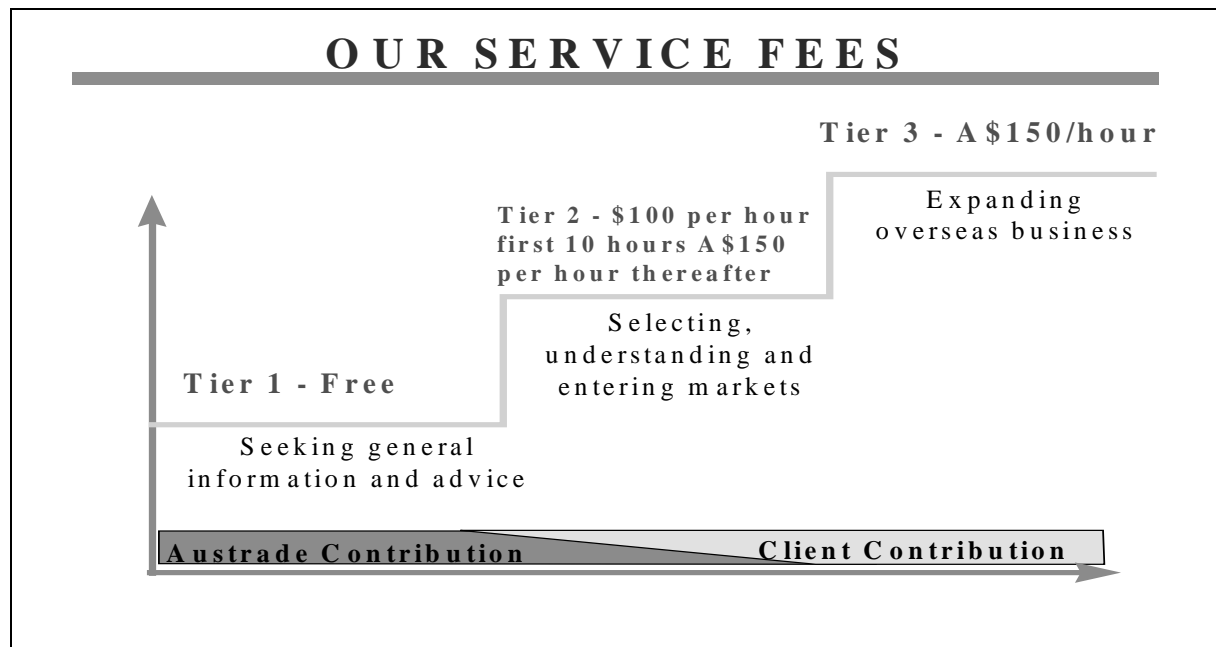
### 3. Austrade's sliding-scale approach to fees and cost recovery

Under the Australian Trade Commission Act 1985, Part 28, Section C, Austrade can charge such fees as the Commission considers appropriate for the provision of services.

#### *Client Service Policy fees*

Most Austrade services, and particularly those delivered by our overseas posts, are delivered under our Client Service Policy.

- Tier 1 services are delivered free of charge.
- Tier 2 services attract fees of A\$100 per hour for the first 10 hours of service at a given post, and A\$150 per hour thereafter.
- Tier 3 services attract a fee of A\$150 per hour.



This pricing policy was implemented in July 1996. It was aimed at introducing a pricing structure that:

- encouraged more Australian companies into export and/or to export to a wider range of markets
- improved Austrade's service levels by providing a pricing structure that is easy to understand and explain
- improved client results through facilitating the delivery of individual tailored services
- while providing for an appropriate level of cost recovery.

The fee rates are based upon the direct and in-direct costs associated with staff time adjusted to market rates.

Total revenue collected through Client Service Policy fees in 1999/2000 was \$8.496 million.

#### *Cost recovery for trade promotion activities*

Austrade also recovers all or some of the costs associated with trade exhibitions, trade missions and seminars. Fees for these activities usually cover (as a minimum) Austrade's direct outgoings on the activity, and may also cover Austrade staff costs, depending on the circumstances.

Total costs recovered for trade promotion activities in 1999/2000 was \$4.466 million.

#### *Program funded by external organisations*

Austrade enters into purchaser-provider agreements to deliver export promotion and investment attraction services for a number of other organisations. These cover areas such as automotive, defence, education and wine exports. Current policy is to charge full cost recovery (direct costs + overheads) for these arrangements.

Total costs recovered for programs funded by external organisation in 1999/2000 was \$15.788 millions.

### **4. Rationale for Austrade's approach to cost recovery**

Austrade's approach to cost recovery and fees is based upon the following reasoning.

- i. Exporting benefits Australia economically.
- ii. Australian firms need assistance to overcome market failure and other obstacles to exporting.
- iii. Therefore, Austrade should use a sliding scale approach to cost recovery, to ensure that firms have adequate access to Austrade services, whilst also providing for efficient use of resources.

These points are discussed in further detail below.

#### 4.1 *Exporting benefits Australia economically*

Australian jobs and living standards depend on exports. Our domestic market of 19.1 million people cannot absorb all that we produce. Exporting opens up a market of over 5 billion people, a market that increasingly needs what we produce. In 1999 alone, Australia's total exports of goods and services totalled in excess of \$114 billion, or nearly 20% of GDP.

As well, exporting benefits Australia by creating employment, increasing the diversity and stability of the economy, making our firms more efficient through exposure to international competition Australian firms, providing the benefits of scale effects of operating in the global rather than just the domestic market place, and transferring skills and knowledge from international markets to Australia. This benefits the whole economy not just the firms that export.

This was shown by a recent study undertaken by Austrade and the University of New South Wales, titled *Why Australia Needs Exports: The Economic Case for Exporting*, which indicated that:

- exporters, on average pay better than non-exporters
- exporters are more likely to use enterprise agreements than awards when negotiating with their employees
- exporters are more committed to providing a safe work environment than non-exporters
- exporters, on average, provide more full-time jobs and more permanent jobs than non-exporters
- exporters, on average, provide more training to their employees and are more likely to increase training levels over time
- exporters are more innovative than non-exporters and are more likely to introduce a new good or service or use advance management techniques
- exporters are better connected to the Internet than non-exporters and are more likely to use other business tools of the 'Information Age' or 'New Economy'.

#### 4.2 *Australian firms need assistance to overcome market failure and other obstacles to exporting*

Despite the encouraging growth in the value of exports and the number of exporters, a recent ABS/Austrade study of over half a million Australian companies found that only 4% of businesses in the non-agricultural private sector are exporters. This figure is low compared to other advanced economies in Europe and North America.

A number of market failures and obstacles lead to this sub-optimal export performance.

- Risk. SMEs, because of their size and range of activities, face particular difficulties in embarking upon an exporting venture. Where the business is undiversified, there is less scope for reducing risk by engaging in a number of ventures. In that case, the business is unlikely to export, even if there are potential benefits to it and the Australian economy from doing so

- Knowledge. Australian SMEs may be keen to export but lack access to information about exporting and export opportunities. This lack of knowledge, and the perceived cost of acquiring it, can be a real disincentive to potential exporters.
- Language/cultural barriers. Many of the opportunities for Australian exports are in markets where language and/or culture present formidable obstacles for the small firm acting alone.
- Remoteness. In many countries, a firm can export by driving a truck across a bridge. Australian firms must overcome our geographical remoteness from our major markets.
- Reputational externalities. Australia has an excellent reputation as a supplier of high quality agricultural and mineral products, but many markets do not view Australia as a supplier of high technology manufactured goods. It is difficult for a single firm to overcome this, and if it invests heavily in doing so, much of the benefits of the improved reputation of Australian products may be captured by other firms.

These market failures and obstacles increase the time, cost and risk of entering into export business.

4.3 *Austrade uses a sliding scale approach to cost recovery, to ensure that firms have adequate access to Austrade services, whilst also providing for efficient use of resources.*

In accord with its charter and with Government priorities to help Australian SME's enter into export and win international business, Austrade's pricing policy aims to balance:

- the need to make our services affordable to Australian SME's, thus maximising their access to our services and maximising the resulting public benefit flowing from increased export activity, and
- the need to ensure that resources are allocated efficiently, with Austrade clients making an appropriate contribution to the cost of service provision and with demand for the more expensive-to-produce services being moderated by the charging of appropriate fees.

Our three-tiered Client Service Policy service structure therefore implements, in effect, a *sliding fee scale* to balance these two objectives:

Tier 1: Seeking general information and advice about exporting.

- These services are relatively cheap to provide, drawing largely on existing information.
- These services do not necessarily help firms make sales in the short-term, but orient them towards export.
- Therefore provided free of charge.

Tier 2: Selecting, understanding and entering new markets.

- These services are more costly to provide, involving some tailoring.
- These services are likely to help firms make sales, though not necessarily immediately, as they are often provided to firms that are making a first step into overseas markets.

- Therefore provided for \$100 per hour for the first 10 hours in a given market, then \$150 per hour thereafter.

Tier 3: Expanding overseas business.

- These services are most costly to provide, involving tailoring.
- These services are most likely to help firms make sales, as they are services to existing experienced exporters who are building on existing export success.
- Therefore provided for \$150 per hour.

Austrade's cost recovery approach to trade promotion activities - usually based on recovering all direct outgoings associated with the mission, exhibition or seminar, plus a contribution towards staff costs depending on circumstances - results in fee levels for these activities which are broadly consistent with the Client Service Policy fee approach e.g fees for public seminars are lower than for tailored trade exhibition participation packages.

Services delivered on behalf of external agencies are generally charged at full cost (direct costs + overheads), without any contribution from Austrade, as these arrangements involve a transfer of funds within the government sector to finance activities that government has decided to fully fund.

## **5. Client acceptance**

Austrade has implemented appropriate systems to provide for trouble free administration of its cost recovery policies. Our financial management systems and SAP accounting system are set up to provide for efficient and accurate client billing. As well, Austrade staff are trained to explain the fee structure to clients, how it delivers value for money to them, and how, depending on eligibility requirements, clients may include Austrade fees in the EMDG claims.

However, Austrade's fees do attract some criticism from some of our clients and stakeholders, who in a minority of cases have argued that government services are taxpayer funded and should be provided for free; that Austrade fees are a disincentive to export; that other agencies in the export/industry arena do not charge fees for services; and that Austrade charges should not include an overhead component.

Austrade notes these views, but believes that its approach is nevertheless appropriate, given that many of our services are in fact free, Austrade fees would normally only amount to a small percentage of the total costs of a firm's export drive and that Austrade fees are claimable under the EMDG scheme

## **6. Conclusion**

Austrade believes that its approach to cost recovery has been successful, and has allowed Austrade to both fulfil its obligations to government by addressing the needs of SMEs, at the same time as seeking appropriate contributions to costs from its clients. However, we are currently reviewing our fee structure to ensure that it is up-to-date and consistent with market needs and conditions.