

# Senate Committee Inquiry into the importance of the Indian Ocean Rim for Australia's Foreign, Trade and Defence Policy

## Questions on Notice – DFAT reply

### Question on Notice 1

#### Relevant Hansard extract:

*Senator CAMERON: Mr Pierce, in relation to the terms of reference that we are looking at, we have a reference to other issues. I want to go to other issues. The Department of Resources, Energy and Tourism put in a submission outlining their priorities in terms of minerals exports into the rim area. What discussions have taken place within your department in relation to maximising manufacturing exports in this area? Some of the submissions we have had outlined the various resources exports to the Indian Ocean Rim area. What has the Department of Foreign Affairs and Trade done in relation to looking at the potential for manufacturing exports to this area?*

*Mr Pierce: Again, in a sense that it is a question for all of us with separate regions.*

*Senator CAMERON: Was there any analysis of the manufacturing potential, similar to what the Department of Resources, Energy and Tourism have done? They said to us, 'Here's how we think we should export resources.' Was any work done in your department about how we could maximise our manufacturing exports, particularly for these terms of reference, or was it just ignored?*

*Mr Lynch: I do not think I can help you much with your question, but Oman, which is one of the literal states of the Indian Ocean, is quite a significant market for our passenger motor vehicles, in 2011 approaching 100 million vehicles.*

*Senator CAMERON: That is not what I asked you. I asked if you had done any analysis comparable to the Department of Resources, Energy and Tourism. They said, 'Here are the four broad categories of exports in the minerals and commodities area.' They put in a submission from which we can understand the potential and the issues arising. Have you done any analysis on the potential for our manufacturing industry? It is still one of the biggest industries in Australia. You put in a submission and have come before us to talk to your submission. Was anything done on this term of reference or was nothing done? I do not want to know about Oman. I asked a question about whether you had done any work on it. If not, why not?*

*Mr Lynch: Thank you for the clarification. Our trade and economic division, as I understand it, does such analysis, so perhaps I could ask my colleague to comment. If he does not have the answer we can certainly provide that. My area of responsibility is with the bilateral relationships. I am not aware of any systematic analysis across the Indian Ocean region that is being done. But I do not want to rule that out, because that is something that may well have been done or is being done by our trade and economic area. Perhaps my colleague could make a comment.*

*Mr Pierce: I do not want to rule it out either, but I imagine it has been segmented and focused on what we might call his subregional work.*

*Mr Gordon: I work in free trade agreements in the Department of Foreign Affairs and Trade. I am currently involved in the Australia-India Comprehensive Economic Cooperation Agreement negotiations. Your question relates to whether a study has been undertaken on potential for manufacturing exports to the region. I suspect that that question would be best posed to the department of industry. As you point out, an analysis has been undertaken by the department of resources—*

*Senator CAMERON: This sounds like estimates—this is not estimates.*

*Mr Gordon: I suspect that the department of industry are best placed to respond to that sort of question.*

*Senator CAMERON: You are telling me that, when we are looking at the Pacific Rim as an area of trade, no-one in the department of trade has looked at the potential for manufacturing exports in that area. Is that what you are telling me?*

*Mr Gordon: In my part of the department, there certainly has been an analysis undertaken where there have been initiatives to have closer economic relations with certain economies, whether it is the Gulf region or—*

*Senator CAMERON: I am sorry, but I am trying to get an answer to a simple question—whether the department of trade has done any comprehensive analysis or any analysis of the potential for manufacturing exports to the Indian Ocean Rim. I think it is a pretty simple question. If you have not done it, you should just tell me you have not done it.*

*Mr Gordon: It is probably a question best responded to by Mr Pierce, as he is responsible for that area, but—*

*Senator CAMERON: Well, I am getting the bounce around the officers here, let me tell you. Mr Pierce, can you answer that question?*

*Mr Pierce: Not in the way that you want the answer, I think, Senator.*

*Senator CAMERON: How do you know what I want for the answer? I am simply asking you a question: has it been done or not?*

*Mr Pierce: And my answer to that is that I would need to take that question on notice because that work is done by our trade and economic division.*

*Senator CAMERON: Excellent. Take it on notice and let's move on, because I am getting nowhere here.*

*Mr Pierce: I am not sure if they have done it on that basis. In the area for which I am responsible—for instance, India—Austrade does posts in India—*

*Senator CAMERON: Mr Pierce, that is not what I asked and I have got limited time. You know what I have asked. You said you would take it on notice. I would like you to take it on notice and come back.*

*Mr Pierce: I appreciate that concern. Let me take that question on notice and check with my colleagues in the trade and economic division.*

....

*Mr Pierce: There are two questions here, aren't there. One is whether we do analysis of market prospects, and the answer to that is obviously yes. It is a core part of our job, as you rightly say, and the second is—*

*Senator CAMERON: So even manufacturing—you cannot tell me about that?*

*Mr Pierce: The second is whether we aggregate it and whether we present it as market prospects for the Indian Ocean Rim as a whole. We are not sure whether the data has been prepared and presented in that way but we will check. But if you are an Australian exporter of cars, to use Mr Lynch's example, you would be looking at prospects in the gulf, you may be looking at joint ventures elsewhere, you may be looking at parts manufacture elsewhere, you may be looking at your role in regional supply chains, you may be looking at an investment. All of those serious issues are about the future productivity and profitability of your business and would not necessarily be taken by an assessment of the Indian Ocean Rim as a whole. For instance, I am responsible for relations with India. Do we assess what the prospects are for manufactured trade with India? Indeed, we do and we need to because, although our trade with India has expanded rapidly and dramatically, it is still very narrowly based. If you subtract coal, copper ores and gold from our merchandise trade exports to India, you subtract 82 per cent of all of our exports.*

*Senator CAMERON: I am not arguing that we are not trading with individual countries, but we are here looking into the Indian Ocean Rim in relation to trade. If we were investigating India in relation to trade, I would be quite happy to listen to your area of expertise. I am more interested in looking at the Indian Ocean Rim as a broad base of export capacity.*

*You have said you will take it on notice. If you could give me some information on India or any other areas within the Indian Ocean Rim we are negotiating or looking at free trade agreements with, where they are up to and what benefits you see for Australia, I would be happy to take that information. I am simply asking: is there any overall look? You said you will take it on notice, so I am happy for that to happen. I was interested in the critique about the effects of free trade on some of these smaller countries.*

*Mr Pierce: That is the question we are going to have to take on notice. I do not know whether the data has been presented, prepared and aggregated for the Indian Ocean Rim as a whole. We will come back to you as quickly as we can on that.*

## **DFAT Response:**

Although the government does extensive and regular research into all important manufacturing export markets in the Indian Ocean; that data and those assessments are not prepared, presented or aggregated on an Indian Ocean-wide basis.

That decision reflects the judgment that the focus for Australian manufacturing exporters would be on either a specific country, or possibly an Indian Ocean sub-region (like the Gulf) - rather than on the Indian Ocean as a whole.

## Question on Notice 2

### Relevant Hansard extract:

Senator CAMERON: Excellent, thanks very much. Mr Gordon, you are the free trade expert?

Mr Gordon: Yes.

Senator CAMERON: Are you aware of the critiques by Professor Dani Rodrik from Harvard University in relation to the impact of free trade agreements on countries like Sri Lanka, Somalia, Tanzania, Kenya? Have you read any of that analysis?

Mr Gordon: Not Mr Rodrik's analysis specifically, no.

Senator CAMERON: He is one of the world experts on this issue. You are aware of that, are you?

Mr Gordon: Sure. I have certainly heard of Rodrik.

Senator CAMERON: Who within the department has done an analysis of his critiques of free trade agreements on small developing countries? Has anyone done it?

Mr Gordon: I would need to take that question on notice.

Senator CAMERON: Let me go to some generalities as well. Professor Rodrik indicates that some of the agricultural development in small countries has been set back by the agribusinesses moving in under the auspices of free trade agreements and it is causing great concern. Have you heard of that as being a problem?

Mr Gordon: I am certainly aware of that discussion taking place in the more general dialogue on trade policy.

Senator CAMERON: Have you done any analysis for the Indian Ocean Rim as to whether that would be a problem? The submissions we are getting are pushing more free trade agreements as the answer to the issues in the Indian Ocean Rim, but academics and other experts are saying that may not be best way forward.

Mr Gordon: There is another body of academics who certainly argue the case for more liberal trade between economies.

Senator CAMERON: That is the dominant position within the department, isn't it?

Mr Gordon: That is correct.

Senator CAMERON: That is the dominant position. Has the department done any critical analysis of the dominant free trade position adopted by the department?

Mr Gordon: In the last few years there has been a paper released on Australia's approach to trade more generally and it highlighted the benefits of greater liberalisation of trade at all three levels—at a global level, the multilateral level in terms of the WTO, and at regional and bilateral levels.

Senator CAMERON: But that paper was supporting the perceived approach of free trade, wasn't it? It did not critically analyse free trade, did it?

...Senator CAMERON: Yes, that is right, but I have moved on from there and you want to drag it back. I do not want to let you drag it back. I want to move on to some other areas. I was asking about that critique from Dani Rodrik. Mr Gordon, can you advise me what analysis has been done within DFAT of the Rodrik critique of the effect of free trade on small and impoverished countries? Can you tell me what analysis has been done? Can you provide me with any information on the assessment of the Rodrik critique that has been done within the Department of Foreign Affairs and Trade? If there is none, you can come back and tell me there is none.

I want to go to another area in relation to free trade. Do you accept the proposition that when you enter into free trade agreements you are not just engaging with the country but actually integrating with another country?

Mr Gordon: Certainly at an economic level there is greater integration resulting from negotiating a preferential trade agreement. That is the objective in allowing freer movements of goods and services and investment across borders. Freeing up that trade and removing barriers to trade is the objective of negotiating such agreements.

Senator CAMERON: What is your department called?

Mr Gordon: Department of Foreign Affairs and Trade. I come from the Free Trade Agreement Division.

Senator CAMERON: We have never negotiated a free trade agreement, have we?

Mr Gordon: We have certainly negotiated very comprehensive bilateral trade agreements. I think the agreement we have with New Zealand is very comprehensive.

Senator CAMERON: It is not a free trade agreement, is it? I am just wondering why you are not called the preferential trade agreement department, because that is what you do, isn't it?

Senator KROGER: You are questioning your own government's policy.

Senator CAMERON: You are not here to question me. Just be quiet. I do not interrupt you, so just be quiet.

Senator KROGER: Senator Cameron, we know the migration bill went through yesterday, but it does not give you reason to be in such—

Senator CAMERON: Chair, can you control the senator?

CHAIR: I will—

Senator CAMERON: I rarely hear this senator speak, ever.

*CHAIR: She has lots of opinions about everything, and if you are not careful she will start doing it all the time.*

*Senator KROGER: We know you have selective hearing.*

*CHAIR: Senator Cameron, we do have a focus on the Indian Ocean Rim—*

*Senator CAMERON: That is right, and that is why I am trying to understand what is happening.*

*CHAIR: not necessarily on how subdivisions of the department of foreign affairs are labelled.*

*Senator CAMERON: We do not do free trade agreements, do we?*

*Mr Gordon: Our objective is to negotiate as much as possible a comprehensive trading environment, bilaterally or preferentially.*

*Senator CAMERON: I do not want to take you down that path. We just do not do free trade. We do not do it—you know that...*

### **DFAT Response:**

The Department of Foreign Affairs and Trade (DFAT) has not undertaken an analysis of Professor Rodrik's critiques of free trade agreements (FTA) on small developing countries in the Indian Ocean rim region.

In circumstances where there is serious consideration of Australia entering into FTA negotiations, it is common practice for a joint feasibility study to be undertaken to assess the potential impacts of preferential trading arrangements. For example, prior to entering into FTA negotiations with India, a joint feasibility study was conducted and a final report of the study was released in 2010.

### **Question on Notice 3**

#### **Relevant Hansard extract:**

*Senator CAMERON: I do not want to take you down that path. We just do not do free trade. We do not do it—you know that. The other issue I want to raise briefly is that, when we talk about engagement in the Indian Ocean Rim, one of the big problems we have is poverty. I just cannot see anything in any of the submissions that really deals with that, with the millennium development goals and those issues. We are talking about trade, but we are talking about trading with some of the poorest countries in the world in the Indian Ocean Rim. Was there any thought by the department about putting a submission to us about other relevant matters, about poverty in the region and how we deal with it? If not, why not? If you have not, can we do that?*

*Mr Namdarian: That is a question best focused on by AusAID colleagues. We can perhaps take it on notice and provide a paper on that.*

*Senator CAMERON: Yes, take it on notice.*

*Mr Namdarian: Yes, if you would like that.*

*Senator CAMERON: Yes, thanks.*

### **DFAT Response:**

DFAT's Submission addresses all five Terms of Reference. The issue of poverty and Australia's aid program in the region largely falls under the fifth Term of Reference ("other relevant matters"). It has been addressed throughout the document, particularly in Section 5 "Australia's Multilateral Relations in the Indian Ocean" (p54-59) and in Appendix 6.4 "Bilateral Development Cooperation with Indian Ocean Rim Countries" (p66-68).

In July 2011, the Government released a new aid policy for Australia's aid program. *Effective Aid* highlighted the importance of prosperity in the Indian Ocean, engaging emerging donors such as India, and strengthening regional bodies. Our pan-regional development support is centred on the Indian Ocean Region Association for Regional Cooperation, for which Australia and India are in Vice Chair and Chair roles to late 2015.

The development challenges in the region are diverse, with differing levels of progress. There are potential food security and fisheries management issues with global implications. The current

famine in East Africa is a clear example. The impact of climate change will be felt hardest in some of the island states of the Indian Ocean as well as the most populous ones like Bangladesh. The most common development challenges include food security, water security, sustainable oceans, climate change and disaster preparedness and management.

Furthermore, on 24 November 2011, former Minister for Foreign Affairs, Kevin Rudd, listed the Indian Ocean in Australia's top three foreign policy objectives. The 2009 Defence White Paper also assessed that the Indian Ocean would have greater strategic significance in the period to 2030.

#### **Question on Notice 4**

##### **Relevant Hansard extract:**

*Senator MARK BISHOP: Over the last number of years there has been heightened Australian investment in mining activities and ancillary activities to mining all throughout the continent of Africa. It has been documented in a number of inquiries into the huge growth of our activity there. Can you advise as to whether that growth has continued over the last 12 months or is starting to level out because a range of complications and difficulties are becoming more apparent throughout African countries? I am starting to be advised in Perth that it is becoming more difficult to comply with a range of government regulations that different African states apply within their investment regimes that go to mining. Have you started to receive similar advice through your lines of contact from industry in this country or is my advice a little premature?*

*Mr Pierce: It is not really a general Indian Ocean question in the sense that it is better answered by people representing each of the regions. I think your mining question is essentially an Africa question.*

*Senator MARK BISHOP: It is.*

*Mr Blomfield: In terms of getting a specific answer to your question about whether there has been a discernible drop-off, I think we would have to take that on notice. Obviously, as you are aware, mining has been growing very strongly over a number of years. After the Africa Down Under Conference, which is on next week in Perth, we will probably get a good sense of that. It is on from 29 August to 31 August.*

*Senator MARK BISHOP: I have done a number of inquiries and attended a number of their conferences and I am reasonably familiar with the presence of the Australian mining industry, particularly out of Perth, and at a second level into Africa. It is just that I am starting to pick up different pieces of advice. I wondered if it had started to percolate up through the system these days.*

*Mr Blomfield: There are certainly a number of reforms and changes to the regulations and the mining industry, whether that is royalties or regulations, throughout Africa as in Australia and the rest of the world. But we would have to take on notice whether that has had a discernible impact. I am not sure whether we would be able to get a 100 per cent clear answer straightaway but we can certainly report on that.*

*Senator MARK BISHOP: Are we going to be having officers attending that conference?*

*Mr Blomfield: Yes, we will.*

*Senator MARK BISHOP: Will government ministers or officials be making a number of presentations at the conference?*

*Mr Blomfield: I am not totally sure. I could take that on notice, but there will certainly be government officials attending and I think there are some plans for government ministers to attend. Usually we host some sort of reception. Obviously the officials are available and have involvement in a number of the panel discussions and that sort of thing.*

*Senator MARK BISHOP: It is not the role of your department, is it, to monitor levels of investment into the continent of Africa out of mining houses in this country?*

*Mr Blomfield: We do have formal monitoring. It is best done by a number of private sector providers who monitor that. That is how we access a number of them.*

*Senator MARK BISHOP: You access the private sector data?*

*Mr Blomfield: We do. I think it is from a number of broader bodies. One of the bodies that does this research is Intierra. That is where a lot of the more accurate data comes from.*

*Senator MARK BISHOP: Are you aware that the resources of the department do any monitoring?*

*Mr Blomfield: I would have to take that on notice.*

*Senator MARK BISHOP: No, we will ask them later.*

### **DFAT Response:**

Australian investment in Africa's mining and resources sector has been on a strong upward trajectory in recent years. Australian companies have more projects in Africa (mineral, oil and gas exploration, extraction, processing, and mining services) than in any other region in the world (40% of Australian-overseas extraction projects are in Africa). There are more than 200 Australian stock exchange (ASX) listed companies with interests in Africa, with more than 650 projects across 37 countries.

DFAT, in consultation with the Australian Trade Commission and the Department of Resources, Energy and Tourism, seeks to remain informed of the scope and scale of this investment, as well as keeping abreast of regulatory developments that affect the industry.

DFAT, with DRET, maintains a broad monitoring role of Australian investment in the mining industry in Africa. This is informed by communication with the Australian mining industry in Africa through DFAT's network of posts in Africa; Australian Government attendance at major mining conferences and events such as the African Mining Indaba (each February in Cape Town) and Africa Down Under (each August/September in Perth), and periodic meetings of the Australia Africa Mining Industry Group (AAMIG). DFAT and DRET also, from time to time, use publicly available data on Australian mining investment in Africa from private sector providers or from company announcements.

DFAT is aware of a number of regulatory changes across many African countries over the past twelve months and maintains dialogue with a number of African governments about proposed changes. DFAT is also aware of the broader market conditions facing the mining sector globally, and in Africa.

DFAT is not in a position to offer definitive advice about the level of Australian mining interest in Africa over the past 12 months. There is, however, strong evidence of ongoing and growing interest from the Australian mining sector. The most recent Africa Down Under (ADU) mining conference, held in Perth on 29-31 August 2012, again expanded over previous years, both in overall delegate and sponsor numbers (over 2500 delegates, up from 2150 in 2011 and 185 sponsors). ADU is organised by local Perth company Paydirt Media and is the second largest Africa mining conference after the annual African Mining Indaba conference held in Cape Town.

There is also strong African interest – there were 17 African countries represented at ministerial level at the ADU, and delegations from 26 African countries in total. These included Algeria, Botswana, Burkina Faso, the Republic of Congo, Cote d'Ivoire, Gabon, Ghana, Guinea, Lesotho, Madagascar, Malawi, Mali, Mozambique, Namibia, Niger, Nigeria, Senegal, Sierra Leone, South Africa, South Sudan, Sudan, Tanzania, Togo, Zambia, and Zimbabwe.