

Building two-way trade and investment

- 4.1 Identifying specific possibilities or the potential of a particular region or market is a relatively easy task. A more challenging task is identifying what Australia can do to improve its trade and investment links with the Gulf States.
- 4.2 Chapters 4 and 5 will address this issue. Chapter 4 will identify the key attributes of trade and investment with the region and then canvass a range of outstanding opportunities as identified by the committee during the course of the visit and the inquiry.
- 4.3 Chapter 5 will cover particular opportunities identified and some issues for the Australian government and firms to consider when interacting with the region.
- 4.4 Both chapters will refer to the parliamentary visit to the Gulf States which formed part of this inquiry.

Twin drivers of development in the Gulf States

- 4.5 All evidence received during the course of this inquiry indicated that the economies of the Gulf States are all on a 'fast track' to growth and development. The structure of the world economy and the demographics of the Gulf States have placed the region in a unique position.
- 4.6 The demographic 'youth bulges' (see Table 4.1) in these countries, in which large majorities of the population are under 30 years of age, have compelled governments to commit to rapid development. Governments in the region hope it will provide jobs for the young

and therefore stability in the medium term – a familiar development strategy.

- 4.7 Unlike many other developing countries however, Gulf States also tend to have the financial means to fully fund such rapid development. As outlined in Chapter 3 the Gulf States have an aggregate current account surplus of USD 57 billion in 2003.¹

Table 4.1 Population and mean age in Gulf States

	Population (million)	Mean age	GDP per capita (USD 2002) ²
Bahrain	0.7	29	10,975
Iran	69.0	24	1,686
Kuwait	2.3	26	14,601
Oman	2.9	19	7,997
Qatar	0.8	31	29,802
Saudi Arabia	25.8	21	8,020
UAE	2.5	28	18,667
TOTAL	104.0	25	
<i>Australia</i>	<i>19.9</i>	<i>36</i>	<i>28,900³</i>

Source *The World Factbook*⁴

- 4.8 The twin drivers of rapidly growing young populations and substantial natural wealth are critical characteristics of the region. It explains the vigour with which Gulf States are seeking to diversify and develop their economies and the ‘fast track’ development programs they are pursuing.
- 4.9 Peter Linford, Senior Trade Commissioner in Dubai listed the characteristics of the Gulf economies in the following terms:

They are cash rich markets. They are heavily reliant on imported goods. They are on the whole liberal economies with no major limitations. There is generally strong government support for the private sector. There is a positive perception of Australia business. They are large and growing consumer markets and the regional population is large and growing.⁵

1 DFAT, *Submission No 9*, p 12.

2 GDP figures from DFAT website, <<http://www.dfat.gov.au/geo/#A>>.

3 2003, CIA, *The World Factbook 2004*.

4 CIA, *The World Factbook 2004*.

5 Peter Linford, Austrade STC Dubai, *Briefing to committee*, 12 April 2004.s

Window of opportunity

- 4.10 An additional important point made on several occasions throughout the visit and through other evidence received, was that several Gulf countries were trying to broaden their import base away from traditional suppliers such as the US, UK and Europe, especially in terms of where they study and holiday.⁶
- 4.11 Australia was seen to be well placed to provide the diversity that the Gulf States are currently seeking in their trading and investment relationships. This window of opportunity was seen to be open now and was believed likely to remain open only for the next few years.⁷
- 4.12 The committee believes a concerted effort on the part of the Australian government and Australian industry to raise Australia's profile in the region in the short term would be likely to provide dividends.
- 4.13 Accordingly the committee recommends such a course of action over the next three years to lift Australia's profile in the region.

Recommendation 1⁸

The committee recommends that the government give high priority to developing a program of high level visits to the region over the next three years to ensure Australia's profile is substantially raised.

Dubai as a regional hub

- 4.14 The committee felt it was important to draw attention to Dubai's continuing success in billing itself as the regional hub.
- 4.15 Dubai has modelled itself on Singapore and accordingly plans to be the regional services hub. Clearly Dubai has been very successful in this regard to date, having developed a range of key services industries such as Internet City and Knowledge Village. Other major developments such as Dubai International Financial Centre and Dubailand are currently under construction.⁹

6 Parliamentary Delegation to the Gulf States, *Meeting Notes*.

7 DEST, *Submission No 1*, p 4 & Parliamentary Delegation to the Gulf States, *Meeting Notes*.

8 This recommendation was included in the Report of the Parliamentary Delegation to the Gulf States.

9 Parliamentary Delegation to the Gulf States, *Meeting Notes*.

- 4.16 The committee believes Australian companies looking to the region should be aware of the strengths of Dubai in this regard and utilize the array of facilities, services and links in place in Dubai to develop their activities in the region.

Areas of outstanding opportunity

- 4.17 Over the course of the inquiry the committee took evidence from eighteen government and non-government organisations and spoke to more than 60 representatives of various industry and government organisations in five Gulf countries. This evidence and subsequent deliberations allowed to committee to identify a range of areas which provided outstanding opportunities for Australian business.
- 4.18 The need to accommodate the growing majorities of young people in terms of jobs has focused the minds of policy makers in the Gulf States on the need for economic growth.
- 4.19 All Gulf governments therefore, to greater or lesser degrees, have pragmatically begun to address this problem through building and liberalisation programs. Building and liberalisation programs require a range of skills and inputs. Australia, after enjoying a long period of growth based on a long period of liberalising reform, is well placed to respond.
- 4.20 The array of opportunities mentioned above can broadly be grouped under the following headings:
- Building and construction
 - Engineering and consulting (including infrastructure)
 - Healthcare and pharmaceutical services
 - Education and training
 - Tourism and tourism training
 - Consumables (including automotive)
 - Agribusiness
 - ICT products and services
 - Financial services.

- 4.21 This is not an exhaustive list of perceived opportunities but a range of strong opportunities which emerged from evidence received.
- 4.22 Both AACCI and Austrade¹⁰ provided lists of sectors in which they thought opportunities were strongest and there was a high degree of overlap between them.

Building and construction

- 4.23 Building and construction is a good starting point because it is inevitably one of the most striking characteristics of the region, especially Dubai. In each city the delegation visited there was either substantial construction underway or plans in place for substantial construction.
- 4.24 For some idea of the scale of construction going on in Dubai, it is worthwhile considering its construction plans for the medium term. The size of the UAE construction market has grown 25% to USD 30 billion over the last year. This includes the ambitious Dubailand project which is a USD 5 billion project covering 18,500 hectares.¹¹ In comparison, the Homebush Bay Olympic site covered a mere 660 hectares.
- 4.25 Australian building and construction firms are already heavily involved in the region as mentioned earlier. The delegation that visited the Gulf noted that Multiplex signs were common features at building sites around Dubai.
- 4.26 The Palm Island project (pictured on page 12 of the visit report) has 3,000 workers, 14 barges, 11 tugs, 4 dredges and 10 vessels working around the clock to move 30 billion cubic metres of sand and 2 billion cubic metres of rocks.¹²
- 4.27 Qatar has plans to spend AUD 7.03 billion¹³ on infrastructure projects over the next 6 years. This includes AUD 3.2 billion on roads, AUD 1.98 billion on buildings, AUD 684 million on sewerage facilities and AUD 1.14 billion on health and education facilities.¹⁴

10 AACCI, *Submission No 2*, p 2 and Austrade, *Submission No 8*, p 12.

11 Peter Linford, Austrade STC Dubai, *Briefing to committee*, 12 April 2004.

12 Peter Linford, Austrade STC Dubai, *Briefing to committee*, 12 April 2004.

13 Exchange rate taken from Oanda <<http://www.oanda.com/convert/classic>> on 7 May 2004.

14 *Speech by Qatari Minister of Municipal Affairs and Agriculture* to MEED conference on major projects and investment opportunities in Qatar, January 2004.

- 4.28 In response to internal demographic pressures, both Riyadh and Iranian chambers of commerce and industry raised the issue of demand for quality, mass housing. The growing size and growing affluence of sections of both societies have lifted dramatically the demand for quality though relatively inexpensive housing. Australia's reputation in this area seemed to be known and both chambers were interested in learning more about Australia's capabilities in this area.¹⁵

Engineering and consulting (including infrastructure)

- 4.29 Building on Australia's strengths and heavy involvement in the region's construction industry, the committee felt that Australia's related strength in engineering consulting would also find great demand in the region.
- 4.30 The committee heard of several examples of projects to which Australian engineering expertise had had some direct or indirect input, including the landmark Burj Al-Arab Hotel in Dubai.
- 4.31 Specific areas of opportunity were also raised by Austrade. These include the USD 5 billion planned expansion of Dubai airport. Dubai catered to 13.5 million passengers in 2001. By 2010 the expansion will enable the airport to transit 30 million passengers per annum.
- 4.32 The government of Qatar is also planning a dramatic expansion of Doha airport. The airport is presently undergoing a USD 140 million refurbishment and expansion program to increase its capacity from 4.2 million passengers per year to 7.5 million passengers per year and provide a range of enhanced passenger services.¹⁶
- 4.33 The Asian Games are to be held in Qatar in 2006. GHD Ltd, an Australian firm heading a construction consortium, was awarded the 'master planner' contract. It is expected USD 6 billion will be spent on construction in the lead up to the games.
- 4.34 Australia's presence in the region was viewed to be a tremendous asset. It should be able to help other firms penetrate the market to capitalise on the massive investment going into infrastructure in the region.¹⁷

15 Parliamentary delegation to the Gulf States, *Meeting Notes*.

16 <<http://www.qatarairways.com/24.0.0.1.0.0.htm>>

17 Parliamentary Delegation to the Gulf States, *Meeting Notes*.

- 4.35 Also DFAT points out that although oil production has for many years been the preserve of state-owned companies, opportunities are opening up in oil and gas exploration infrastructure development and downstream activities.¹⁸
- 4.36 One example from November 2003 involved the Saudi Government approving a USD 2 billion investment by Royal Dutch Shell and Total in exploration for gas in Saudi Arabia's 'empty quarter'.¹⁹ Although substantially smaller than the USD 5 billion investment that Royal Dutch Shell/Total originally proposed DFAT points out, the project is the first foreign investment in Saudi Arabia's hydrocarbon sector since the industry was nationalised in 1975.²⁰

Healthcare and pharmaceutical services

- 4.37 The focus on infrastructure development in the Gulf States has led to an overlooking of the service areas such as healthcare which areas not of the standard of developed nations.
- 4.38 There are accordingly opportunities for Australian healthcare providers to service Gulf healthcare needs both in Australia and in the region. Once again this opportunity is twofold. Australian organisations could deliver healthcare services both in Australia and the region but also, as with tourism, provide the education and training services which will underpin healthcare services in the region in the future.
- 4.39 Austrade, in their submission to the inquiry, explains that Saudi Arabia and the UAE in particular are working to expand dramatically the private provision of healthcare services and must do this with predominantly foreign expertise and staff.²¹
- 4.40 Australia already has a large number of health professionals working in the region which provides a strong competitive advantage.
- 4.41 The committee took evidence from three professional placement firms before the delegation's visit to the region. They expressed their concern with recent changes to the tax ruling which applies to Australian nationals working in the region. This will be discussed further in Chapter 5.

18 DFAT, *Submission No 9*, p 16.

19 DFAT, *Submission No 9*, p 16.

20 DFAT, *Submission No 9*, p 16.

21 Austrade, *Submission No 8*, p 20.

- 4.42 Australian healthcare is already used by Gulf tourists to Australia and the Gold Coast area is already benefiting from the growing 'health tourism' sector (that is combining a holiday with a health service such as an elective treatment or cosmetic service).
- 4.43 Australia is well placed to increase its profile both as a health tourism destination, and as a provider of skilled health staff and health training professionals.
- 4.44 In contrast to the area of tourism, the Australian government has no representative in the region to seek out opportunities for itself and Australian healthcare services providers. The committee knows that the Health Insurance Commission (HIC) has been successful in other regions in terms of exporting Australian expertise and training in the health sector.
- 4.45 The committee feels the government should consider further investigating potential opportunities in this area and consider what benefits posting an HIC officer in the region might provide to Australian exporters.

Section 23AF of the Income Tax Assessment Act

- 4.46 Bayside Personnel, ICS and Promesse all raised as an issue the recent changes to the administration of the section 23AF²² of the Income Tax Assessment Act 1936.²³
- 4.47 These three professional placement companies are involved in placing health and other professional in positions in the Gulf States. The companies benefited from the earlier interpretation of section 23AF whereby Australian nationals working in the region were given a tax exemption for income derived whilst working on an approved overseas project. That is, Australians working in the region (where there generally is no income tax levied) did not have to pay income tax upon their return to Australia.
- 4.48 In late 2002 Austrade, who administers the section, reviewed its interpretation of the section and concluded that personnel firms should no longer qualify for the section 23AF exemption.
- 4.49 The personnel firms are concerned about this decision for one main reason. It will make working in the Gulf much less appealing for Australians because salaries for health professionals (once taxed) will

22 <http://www.austlii.edu.au/au/legis/cth/consol_act/itaa1936240/s23af.html>

23 Austrade, *Submission No 11*, p 1.

not be as attractive. Accordingly fewer Australians will choose to work in the region.

- 4.50 Once the number of Australian healthcare and other professionals working in the region drops, Australia will be worse off in two ways. With fewer Australians working in the region, less earnings will be repatriated to Australia. And perhaps more importantly, there will be fewer Australian health professionals and contractors present in these rapidly expanding health sectors. The flow on will be the loss of associated healthcare work for Australian professionals and exporters.
- 4.51 ICS provided two detailed examples of how Australian placements in the region benefit other Australians and business. In talking about ICS placements in Saudi Arabia, ICS explains:

Riyadh Bank is another....We have put in the head of risk management. It is a brand new department... There is an Australian heading up that division. He has since come back to Australian and will take back with him three for four other people....The creation of a new division within Riyadh Bank, the second largest Bank in Saudi, was driven by Australian skills and experience.²⁴

We worked with Ministry of Health and a local body...[in the UAE]...and placed several people. There was also a Dr Greg Papworth as Chief Advisor to the Ministry in Abu Dhabi. Because of this collective presence, I was able to talk to GAHS about managing a project for the Al Cornice Maternity Hospital. This project subsequently proved to be a \$1.6 million assignment handled by the OPCV.²⁵

Lack of hard data on services trade

- 4.52 Before discussing section 23AF further, one issue complicates decisions on this problem. There is a marked lack of hard data on the actual dollar amounts Australian nationals in the region bring to Australia. The Australian Arab Chamber of Commerce and Industry (AACCI) estimates the repatriation of earnings by Australian professionals in the Gulf to Australia to be in the order of AUD 450 million per annum.²⁶

24 ICS, *Transcript 7 April 2004*, p 11.

25 ICS, *Submission No 24*, p 1.

26 AACCI, *Submission No 2*, p 4.

- 4.53 Bayside Personnel estimates that its 1500 placements in the region since 1991 has delivered Australia AUD 70 million in repatriated salaries, and that their placements over the period have resulted in more than AUD 20 million in sales.²⁷
- 4.54 Promesse estimates that each Australian working in the region repatriates AUD 35,000 per annum.²⁸
- 4.55 Although none of these figures are verifiable, there is a consensus among these placement firms that the revised interpretation of s23AF is adversely affecting Australia's competitiveness in terms of placements, and as such is a move which will hurt Australia's short and long term interests in the region. AACCI agrees strongly with this view.²⁹

Austrade response to concerns raised

- 4.56 Austrade outlined a specific response to these concerns in their additional submission.³⁰ The reason provided for the change in interpretation of s23AF in late 2002 was:
- Legal advice sought by Austrade in this context, confirmed that the 'provision of personnel' is not consistent with the purpose or intent of the legislation....The 'provision of personnel' is not an 'eligible project', and by itself does not result in a development, management or administration of a program or facility. 'Development' involves a concept of advancing, growing or evolving a program or improving and strengthening a facility.³¹
- 4.57 Austrade provided no estimate of the negative effects of the change in interpretation on the Australian economy. Austrade also provided no comparisons with other developed countries which provide personnel to the region.
- 4.58 The committee notes that Treasury is responsible for tax policy.³² The committee also notes that the Minister for Trade is responsible for

27 Bayside Personnel, *Submission No 3*, p 1.

28 Promesse, *Submission No 11*, p 4.

29 AACCI, *Submission No 2*, p 4.

30 Austrade, *Submission No 13*.

31 Austrade, *Submission No 13*, p 1.

32 Austrade, *Submission No 22*, p 2.

determining which projects or class of projects are in the 'national interest'³³ – the key criteria for qualifying for the s23AF exemption.

- 4.59 Austrade advises the minister in this regard. The committee would expect therefore that Austrade would want to determine exactly what the costs and benefits of such a change would be to Australia before making such a determination. This appears not to have been done in this instance.
- 4.60 Clearly if such a change were to cost Australia - in terms of lost repatriated income, fewer contracts for Australian firms, a weaker Australian network in a rapidly growing region etc - the outcome would be negative.
- 4.61 The committee believes Austrade should undertake a more thorough cost-benefit analysis of the impact of the recent change in interpretation of s23AF. Only once the government knows what has been gained and what has been lost by the change in interpretation, will it be able assess which interpretation of s23AF should stand.
- 4.62 Should Austrade find through this process that the national interest was served better by the old interpretation of s23AF, then it should revert to the pre-2002 interpretation of the act.

Recommendation 2

The committee recommends that the government reconsider the 2002 re-interpretation of section 23AF of the Income Tax Assessment Act relating to income tax exemptions. It should do this with a view to undertaking a more comprehensive cost-benefit analysis of the effect of the 2002 change on the national interest.

Education and training

Strong growth

- 4.63 Australia is already a major education exporter and is well placed to build on this strength in the Gulf region. Demand for Australian student visas is already growing at 30% per annum from Dubai.³⁴ Many of the organisations the delegation to the Gulf met with, were interested in more streamlined application procedures for Gulf

33 Austrade, *Submission No 13*, p 1.

34 Peter Linford, Austrade STC Dubai, *Briefing to committee*, 12 April 2004.

nationals wishing to obtain student visas for Australia,³⁵ suggesting growing demand to which Australia has not yet fully responded.

- 4.64 IDP points out that ‘student visas awarded to students in the...Gulf has grown from 124 in 2000, to 896 in the comparable period in 2003.’³⁶ See Table 3.6 and Appendix 6 for more detailed information.
- 4.65 The committee believes there are several reasons why Australia is well positioned to penetrate the education market. Firstly Australia is a quality though comparably cheaper option than the US and UK for higher education. This fact does not seem to be well known in the region³⁷.
- 4.66 Increased frequency of direct flights by Emirates, Gulf Air and possibly Qatar Airways in the future has diminished the perceived distance between Australia and the region. Sydney is only 13 hours flight away from Dubai and Perth is only 10 ½ hours away. Emirates’ recent establishment of daily direct flights to Perth, Melbourne, Sydney and Brisbane has increased the flow of people and goods in both directions. Further, flights from Sydney and Melbourne fly twice daily and Emirates’ has recently introduced non-stop services.
- 4.67 The other factor working in favour of Australian education exporters is that Australia is seen as an alternative to the US and UK in terms of services imports. The US and UK traditionally provided education services for people from the region, as destinations for people seeking prestigious degrees. The region’s growing sensitivity to economic vulnerabilities has prompted them to seek new sources of imports including education services. Australia is seen in the region as a potential alternative.³⁸
- 4.68 IDP confirms the committee’s impression that this ‘window of opportunity’ in education will not be open for the long term.³⁹ This specific opportunity is only likely to be open for the next few years.
- 4.69 DEST provided a summary of what it sees as likely trends in the future in the region in education. It includes the following points:
- The development of private post-secondary institutions (using an American model).

35 Parliamentary Delegation to the Gulf States, *Meeting Notes*.

36 IDP, *Submission No 4*, p 3.

37 Parliamentary Delegation to the Gulf States, *Meeting Notes*.

38 Parliamentary Delegation to the Gulf States, *Meeting Notes*.

39 IDP, *Submission No 4*, p 7.

- The introduction of English language teaching at an earlier age in the government school sector
 - Interest and action by the Australian education and training industry in developing a stand-alone campus in the region.
 - Re-generation of interest in the US as a destination for study, by the 2006-07 academic year.⁴⁰
- 4.70 Clearly all these trends, excluding the last, are likely to be to Australia's advantage.
- 4.71 As one would expect, these favourable conditions have served Australian education exporters well, as evidenced by Tables 3.6 and Table D.1. Also the committee wishes to acknowledge the University of Wollongong and Monash University for providing bold examples of entrepreneurial activity in the region in this sector. The University of Wollongong has had a growing presence in Dubai since 1992⁴¹ and Monash University started its first jointly hosted course with Kish University in Iran⁴² in March 2004.⁴³
- 4.72 DFAT pointed out in its submission that the value of the provision of educational services goes beyond immediate commercial benefits. It can have longer-term spin-offs, for example in increasing understanding in the Gulf countries of what Australia has to offer as a source of sophisticated products and services.⁴⁴

Accreditation and recognition of Australia's educational institutions

- 4.73 One issue on which the government may be able to provide assistance at the diplomatic level is with the concerns of the University of Wollongong in Dubai (UOWD). Although welcomed into the UAE as a 'partner in the development of education excellence', UOWD has experienced difficulties achieving appropriate accreditation.⁴⁵
- 4.74 Although the issues behind the accreditation problems are numerous and complex, it appears that the processes behind accreditation are not as predictable and transparent as they could be. The committee believes the Australian government should encourage the

40 DEST, *Submission No 1*, p 6.

41 University of Wollongong in Dubai (UOWD), *Submission No 18*, p 2.

42 Fard, *Submission No 20*, p 13.

43 <<http://www.kishuniv.com/>>

44 DFAT, *Submission No 9*, p 16.

45 University of Wollongong in Dubai (UOWD), *Submission No 18*, p 2.

government of the UAE to ensure the highest standards of predictability and transparency in their university accreditation processes.

- 4.75 IDP makes two complementary points in its submission. The first is that, considering the strength and potential of Australia's education exports, Australia should build a strategy to ensure Australia's tertiary qualifications are *widely understood and recognized* in the region.⁴⁶ As mentioned UK and US qualifications traditionally have the widest recognition. Any gains for Australia are contingent upon respect and understanding for its qualifications.
- 4.76 The second point is the importance of ensuring Australia's educational institutions are on the regional governments' lists of acceptable institutions. By virtue of the economies of all the Gulf States, much university funding for Gulf nations is provided by the respective government. Accordingly students are most likely to study in a university which is recognized by their government. Clearly support is needed from the Australian government 'to ensure Australian universities are included on these lists'.⁴⁷
- 4.77 Having Australian institutions on such lists will ensure they can compete with other international institutions on these lists in terms of attracting government funded places for Gulf nationals.
- 4.78 The committee understands the strong role of the state in many aspects of the economies of the Gulf States and believes that the Australian government must take these factors into account when dealing with the region.

Brand Australia coordination

- 4.79 IDP also raised the issue of Australian brand coordination in the region. The example which demonstrates the issue is the clash between the image of Australia promoted for tourism and that promoted for education exports. The tourist image – sunny, relaxed, easy-going – is not necessarily the ideal image for attracting students. IDP believes some coordination in the marketing strategies of these two export sectors is needed to avoid any unproductive clashes of image. The committee believes the government should bear this in mind when promoting various sectors in the region.

46 IDP, *Submission No 4*, p 6.

47 IDP, *Submission No 4*, p 6.

- 4.80 IDP also raises issues in recommendations three and four about promoting Australia as an open, multicultural society. IDP believes there is a 'need for the government to provide and strong message that Australia is open to all religions and cultural groups.'⁴⁸ The submission goes on to suggest Australia should also promote its level of 'safety and security'.⁴⁹ IDP perceives these issues to be a major drawcard for Middle East students and common experience would support this view.
- 4.81 The committee believes therefore that this should be borne in mind by the government when building its education export strategy for the region.

University and other links

- 4.82 The committee was interested to hear that Mr Abdul Ayan was working on the establishment of a Centre for Middle East Business Development.⁵⁰ Such initiatives are likely to add to mutual understanding and stronger relations between Australia and the Middle East. The committee commends Mr Ayan and encourages he and other such centres, like ANU's Centre for Arab and Islamic Studies, for their role in bringing Australia and the region closer together.

Military education and training

- 4.83 Military education and training is an area of potential for Australian exporters. When meeting with the defence minister of Kuwait, delegation members formed the view that the Australian defence suppliers had a good opportunity to develop this market.
- 4.84 The committee believes opportunities in this area might also include the provision of military training (see country examples in Chapter 5). Austrade points out that the region spends approximately USD 45 billion per annum on defence.⁵¹
- 4.85 A recommendation on this issue was made in the Report of the Parliamentary Delegation to the Gulf States⁵² and is included in Chapter 5.

48 IDP, *Submission No 4*, p 6.

49 IDP, *Submission No 4*, p 6.

50 Mr Abdul Ayan, *Submission No 7*, p 11.

51 Austrade, *Submission No 8*, p 18.

52 JSCFADT, Report of the Parliamentary Delegation to the Gulf States, p 36.

Tourism and tourism training

- 4.86 Another opportunity in the services sector is tourism and tourism training.
- 4.87 The Gold Coast of Australia is already a popular destination for holidaying Gulf nationals. It is perceived as safe and welcoming, and again its profile in the region has been growing due partly to increased frequency of direct flights to Australia and the region's enthusiasm for diversifying its economies. The abundance of serviced apartments on the Gold Coast was also attractive to Gulf families where average family size is approximately six.
- 4.88 The committee acknowledges the timeliness of the Australian Tourist Commission's (ATC) appointment of a representative to the region. As mentioned above much of the region is cash rich and looking for safe and friendly alternatives to Europe and the US.
- 4.89 Visitor visa figures from the Gulf region (see Table 3.7) appear to have slipped in recent years even though, in general, visitor visas to Australia have started to climb in the last year. Australia was recognized as an alternative to Europe and the US⁵³ (especially the Gold Coast) but there was not an overwhelming awareness of what Australian had to offer.⁵⁴
- 4.90 AACCI maintains that the ATC could 'take a more proactive role in the region'.⁵⁵

Tourism training

- 4.91 While Australia seeks to attract tourism from the Gulf, Gulf countries are interested in developing tourism industries in their own countries.⁵⁶ In all of the countries visited work was being done to raise hospitality service standards. This opens another opportunity for Australian organizations involved in tourism training. Either in Australia or offshore in the region, Australian hospitality expertise would find substantial demand in helping raise Gulf hospitality standards to world best practice.
- 4.92 The massive Dubailand project mentioned above aims to make Dubai the tourism hub for the region. There are few indigenous hospitality

53 Parliamentary Delegation to the Gulf States, *Meeting Notes*.

54 Parliamentary Delegation to the Gulf States, *Meeting Notes*.

55 AACCI, *Submission No 2*, p 3.

56 Parliamentary Delegation to the Gulf States, *Meeting Notes*.

training institutions and a relatively undeveloped industry, in contrast to Australia's long established and highly developed industry.

- 4.93 Similarly Qatar would like to develop Doha as a tourist hub in the region. It has long term plans for massive tourist development, both in desert resorts but also seaside resorts. Again Qatar has the financial resources to do this but none of the indigenous skills or trained personnel. Clearly Australia could help develop and/or provide these capabilities.

Consumables (including automotive)

- 4.94 As one would expect in wealthy countries there is a strong demand for a range of consumables.⁵⁷ Everything from cars, to leisure boats, sporting equipment, jewellery, electronic goods, clothing – all things not produced and unlikely to be produced locally - are potential exports for Australian firms.
- 4.95 Any sector of consumer goods in which Australia is a quality producer would be well positioned to capitalise on demand in the region for such goods.

Cars, parts and after market accessories

- 4.96 Australia has experienced impressive recent success in the sale of cars into the region (see Table 3.2). In the early 1990s there were virtually no Australian cars sold into the region. Currently one in five cars in the Middle East is Australian built.⁵⁸ Automobile exports grew from AUD 1.75 billion in 2002 to AUD 1.83 billion in 2003.⁵⁹
- 4.97 The main models sold are the Holden Caprice (badged as a Chevrolet Lumina) and the Toyota Camry. The Mitsubishi Magna also has significant sales into the region.⁶⁰
- 4.98 This success opens a range of other opportunities for Australian producers. As the number of Australian cars on the road in the region grows, the market for Australian car parts will grow. The export of

57 Parliamentary Delegation to the Gulf States, *Meeting Notes*.

58 Peter Linford, Austrade STC Dubai, *Briefing to committee*, 12 April 2004.

59 Austrade, *Submission No 8*, p 13.

60 Parliamentary Delegation to the Gulf States, *Meeting Notes*.

spare parts and accessories increased from AUD 32 million in 2002 to AUD 39.9 million in 2003⁶¹ and is likely to continue growing.

- 4.99 Similarly Australia's mature market in after-market accessories will also be able to push into the region's equivalent market which is still quite undeveloped. There is also likely to be opportunities for such accessories manufacturers to develop new accessories appropriate to the harsh driving conditions in the region.⁶²

Marine leisure

- 4.100 As the economy of the region modernises, work and leisure patterns are likely to converge to some degree with those of other developed nations, as they are doing in Dubai. Accordingly leisure activities are likely to increase. Such a trend is already evidenced by the intensity of development along the coastal areas in UAE, Qatar and Kuwait.⁶³ Maritime leisure activities such as beach swimming, boating (including jet skiing), fishing, waterskiing, sailing etc are likely to grow.
- 4.101 Austrade provides figures from a UAE marketing consultancy which suggest that the regional market for leisure craft may be as big as 35,000.
- 4.102 Additionally the massive growth in waterfront developments, especially in Dubai, will see some 4,000 people moving into waterfront residences in years to come. Palm Island I and II, Dubai Marina and Dubai Marine City will all cater to wealthy individuals looking for waterfront lifestyles.⁶⁴
- 4.103 All these areas are ones in which Australia has a long history and a strong comparative advantage. There is not much understanding of Australia's expertise in this area however.⁶⁵ If Australian firms in these sectors could raise their profile in the region, they would undoubtedly find a range of opportunities in this sector.

61 Austrade, *Submission No 8*, p 13.

62 Austrade, *Submission No 8*, p 13.

63 Parliamentary Delegation to the Gulf States, *Meeting Notes*.

64 Austrade, *Submission No 8*, p 23.

65 Parliamentary Delegation to the Gulf States, *Meeting Notes*.

Agribusiness

Food and beverage

- 4.104 Two main factors suggest that opportunities for Australian food and beverage producers in the region are likely to be strong and growing.
- 4.105 The first is the growing wealth of the region. As countries in the region liberalise, a growing demand for a wider range of quality food products is likely (see Table 4.2).
- 4.106 Australia is known as one of the highest quality sources of agricultural produce across the board. This knowledge and the well established trading links position Australia well for expansion in this sector.
- 4.107 Austrade believes opportunities in the region in this sector lie in three areas: food and beverages, live animals and bulk commodities.⁶⁶

Table 4.2 Total imports of agricultural product by Gulf States since 1985 (USD million)

Country	1985	1990	1995	2000	2002
Saudi Arabia	3,890	3,961	4,482	5,290	5,111
Bahrain	244	283	332	422	559
Iran	2,090	2,676	3,626	2,918	2,094
Oman	427	488	842	1,057	1,257
Kuwait	1,032	571	1,209	1,106	779
Qatar	210	295	329	396	480
UAE	1,118	1,693	2,420	2,671	3,146
Total	10,996	11,958	15,235	15,859	15,428
Total (inflation adjusted)	10,996	9,905	10,745	9,898	9,227

Source DAFF, *Submission No14*, p 5.⁶⁷

- 4.108 Food and beverages are likely to grow due to the growing and young population. The Gulf countries have limited food production capacity and this capacity is likely to decline as the environmental and other costs are realised.⁶⁸

66 Austrade, *Submission No 8*, p 12.

67 DAFF explains that the drop in imports is paradoxically explained by the rising price in oil. As oil revenues grew Gulf States were more inclined to invest in local (and very expensive) local agricultural production. DAFF, *Submission No 14*, p 5.

68 DAFF, *Submission No 14*, p 3.

- 4.109 For similar reasons the live animal trade is likely to remain strong despite the recent difficulties in the trade⁶⁹ (see next section).
- 4.110 And thirdly Austrade believes commodities will remain major exports to the region. Meat, dairy products, barley, wheat and fresh vegetables 'dominated the top 10 merchandise exports to the region in 2003'.⁷⁰
- 4.111 AWB is a good example of a long trading organization with strong links to the region providing premium quality grains. It has over time built a strong relationship with Kuwait Flour Mills and Bakeries and is currently the sole supplier for Kuwait. All Kuwaiti breads are made with Australian grain. Such trading relationships are based on long term efforts and are invaluable in terms of reputation for Australian producers.⁷¹
- 4.112 Another factor contributing to the trade in fresh produce is the growth in number and frequency of direct flights to the region. Emirates and Gulf Air (and soon Qatar Airways) have many direct flights to the region opening up opportunities for fresh produce exports to the region.
- 4.113 As discussed above Emirates have recently established daily direct flights to Perth, Melbourne, Sydney and Brisbane and double daily flights from Sydney and Melbourne which are non-stop services.
- 4.114 This growth in direct flights and frequency of flights makes fresh food and beverage trade much easier. For example, the committee spoke to representatives of Emirates Resorts who buy a substantial proportion of their fresh fruit and vegetables from Australia bi-weekly.⁷²
- 4.115 Opportunities for other fresh produce have also been made possible by these flights. Fresh flowers are another example. Emirates airlines explained that Dubai plans to create a fresh flower market for the region which will be comparable to the renowned flower market in Amsterdam.⁷³
- 4.116 The committee believes Australia's 'clean and green' image in this field is a tremendous asset and there is no reason why a range of

69 Austrade, *Submission No 8*, p 12.

70 Austrade, *Submission No 8*, p 12.

71 Parliamentary Delegation to the Gulf States, *Meeting Notes*.

72 Parliamentary Delegation to the Gulf States, *Meeting Notes*.

73 Parliamentary Delegation to the Gulf States, *Meeting Notes*.

other fresh products such as flowers could not also be exported in a similar way using available transport capacity.

Live animal trade

- 4.117 The live animal trade to the Middle East has recently experienced a few difficulties based largely around two incidents: the Cormo Express incident and the Portland incident.
- 4.118 The 'Cormo Express incident' began when an Australian consignment of 58,000 sheep arrived in Jeddah, Saudi Arabia on 21 August 2003. The Saudi Ministry of Agriculture reject the shipment on the grounds 'that 6% of the sheep were infected with 'scabby mouth', which was above the 5% normal tolerance level for the trade to Saudi Arabia'.⁷⁴
- 4.119 The Australian veterinarian on board 'estimated the incidence of scabby mouth to be 0.35%'⁷⁵, and the World Organisation for Animal Health's (OIE) regional coordinator confirmed the 'overall health of the sheep'.⁷⁶
- 4.120 The inconsistency in the perceived health of the animals prompted the suspension of the trade in livestock with Saudi Arabia on 28 August 2003 'pending negotiation of a formal agreement between the Australian and Saudi Governments to ensure that the trade would be managed on a more predictable and transparent basis....'⁷⁷
- 4.121 On 19 November 2003 in Portland, Victoria a second incident occurred. An organisation called Animal Liberation 'claimed in a press release that it had spread pig meat through the Portland feedlot food and water delivery system in an attempt to make the animals unacceptable to the Middle East market.'⁷⁸ The claim was verified by the Victorian Department of Primary Industries.
- 4.122 The Australian Quarantine and Inspection Service (AQIS) responded to the incident 'by indicating that an expert permit would not be issued for animals held in the feedlots until the...government could be assured that the importing country would accept the

74 DAFF, *Submission No 14*, p 29.

75 DAFF, *Submission No 14*, p 29.

76 DAFF, *Submission No 14*, p 29.

77 DAFF, *Submission No 14*, p 29.

78 DAFF, *Submission No 14*, p 29.

consignments.’⁷⁹ This assurance was finally given and animals were loaded for export on 5 December.

- 4.123 In response to the Corno and Portland incidents, the government commissioned on 10 October 2003, ‘a review into the livestock export industry’⁸⁰ – the Keniry Inquiry.
- 4.124 The Keniry Inquiry made a range of practical recommendations to quickly address the sorts of issues in the live animal trade highlighted by the two incidents.⁸¹
- 4.125 The government broadly accepted the Keniry Inquiry findings and has acted to implement the recommendations.⁸² The government’s response involved reforms which were aimed at ‘placing the live animal trade with the Middle East region on a more secure and certain footing’.⁸³
- 4.126 The most recent information received by the committee on this issue suggested that appropriate MOUs to restart the trade in live animals between Australia and Saudi Arabia were agreed to in principle. They were unlikely to be finalised however until certain quarantine facilities were in place in Saudi Arabia and these were likely to be ready within two years.⁸⁴

Recommendation 3⁸⁵

The committee recommends that the government continue to pursue memoranda of understanding with relevant Gulf nations, to avoid potential problems with the live animal trade.

Import dependence in UAE, Qatar and Kuwait

- 4.127 Agribusiness opportunities were greatest in countries which had no specific capability or ambitions in the area of agriculture. UAE, Qatar and Kuwait have limited food production capacity and accordingly

79 DAFF, *Submission No 14*, p 30.

80 DAFF, *Submission No 14*, p 30.

81 DAFF, *Submission No 14*, p 38.

82 DAFF, *Submission No 14*, p 41.

83 DAFF, *Submission No 14*, p 31.

84 DAFF, *Transcript 21 June 2004*, p 33.

85 This recommendation was included in the Report of the Parliamentary Delegation to the Gulf States.

they provide the greatest opportunity for Australian exporters in this field.⁸⁶

- 4.128 The countries which either have some agricultural capability or are ambitious in the area are Saudi Arabia and Iran.
- 4.129 Although Saudi Arabia has been winding back its domestic support for some agricultural production capabilities,⁸⁷ it still does retain some strategic agricultural industries.⁸⁸
- 4.130 In light of recent difficulties with Australian live animal exports, the committee took evidence at various meetings on the potential for live animals to be sold into a secondary market and then on-sold to other Gulf countries. The Abu Dhabi Chamber of Commerce and Industry responded very positively to the idea.⁸⁹ The constraint on this sort of action is the mutual restrictions within the GCC on accepting animals rejected by other GCC members.
- 4.131 Iran, on the other hand, has a strong agricultural sector and therefore is likely not to provide as many opportunities for Australian exporters in this sector. DAFF explains that Iran ‘dominates’ Gulf agricultural production (see Appendix E).
- 4.132 Iran may however provide opportunities in terms of exports of Australian agricultural technology and expertise. This is discussed further in Chapter 5.

Equine industry and associated products

- 4.133 Australia’s strong reputation in breeding endurance horses might also provide export opportunities. An Australian horse won a major UAE endurance race during the visit and a number of Australian jockeys are already working in the region.⁹⁰
- 4.134 Complementary exports of expertise and technologies related to the health of animals such as veterinarians, farriers and trainers might also find a market in the region. The committee would encourage people and firms in the field to investigate these opportunities.

86 Parliamentary Delegation to the Gulf States, *Meeting Notes*.

87 DAFF, *Submission No 14*, p 6.

88 DAFF, *Submission No 14*, p 6.

89 Parliamentary Delegation to the Gulf States, *Meeting Notes*.

90 Parliamentary Delegation to the Gulf States, *Meeting Notes*.

ICT products and services

- 4.135 In terms of ICT products and services development, Dubai is certainly the standout in the region. Internet City and Knowledge Village hold a lot of promise for exports of Australian expertise. Dubai wants to develop this sector quickly and accordingly offered a range of incentives to companies willing to invest in there. These included very business friendly packages involving: cheap premises, 'ready to go' office configurations, tax breaks, and visa and immigration support.⁹¹
- 4.136 The committee feels that Australian companies strong in this sector would find Dubai a reasonably easy market to enter. It provides great opportunities and also provides a stepping stone to other markets in the region, which are also aware of their need to grow this sector.
- 4.137 Austrade believes the Middle East has 'large markets with strong IT spending potential for e-government and e-commerce (Iran and Saudi Arabia), and 'e-ready' governments that are actively pursuing ICT agendas...'.⁹² These facts and the general enthusiasm of Gulf governments to promote ICT adoption provides Australia with 'many opportunities'.⁹³
- 4.138 Austrade believes Iran in particular, which already has an ICT market of around AUD 2.5 billion, has the potential to expand significantly in 2004 and beyond.⁹⁴
- 4.139 In order to get a foothold in the Gulf markets, AACCI believes Australian technology should best be 'packaged with education, health, communications etc....'.⁹⁵ to enable greater access and penetration.
- 4.140 In the context of the s23AF issue discussed above, ICS gave an example of the benefits in terms of ICT of Australia's strengths in the area and how these strengths might benefit Australia. ICS explains:

In relation to banking, 10 years ago when I went over there on my first visit they said 'Do you have banks in Australia?...In 10 years that has changed to the point where in almost every bank in Saudi, and in most in the UAE, there are senior

91 Parliamentary Delegation to the Gulf States, *Meeting Notes*.

92 Austrade, *Submission No 8*, p 15.

93 Austrade, *Submission No 8*, p 15.

94 Austrade, *Submission No 8*, p 15.

95 AACCI, *Submission No 2*, p 2.

Australian managers....At the peak with Riyadh Bank I placed 15 people on a major IT project who changed the host computer and all the network on the run.⁹⁶

- 4.141 As discussed previously, it is not clear how much income is repatriated to Australia by these placements but clearly having Australians placed in senior positions will likely lead to other Australians and Australian contractors working in the region.

Financial services

- 4.142 The growing sophistication of the Gulf economies is also likely to provide opportunities for Australian companies and individuals in the financial sector.
- 4.143 Laurence Elms, CEO of the Dubai International Finance Centre (an Australian expatriate), told of the many Australians in his organization. He explained there had not been much Australian interest in investing in the Dubai International Finance Centre (DIFC) to date,⁹⁷ but that investors would come in time. He believed Macquarie Bank was interested in the region and if they did invest he believes it might prompt others to follow to capitalise on the growing opportunities.
- 4.144 The committee believes the dynamism and growing wealth of the region did suggest there would be a growing demand for financial services in the region and again Dubai, being the regional hub, was likely to be the best place through which to enter the Gulf market.

⁹⁶ ICS, *Transcript 7 April 2004*, p 12.

⁹⁷ Parliamentary Delegation to the Gulf States, *Meeting Notes*.

