

Argentina

We now have a stable currency, a fast-growing economy, rising exports and our citizens are enjoying an improving standard of living. We have political stability and good international relations. A growing number of people are appreciating the many and diverse attractions that our beautiful country offers to international visitors.

Argentine Minister of Tourism¹

Introduction

- 6.1 Argentina gained independence from Spain, its former colonial master in 1816. In 1853, a federal constitution was adopted, and by the turn of the century, Argentina was one of the leading nations of South America, having made considerable economic and social progress over the past two decades.
- 6.2 After 1944 when President Juan Domingo Peron assumed power, Argentina adopted corporatist strategies for managing its economy. A number of military coups from 1955 fuelled political and economic instability within Argentina. General Leopoldo Galtieri took control of Argentina at the end of 1981, and occupied the British-held Falkland Islands the following year, leading to war with Great Britain. The first presidential elections for more than a decade in 1983 selected Raul Alfonsin of the Radical Party as President, who concluded several diplomatic, economic and organisational reforms.

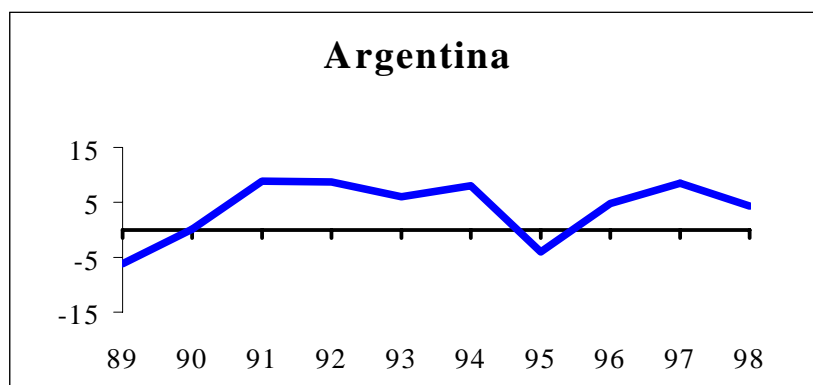
¹ Foreword by the Argentine Minister of Tourism, *Argentina. An incentive in itself*, Argentine Chamber of Tourism.

- 6.3 In May 1989 Carlos Saul Menem was elected President, and began a series of wide ranging economic reforms to Argentina's economy. President Menem privatised many state-owned assets, including the state oil monopoly, electricity, gas and water companies, Argentina's national airline Aerolineas Argentinas, and many others. In addition, President Menem is credited with reducing Argentina's inflationary problems, and for leading Argentina into Mercosur.
- 6.4 In October 1999 President Menem's party, Partido Justicialista (PJ) was defeated in presidential elections by Fernando de la Rúa of the 'Alianza', a centre-left alliance of the Unión Cívica Radical (UCR) and the Frente del Pais Solidario (Frepasso).

Overview of the Economy

- 6.5 Until more recently, Argentina's economy has been largely based on its agricultural produce, most importantly cattle and grain, although Argentina's exports of agricultural goods fell away in the 1920s. Agriculture still remains important to the Argentine economy, and has developed processing and value-adding capabilities for its produce. The Argentine economy has greater diversity, with an industrial base and growing investment in the exploitation of mineral deposits.
- 6.6 Argentina is the second largest economy in South America after Brazil in terms of GDP and during the 1990s it grew at an average of 3.9 per cent over the previous decade. Moreover real GDP growth from 1991 onwards reached 8 plus per cent in four of the years and there was a significant decline in two of the years – the Mexican 'tequila crisis' in 1995 and 1998 with the onset of Brazil's financial difficulties. Figure 6.1 shows real GDP growth for the period 1989 to 1998.

Figure 6.1 Real GDP Growth – 1989-1998



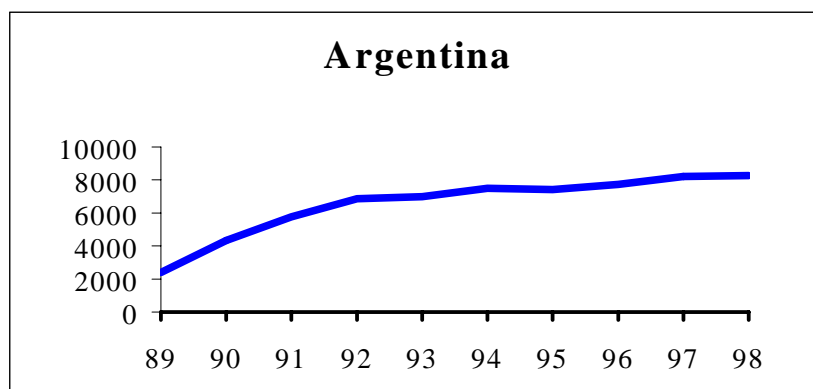
- 6.7 The devaluation of the Brazilian *real* in January 1999 resulted in fewer exports to Brazil which in turn contributed to growing unemployment and recession in Argentina. The economy contracted by 3 per cent in 1999 and in January 2000 the government introduced tax reforms to increase revenue but this has failed and the level of debt remains a major concern.
- 6.8 The size of Argentina's public debt is a concern for investors, even though Argentina has embarked on a course to reduce its public indebtedness. In 1999, public debt, at both the federal and the provincial level, stood at US\$129.3 billion or some 45.7 per cent of GDP.²
- 6.9 One of the most important innovations in Argentina's recent economic history is the method used to control inflation. During the late 1980s, inflation in Argentina was a significant problem and an impediment to the stability of the economy. The Fiscal Convertibility Law passed in 1991 provided that each Argentine peso printed by the Central Bank would be backed by one US dollar. When introduced, the effect on inflation was dramatic, changing inflation from 3087 per cent in 1989 to deflation of 1.8 per cent in 1999. The convertibility law remains a central plank of the Argentine government's economic strategy to maintain economic stability today, although it may reduce Argentina's capacity to compete with lower cost producers such as Brazil, as well as reducing its ability to tackle the problems of unemployment and income distribution.
- 6.10 Argentina has provided an undertaking to the International Monetary Fund (IMF) to reach fiscal balance by 2003 on the back of a US\$7.4 billion stand-by loan from the IMF. On 29 May 2000, the Argentine government announced a series of fiscal reforms in order to meet this undertaking and reduce its deficit in the wake of the failure of the January tax reform measures. According to the Economy Minister, Argentina was headed toward a situation in which its currency convertibility peg would have been threatened as the country risked missing fiscal targets. If this had happened there would be a loss in investor confidence and in access to loans needed to balance and repay debts. The May reforms include public sector wage cuts, elimination of pensions for national public sector employees and renegotiation of a law sharing federal revenue with provincial governments. Official projections for growth in 2000 were 4 per cent following the IMF deal in February but this figure has been amended downwards and is currently 3 per cent. Outside forecasters believe the growth will be only 2.4 per cent.³

2 *The Economist*, 'A Survey of Argentina', 6 May 2000.

3 Economist Intelligence Unit.

- 6.11 In terms of GDP per capita Argentina has the highest of any South American country. During the ten year period 1989 to 1998 GDP per capita increased some 160 per cent as can be seen from Figure 6.2.

Figure 6.2 GDP Per Capita – 1989-1998



Source *Australia's Trade with the Americas, 1998, Department of Foreign Affairs and Trade, Canberra, and IMF/IFS and EIU Country Reports.*

The Nature of the Trade and Investment Relationship

- 6.12 Australia has significant investments in Argentina and the trade and investment relationship has been assisted through common political and economic multilateral interests. During the 1980s Australia's exports to Argentina focused on a few commodities notably coal and alumina that accounted for 80 per cent of exports to Argentina. These commodities now account for only 30 per cent with 48 per cent being elaborately transformed manufactures such as agriculture harvesting equipment and machinery for the mining industry.
- 6.13 It was the impact of Mercosur's tariff preferences that saw Australia's share of Argentina's alumina imports fall from 90.6 per cent to just under 40 per cent between the period 1990 and 1995. On the other hand Brazil's share rose from under 4 per cent to around 57 per cent, the result of trade diversion caused by Mercosur preference margins for alumina imports from Brazil.⁴
- 6.14 Argentina was ranked 52nd in 1999 on the value of merchandise trade with Australia. Within South America, this placed Argentina third behind Brazil and Chile. On the 1999 figures, Argentina as a destination for Australia's merchandise exports is also ranked 52nd with exports totalling \$98.355 million. This is a decrease of 27 per cent over the previous year's

4 TOOS'97, p. 152.

figures. This decline in trade during the year was common for countries in South America trading with Australia. The trend for Australian exports to Argentina from 1994 to 1999 was a slight increase of 1.4 per cent.

- 6.15 As a source of merchandise imports, Argentina ranks 46th, selling some \$81.687 million worth of goods to Australia. This is a rise of 6.0 per cent over the previous year, while the trend from 1994 to 1999 shows that the value of imports from Argentina grew by 4.5 per cent.
- 6.16 Major Australian imports from Argentina in 1999 included leather - \$36.691 million; soft fixed vegetable fats and oils - \$4.538 million; medicaments (including veterinary) - \$4.506 million; and fruit juices - \$3.827 million. Australia's principal exports to Argentina included coal - \$33.598 million; confidential items - \$12.230 million; crude vegetable materials - \$10.829 million; and leather - \$5.610 million.
- 6.17 With the modernisation of Argentine industry and basic infrastructure – water, gas, electricity roads and airports – and the development of areas of primary production – agriculture, fisheries, mining and forestry, Australian business has taken up opportunities in Argentina. The uptake of opportunities has been to such an extent that Australia is now Argentina's ninth largest foreign direct investor with total investments of just under US\$1.5 billion. The largest single investment has been the Minera Alumbrera copper and gold mining project and this project is the litmus test for the Argentine government in terms of further investment in mining in Argentina.⁵ The major Australian investments are set out in Table 6.1.

Table 6.1 Major Australian Investment Activity in Argentina

Type	Company	Activity
Mining	MIM/North/Rio Algom	Involved in a joint venture developing the Bajo de la Alumbrera copper and gold deposit in Argentina, the Australian component of which is worth \$US1bn.
	BHP	Agua Rica (copper and gold).
	Newcrest	Gold-copper exploration.
Foodstuffs	Burns Philip	Controls almost 100 per cent of the yeast market in Argentina.
	Goodman Fielder	Investment in gelatine production: A\$37m.
	Kerry Packer	Ellerstina (lemon juice concentrate).
Entertainment	Hoyts	In partnership with North American company General Cinemas International, has set up headquarters in Buenos Aires with a view to expanding into South America. Has interests in multiplex cinemas in Argentina.
	Village	Village Cinemas has invested \$US140m for 63 multiplex cinemas with another US\$60m to be spent in 2000.

5 See DFAT Submission for case study details on Minera Alumbrera.

Agriculture	LIAG	Developing irrigated cotton mega-projects in northern Argentina. Investment in cattle farming. Total investment: US\$100m.
	Bureau of Rural Science (formerly AGSO ⁶)	San Luis project (mapping underground water).
Services	HIH Insurance	Began operations in Argentina in 1996 with the opening of a new privately underwritten workers compensation market. Has plans for further expansion into South America.
	ANZ	Investment financing with a total exposure of US\$600m, although relocation of all South American ANZ offices to New York may see this portfolio remain static.
	Qantas	Tourism
Infrastructure	P & O Aust.	Investment in the largest container port in the city of Buenos Aires – Terminales Río de la Plata. The Australian component of the investment totals A\$61m.
	TNT	Logistic system (automotive)
	Pioneer International	Building/construction

Source DFAT, *Submission, p. 283, Doing Business in Latin America: An Introductory Guide, p. 12, and Austrade Buenos Aires.*

- 6.18 In 1998 Anderson Consulting Australia, in association with Telstra, provided a client billing system to Telecom Argentina.
- 6.19 Whilst in Buenos Aires the Trade Sub-Committee met with both Minera Alumbreira and P & O Ports and in discussions with the companies there were two issues of immediate concern. In the case of Minera Alumbreira the market access issue of royalties with the changing of goal posts (see market access section) and in P & O Ports' case the issue of a high rise development next to the port area. The difficulty for P & O is that if the government allows the high rise development to go ahead then the issue of light traffic restrictions will arise and impact on the productivity of the port. The Trade Sub-Committee took the opportunity to raise the issue with a number of Argentine ministers and officials.
- 6.20 During the course of discussions with ministers, government officials and the Congressional Mining Committee in Buenos Aires, the tender by the Argentine company INVAP for the replacement nuclear reactor at Lucas Heights in Sydney was raised with the Trade Sub-Committee. INVAP was one of four companies on the short list and faced competition from the US and Canada.
- 6.21 On 6 June 2000 the Australian Government announced that INVAP was the preferred tenderer for the design and construction of the replacement research reactor at Lucas Heights. In announcing the preferred tenderer, the Minister for Industry, Science and Resources said that:

INVAP has a solid track record constructing research reactors, with five constructed around the world over the past two decades. Argentina has ratified the Non-Proliferation Treaty and is a responsible and active participant in the activities of the International Atomic Energy Agency. Argentina has six research reactors in operation, while it produces around 10% of its electricity from nuclear power.⁷

- 6.22 The Committee believes that there will be a boost in the Australia-Argentina trade and investment relationship as INVAP's success has given Australia a higher profile in government and business circles in Argentina.
- 6.23 The Argentine President has launched a high profile export promotion to stimulate more exports. Australia traditionally has been a competitor in agricultural exports and as part of the export drive, wine and beef are special targets with Asia identified as a high priority market. The promotion is targeted to help Argentine small to medium businesses focus on production aimed at exports and getting the provinces involved in thinking *trade*.
- 6.24 Argentina along with Uruguay has already dealt an expensive blow to Australia's beef industry. It was reported that Meat and Livestock Australia's market analyst has put losses at \$32 million, after Argentina and Uruguay made inroads into Australia's export markets of Taiwan and Canada over the last 18 months and both are moving into Japan and Korea. Reasons behind Argentina's and Uruguay's beef expansion were the devaluation of the Brazilian *real* (40 per cent devaluation against the Argentine peso), Argentina's foot and mouth disease clearance and a weaker economy – thus forcing both countries to look elsewhere for markets.⁸
- 6.25 Argentina is a member of the Cairns Group and the 19th Ministerial Meeting of the Cairns Group was held in Buenos Aires on 28-29 August 1999 in anticipation of the WTO meeting in Seattle that November. The Argentine Ministry of Foreign Affairs acknowledged that Cairns Group membership has proved a useful opportunity to get to know the economies of the countries in the Group and assist in improving bilateral relations. Australia and Argentina have been close partners on Cairns Group initiatives and have worked together through other fora such as the Valdivia Group⁹ on international environment policy and the New World

7 Media Release, Minister for Industry, Science and Resources, *Preferred tenderer for replacement research reactor announced*, 00/193, 6 June 2000.

8 *The Weekly Times*, '\$32m loss in beef markets', 21 June 2000.

9 Valdivia Group membership is Argentina, Australia, Brazil, Chile, New Zealand, South Africa and Uruguay.

Wine Producers Group on wine. Key bilateral agreements with Argentina include:

- Treaty of Extradition – signed October 1988, eif¹⁰ 15 February 1990.
- Treaty on Mutual Assistance on Criminal Matters – signed August 1990, eif 3 January 1993.
- Australia-Argentina Air Services Agreement – March 1992.
- Investment Promotion and Protection Agreement – signed August 1995, eif 11 January 1997.
- Double Taxation Agreement – signed 28 August 1999, eif 30 December 1999.

6.26 An added dimension to the Australia-Argentine trade and investment relationship is the revitalisation of the Argentine-Australia Chamber of Commerce. The Chamber will provide a good link between the growing Australian business presence in Argentina and the Argentine business community. Now that Australia has a critical mass of business in Argentina this will provide a stronger base for the Chamber and assist in raising the profile of Australia to government and business. The Minister for Communications, Information Technology and the Arts, Senator the Hon Richard Alston launched the revitalised Chamber in May 2000.

Opportunities for Australian Business

6.27 With the renovation of Argentine industry and the overhaul of communications, transport and public utilities, export and investment opportunities are available to Australian businesses. As DFAT notes, similar changes are underway in most areas of primary production, a sector of particular expertise for Australia.¹¹

Agribusiness

6.28 Austrade identified a number of key market segments and one of them is agribusiness. They pointed out that although Australian and Argentine producers compete in many agricultural exports, this must not be seen as a deterrent to exploring opportunities to develop business in the agribusiness sector. The Committee agrees with this view. After discussions with the rural sector in Buenos Aires and the visit to

10 Eif – entered into force.

11 DFAT, Submission, p. 283.

EXPOCHACRA, there are many synergies that Australia can capitalise on. By way of illustration the Trade Sub-Committee visited the *Westfalia* stand at EXPOCHACRA, a German company that markets milking machines. The platform to the *Westfalia Surge* machine was Australian made as were the moving parts, the software was from Japan and the machine was being marketed in Argentina.

6.29 Agribusiness is one of Austrade's marketing strategies for Argentina for 2000-2001. With expanding agribusiness industries, Austrade points out that:

... the total import market for foodstuffs, agribusiness inputs, equipment and services is estimated at approximately \$20 billion per year. Whilst 60% of this trade is sourced from within the South American Common Market (MERCOSUR) – of which Argentina and Brazil are the leading suppliers, there are still sizeable opportunities for suppliers of agribusiness products and technology from outside this trading block for niche products and services.¹²

6.30 Austrade provided the Committee with a list of sub sectors that should contain good opportunities for Australian agribusiness companies. These are:

- Pasture seeds and animal genetics (including breeding livestock and biotechnology).
- Agri-chemicals, fertilisers and soil conditioners.
- Irrigation equipment and services.
- Water management technology (ground water resources, flood mitigation, salinisation).
- Sugar cane field and milling equipment.
- Equipment for abattoirs and meat packing and sheep industries.
- High value-added implements not locally manufactured.
- Raw materials and other inputs of rural origin in short supply (hides, wool and ingredients for the food industry).
- Food specialities and beverages.
- Agribusiness consultancy and services.¹³

12 Austrade, Exhibit No 54.

13 Austrade, Submission, p. 219.

- 6.31 Additional supplier opportunities can be found in veterinary products, farm bunker storage, and wines and wines technology.
- 6.32 In discussions with the Argentine Agriculture Minister, the Trade Sub-Committee was told that Argentina wants to develop its goat breeding industry and is looking for cooperation in this area. Already Australia has provided some 500 dairy goats to an Argentine producer. Argentina is also looking for cooperation in breeding red deer and currently they are bringing in genetic material from Europe.
- 6.33 Argentina offers great potential in the area of forestry and has been planting eucalypts for many years. They have also planted Australian oak and cedar that are growing very well in Argentina. Over the past few years Argentina has been receiving investors from Europe, the US and Chile and is currently receiving investments from New Zealand. Argentina says it needs Australian companies to come into forestry and forestry industries. The forestry officials pointed out that entry costs are low, land costs US\$500 per hectare and production is 60 to 70 cubic metres per year of eucalypt.

Food and Beverages

- 6.34 Although Argentina is one of the world's top food exporters, Austrade points out there are a number of items the country imports to even a greater extent.¹⁴ These include prepacked convenience foods such as snack foods, and processed fruit and vegetable products.
- 6.35 Although Australian companies may not give much thought to exporting to Argentina given that the country is well on the road to meeting the growth in consumer tastes, there are niche opportunities that are worth examining to capture some of the growth in this sector.
- 6.36 Austrade says there may be niche opportunities for food specialities and exotic products, such as emu and kangaroo meats and exotic fruits. Furthermore in wines, although there is a limited market for imported product given local production and high rates of duty, there is likely to be a growing market for boutique wines that would match the Argentine palate.
- 6.37 With the improvement in the Argentine economy and the government's push to improve the export situation there may well be additional demand for innovative processing machinery and competitive packaging for foods and beverages. To elaborate:

14 Austrade information brief, *Latin America – expand your horizons*, April 2000.

The packaging sector, which includes both materials and equipment, is another export niche. This sector grew at an annual rate of 20% in 1997 and 1998. There are opportunities for importing environmental-friendly packagings, bag-in-box and bag-in-drum systems, canning for foodstuffs, flexible packaging for pastas, large containers for bulk shipping and freezer and microwave packagings.¹⁵

Mining

- 6.38 Mining production in Argentina was restricted to industrial, non-metallic minerals. Historically the mining sector has been under both federal and provincial control which has posed some problems. As Austrade points out with high production royalties, legal voids and insecurity, and onerous social impositions, many projects could not attract the necessary investment to sustain development.¹⁶
- 6.39 Argentina has enacted a comprehensive legal framework that has opened mining up to the international investor. Since the development of the investor friendly mining laws in 1993 Argentine mining exports have grown 106 per cent.
- 6.40 Three projects have been responsible for this growth and one of them is the Bajo de la Alumbrera copper and gold project owned by Minera Alumbrera S.A. (MIM Holdings, North and Rio Algom) that has been in full production since November 1998.
- 6.41 In discussions with the Trade Sub-Committee Minera Alumbrera, whose mine is at the base of the Andes, said that they encountered significant supply line problems due to poor infrastructure with most of the supplies coming from Chile. They constructed the largest slurry pipeline in the world, some 316 kilometres from the mine site to Tucuman and 900 kilometres of rail from Tucuman to the port at Rosario. The project cost \$1.2 billion and is the largest project financed in Argentina.
- 6.42 The De La Rúa government will continue the mining policy of the former government in its efforts to attract foreign investment. Apart from the export potential the government sees mining projects as vital to its regional development goals. The mining investment regime offers special income tax benefits, stamp duty exemptions, reduced import tariffs on capital goods, including spare parts and a thirty-year tax stability regime. The government has identified some 120 potential mining projects.

15 *ibid.*

16 Austrade, Submission, p. 218.

- 6.43 An Argentine-Chile Mining Treaty was due for ratification by the Parliaments of both countries with Argentina having already ratified the treaty. This Treaty will further enhance the mining sector and facilitate the opening up of further mining investments in the Andes region that straddle the two countries. Currently there are about twenty companies active in mineral exploration in Argentina.
- 6.44 At its *Latin America - expand your horizons* seminar series held around Australia in April 2000, Austrade outlined the opportunities for Australian companies. In the absence of a well-developed local manufacturing industry dedicated to mining, Australian companies can offer a wide range of products, technology, services and specialised equipment to the mining industry in Argentina. Austrade said that:
- In spite of the downturn affecting the exploration sector, the growth expectations in this area provide interesting possibilities for field supplies such as hammers, compasses and sample bags, drilling parts and services and environmental geoscience services. Opportunities also exist for helicopter services, including ground and airborne geophysics. A number of geochemical analysis laboratories are already established in the region and provide adequate services to the exploration companies.¹⁷
- 6.45 Minera Alumbreira told the Trade Sub-Committee that a lot of its equipment has come from Australia. However Australian mining companies could have taken more initiative and piggy-backed on Minera's presence in the market but opportunities have now been missed as US companies are on the move in Argentina.

Telecommunications

- 6.46 The Argentine state-owned telecommunications monopoly, Entel, was privatised in 1990. The sell-off divided the country into a duopoly and although services improved in terms of reductions in waiting time for a new line, and improvements in coverage and digitalisation of the network, the duopoly has sustained high tariff charges.
- 6.47 The telecommunications sector was opened to limited competition in 1999 and further liberalisation will come into force in November 2000. This second stage of liberalisation will allow more companies to provide national and international long distance services.
- 6.48 The telecommunications market is expected to expand to US\$10.2 billion by 2001 with turnover in 1998 of approximately US\$8.9 billion.

17 Austrade information brief, *Latin America - expand your horizons*, April 2000.

- 6.49 The November deregulation process, according to DFAT, will offer highly attractive opportunities for Australian telecom service and equipment providers. It is foreseen that there will be a high demand for digital and microwave radios and telecom value added services, such as the billing system and training package.
- 6.50 Austrade says there will be specific opportunities in:
- LMDS technology.
 - Cellular phone communications.
 - Fibre optics technology.
 - Telecommunications infrastructure in rural areas.
 - Digital loop carriers.
 - Multiplexers-digital radio equipment.
 - Strategic development services for telecommunications carriers.
- 6.51 Although the Americans are pushing in a big way into the market, both Austrade and DFAT see it is vital for Australian companies to be aware of the developments in the Argentine telecommunications sector and to investigate the opportunities and gain niche market share.
- 6.52 In the meeting with the Argentine Minister for Infrastructure and Housing and officials from the Ministries of Transport, Communications and Public Works, the Trade Sub-Committee was told that Argentina was sending a telecommunications *roadshow* to the US and Europe in November 2000. The Committee urged Argentina to consider sending the *roadshow* to Australia to capture Australian expertise given the further deregulation of this sector. Senator the Hon Richard Alston profiled Australian expertise in his May meeting with the Argentine Minister for Infrastructure and Housing and urged that the *roadshow* be taken to Australia. The Committee is most disappointed to learn that Australia was not on the *roadshow* itinerary, which was now due to travel in July/August 2000.

Information Technology and Automation Equipment

- 6.53 After Brazil and Mexico, Argentina is the third largest market in Latin America for information technology. This is the sector that is on a huge growth plane in South America. In Argentina alone the market in 1998 was estimated at US\$2.2 billion and the growth rate over the intervening period is expected to be around 10 per cent.

- 6.54 According to Austrade there are three factors that are affecting growth:
- In 1998 the federal government announced plans to support municipal government with World Bank funds.
 - The government has put an emphasis on IT in schools.
 - The ongoing expansion of the Internet should fuel personal computer shipments both for home and corporate use.
- 6.55 There is little doubt that the use of computers and the Internet is on the rise in Argentina with the new government committing itself to a major push in the Internet and e-commerce sector. To illustrate this, at EXPOCHACRA the Trade Sub-Committee visited the *Megagro.com* stand. The company, through on-line services, provides buying and technical reports to farmers in the core areas of grain and the beef side of the cattle industry. The company is benchmarking with farmers who are good producers and managers. There are an estimated 100,000 farm families in Argentina and some 8 to 10 per cent have Internet access, and as electricity rolls out this will increase substantially over the next one to two years. The company said it would be useful to have a producer to producer level link between Argentina and Australia through the Internet as this would develop a valuable dialogue.
- 6.56 Other areas for opportunities are in banking with the installation of ATMs with a projected growth rate of 10 per cent per annum, and the introduction of smartcards. Austrade says there are good prospects in the public transportation sector for smartcard technology. A further area of investment in Argentina is in call centres where growth in call centre equipment and software sales is expected to be between 20 to 30 per cent for the next three years.¹⁸

Marine

- 6.57 The marine sector is the focus for an Austrade marketing strategy for 2000-2001. This marketing strategy is timely as it aims to capitalise on successful sales of catamarans (fast ferries), the aggressive marketing of tourist venues in the region (Uruguay is an example) and the increasing demand for eco-tourism. The objective is to position the Australian marine industry in a prime position in South America, and the Caribbean and Mexico, by exploring and developing opportunities in the fast ferries and patrol boat sectors. Austrade, Buenos Aires is managing this strategy that is focused on the whole South American market and not just Argentina.

Education

- 6.58 In 1998 AEI,¹⁹ along with NOOSR,²⁰ commissioned a study to assess the potential of the market in four South American countries – Argentina, Brazil, Chile and Venezuela, for the export of Australian education and training services. The study examined the market opportunities in a range of education delivery areas such as postgraduate studies, undergraduate studies, international linkages and twinning, vocational education, English language training, secondary education, distance education and consultancies.
- 6.59 Education is one of Australia's hidden export successes and international student numbers at Australian campuses have leapt by over 10,000 in the past year.²¹
- 6.60 The Argentine government is overhauling its education sector and addressing teacher training, vocational education and training and competency based training, and creating a comprehensive, articulated system of education with pathways between the different sectors.²²
- 6.61 The US leads all other countries in attracting Argentine students, some 45 per cent of all students who go abroad to study. England has 20 per cent of the overall market and the Canadians are capturing market share since opening an education centre in Buenos Aires in January 1998.
- 6.62 In the course of taking evidence the Committee heard that education has not been a sector that has been promoted fully in the South American market. A number of education providers have been working in the market since the early to mid 1990s, and back in 1992 Australian government officials 'gave the impression they had given little, if any, consideration to the prospects of Australian export education services in South America.'²³ In 1994 the promotion of the export of education services formed part of the duties of an Austrade assistant and today, education exports are taking on a higher profile.
- 6.63 Austrade notes that in 1993 there were some 60 Argentine students studying in Australia and this has jumped to between 500 and 600 students in 1999. The post in Buenos Aires has found that short term English courses are the most popular with the average student stay being

19 AEI – Australian Education International, Department of Education, Training and Youth Affairs.

20 NOOSR – National Office of Overseas Skills Recognition, Department of Education, Training and Youth Affairs.

21 Media Release, Minister for Education, Training and Youth Affairs, *Australia's international education success story continues*, KO28/00, 6 March 2000.

22 AEI, Exhibit No 4, p. 42.

23 Sydney English Language Centre (SELC), Submission, p. 111.

five weeks and most of the other inquiries are received for postgraduate university studies.²⁴

- 6.64 Australia as a study destination is increasing in popularity and Austrade outlines several reasons for this:
- The majority of Argentine students undertake overseas courses during their summer holidays – December to March – when it is also summer in Australia.
 - Australia is seen as friendly, informal and a safe destination.
 - For long term courses or university studies, Australia's student visa offers the ability to work up to 20 hours per week.
 - Course fees and the cost of living in Australia are significantly lower than in the US and UK, due to the current exchange rate.
 - Qantas flies direct between Buenos Aires and Sydney (via Auckland) twice a week and Aerolineas Argentinas has another two flights per week on the same route. Both airlines offer special student fares.²⁵
 - The Australian school and university year is similar.
- 6.65 The Committee was pleased to hear that one aspect of DIMA's visa system is seen in South America as a positive. As we have seen DIMA's practices and procedures on visa issue are proving to be a barrier to Australia's trade and investment interests in South America, particularly in the education arena.
- 6.66 Argentina does not have a vocational training system and this provides an excellent opportunity for Australia with its proven expertise in TAFE. Areas of demand for vocational education are information technology, hotel and restaurant management, biotechnology, public relations, communications engineer, teaching, food technology and agricultural studies. Argentina is looking to further its distance education courses and Australia is well placed to provide such programs in English, primary teacher training, adult literacy and driver safety education amongst others. Other opportunities include tele-medicine, English as a second language and postgraduate studies especially in the areas of business, tourism, agriculture, engineering, environmental studies and mining.
- 6.67 In June 2000 the Argentine Minister for Education visited Australia to look at Australia's capabilities and advances in rural distance education, computerisation for schools and technical and further education.

24 Austrade information brief, *Latin America – expand your horizons*, April 2000.

25 *ibid.*

6.68 There are two factors that Australian institutions need to keep in mind when looking at the Argentine market. First with Australia becoming popular as an education destination, Austrade says that Australian institutions must take a more consistent approach to the market in order to increase numbers and maintain credibility. Second it is important for 'Australian universities to establish and maintain ties with Argentine universities and to regularly visit the market, talk to local students and ensure supplies of brochures and handbooks are available in the local university study centre/libraries.'²⁶

Market Access Issues

6.69 There are quite a number of barriers that impact on doing business in Argentina. These are:

- Tariff peaks in some toys, shoes, dairy products, information technology equipment, and vehicles and automotive parts.
- Customs clearance delays and additional costs.
- Uncertainties regarding royalty payments for mining.
- Delays in obtaining refund on goods and services tax.
- Telecommunications sector monopoly (due for removal by 2001).
- Withholding tax payable on interest on foreign loans and dividends to foreign investors.

6.70 In discussions with Minera Alumbreira, the Trade Sub-Committee gained an appreciation of the problem surrounding the uncertainty regarding royalty payments for mining. This is a serious issue and has the capacity to act as a severe constraint on future FDI in the mining sector. A sector we have seen that the Argentine government is keen to develop. In discussions with ministers and officials in Buenos Aires, the Trade Sub-Committee raised the concern, with the issue needing a quick and satisfactory resolution.

Free Trade Zones

6.71 There are two free trade zones (FTZ) in Argentina that can enhance trade with the advantage that they can be used as hubs to store merchandise for just in time delivery of spare parts and machinery in the Mercosur region. Where regional warehousing of parts and equipment is required then

FTZs have the advantage of no tax obligations until items leave the zone for delivery.²⁷ The two zones are La Plata and Concepcion del Uruguay.