
The Parliament of the Commonwealth of Australia

Expanding Australia's trade and investment relations with the Gulf States

Joint Standing Committee on Foreign Affairs Defence and Trade

February 2005
Canberra

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ISBN 1 74161 198 9



Forward

Over the last decade Australia's exports to the Middle East have been growing dramatically. Traditionally a strong primary produce export destination, Australia's exports of elaborately transformed manufactures to the Gulf grew significantly in the 1990s. Australian produced cars are one outstanding example.

The dramatic growth in Australian exports to the Gulf has created fresh interest in the region. Consequently in late 2003, the Trade Sub-Committee of the Joint Standing Committee on Foreign Affairs Defence and Trade decided to inquire into Australia's trade and investment relations with the Gulf States to better understand the reasons for the success and how Australia might build on these achievements.

During the course of the inquiry a delegation of committee members travelled to the region and tabled a visit report in June 2004.

During the inquiry the committee found the Gulf States' special role within the world economy in combination with their young populations, have placed them in a unique position. The committee believes resource wealth and young populations are the 'twin drivers' of development for the Gulf States.

To accommodate these large young majorities, Gulf governments have committed to rapid economic development to provide employment opportunities for their young populations, and therefore stability and prosperity in the long term.

Unlike many other developing countries however, the Gulf States also have the financial means to fully fund such rapid development.

In light of the dramatic growth in the region, the committee found several areas or sectors to be particularly promising for Australia. These include building and construction, engineering and related consulting, agriculture (including food and beverages), healthcare and pharmaceutical services, education and training, tourism and tourism training, a large range of consumables, ICT products and services, and financial services.

In addressing obstacles to the growth of Australia's trade and investment relations with the region, this report makes ten recommendations. The recommendations

can be divided into two categories: those relating to government policy and those relating to the deployment of government resources.

In the first category, the committee recommends a range of measures to improve the trade and investment environment between Australia and the Gulf States. These include: arranging strategic high level visits to the region by Australian government and industry representatives; the pursuit of memoranda of understanding and other arrangements to create predictability and stability in the trading relationships; the holding of high level symposia with Iran to develop potential in key sectors; and the investigation of defence export related opportunities in the region.

The committee also recommends that the government re-examine its interpretation of section 23AF of the Income Tax Assessment Act with regard to tax exemptions for income earned overseas. The committee believes the advantages and disadvantages of the 2002 change in interpretation need to be examined more closely and weighed up.

In the second category, the committee recommends a number of changes to strategically position Australia in the region in order to capitalise on available opportunities. These include: a realignment of trade representation in Kuwait and Bahrain; increased DIMIA representation across the region for faster visa processing; and that consideration be given to placing representation in the region for the Australian Tourist Commission and Invest Australia.

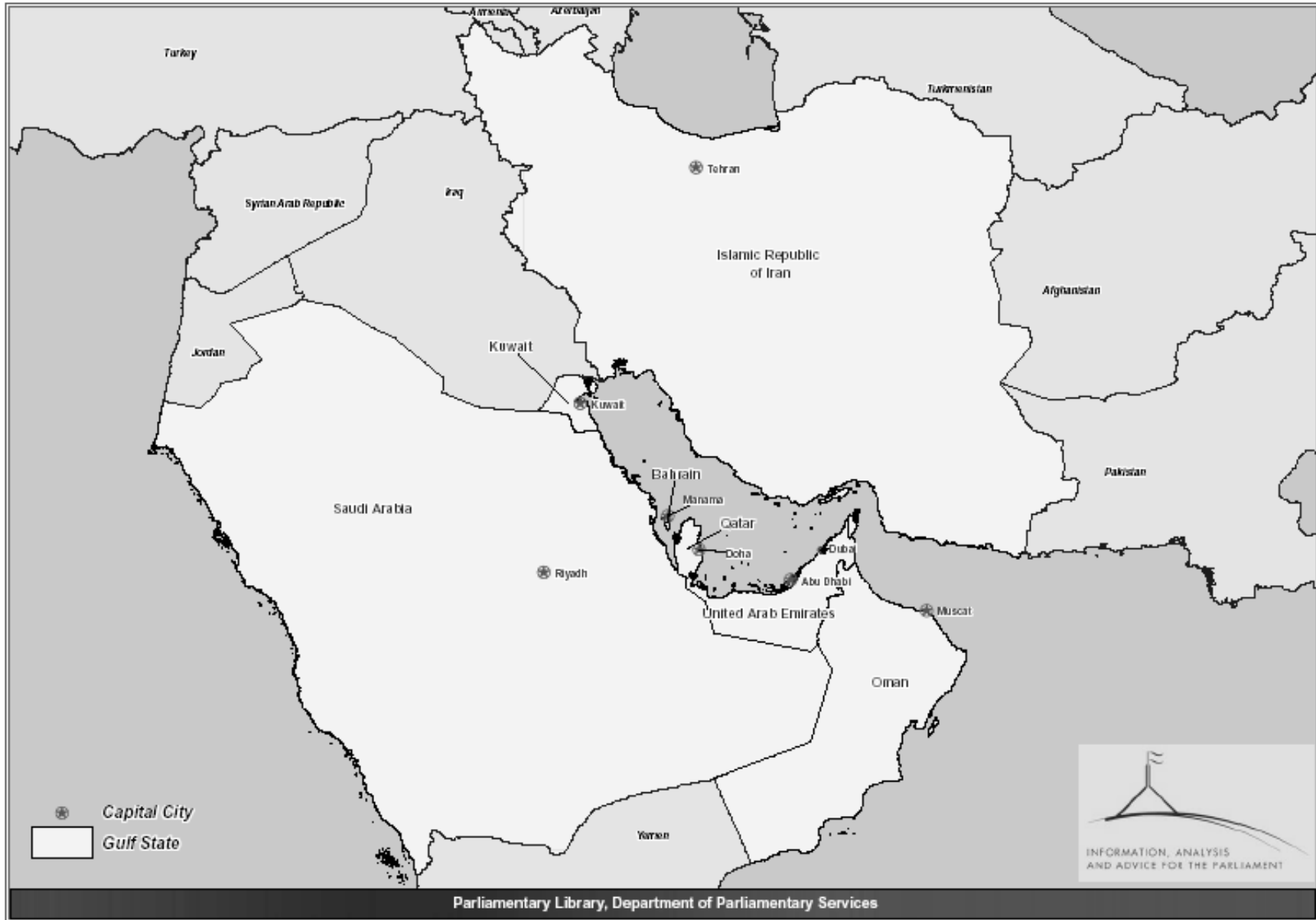
The committee believes strongly there is no time like the present to be pursuing export and investment opportunities in the Gulf region. The window of opportunity is open, and Australia is well placed to build on its successes in the region and make the most of new opportunities.

Finally, the committee would like to extend warm thanks to all the officials of the Australian government that assisted the delegation with the visit. The committee would also like to acknowledge and thank the officials and business people in the countries visited for their hospitality and input. The visit proved very valuable.

The Hon Bruce Baird MP
Chair

Trade Sub-Committee

The Gulf States



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List of recommendations

Recommendation 1

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.

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.

Recommendation 3

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.

Recommendation 4

The committee recommends that the government expedite an investment protection agreement between Australia and Iran

Recommendation 5

The committee recommends the Australian government jointly host a symposium to investigate areas of potential technical cooperation between Australia and Iran. The symposium should include the following components:

- Mining
- Agriculture and agricultural training (including dry-land farming, forestry and vocational agricultural training)
- Post harvest technology.

Recommendation 6

The committee recommends the government consider strengthening Australian trade representation in Kuwait.

Recommendation 7

The committee strongly supports the government's plans to develop a strategy for the export of defence related hardware and services to the region. The committee recommends the strategy consider:

- What specific opportunities exist for the export of defence related hardware and services
- How the relevant agencies should cooperate, in terms of resourcing and personnel posted to the region, to optimise defence related exports to the region
- The long term export opportunities which would flow from Gulf nationals undertaking military training in Australia.

Recommendation 8

The committee recommends the government consider strengthening Australia's trade representation in Bahrain.

Recommendation 9

The committee recommends that DIMIA consider strengthening its representation across the Gulf region. This should ensure faster processing of visas for key economies in the region in light of the growing opportunities in the Gulf States.

Recommendation 10

The committee recommends the government consider strengthening the resources of the Australian Tourist Commission and Invest Australia in the Gulf region, to raise their profile and capitalise on current opportunities.



Membership of the committee – 41st Parliament

Chair Senator A B Ferguson

Deputy Chair Hon G J Edwards, MP

| | | |
|----------------|--------------------------|-----------------------|
| Members | Senator the Hon N Bolkus | Mr M Danby, MP |
| | Senator the Hon P Cook | Mrs T Draper, MP |
| | Senator A Eggleston | Mrs J Gash, MP |
| | Senator B Harradine | Mr S W Gibbons, MP |
| | Senator S Hutchins | Mr B W Haase, MP |
| | Senator D Johnston | Hon D F Jull, MP |
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| | The Hon B Baird, MP | Mr M B Turnbull, MP |
| | Mr R C Baldwin, MP | Ms M Vamvakinou, MP |
| | Mr P A Barresi, MP | Mr B H Wakelin, MP |
| | Hon K C Beazley, MP | Mr K W Wilkie, MP |

Membership of the committee – 40th Parliament

| | | |
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| Deputy Chair | Hon L J Brereton, MP | |
| Members | Senator the Hon N Bolkus | Mr A M Byrne, MP |
| | Senator the Hon P Cook | Hon G J Edwards, MP |
| | Senator A Eggleston | Mr L D T Ferguson, MP |
| | Senator C Evans | Mrs J Gash, MP |
| | Senator B Harradine | Mr D P M Hawker, MP |
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| | Mr R C Baldwin, MP | Hon A M Somlyay, MP |
| | Hon K C Beazley, MP | Mr C P Thompson, MP |
| | Hon A R Bevis, MP | |

Committee secretariat

| | |
|---|-------------------|
| Secretary | Dr Margot Kerley |
| Secretary to Trade Sub-Committee | Mr Pierre Huetter |
| Administrative Officer | Ms Emma Flynn |



Membership of the Trade Sub-Committee – 41st Parliament

Chair

Hon B Baird

Deputy Chair

Hon W E Snowden, MP

Members

Senator the Hon N Bolkus

Senator A Eggleston

Senator A Ferguson (*ex-officio*)

Senator D Johnston

Senator L Kirk

Senator K Lundy

Senator J MacDonald

Mr R Baldwin MP

Mr P Barresi MP

Mrs T Draper MP

Hon G Edwards MP

Mr S Gibbons MP

Mr B Haase MP

Hon D F Jull, MP

Hon J E Moylan, MP

Hon G D Prosser, MP

Hon B C Scott, MP

Mr R Sercombe MP

Mr M Turnbull MP

Mr B Wakelin MP

Ms M Vamvakinou MP

Mr K Wilkie MP



Membership of the Trade Sub-Committee – 40th Parliament

Chair

Hon B Baird

Deputy Chair

Senator the Hon P Cook

Members

Hon A R Bevis, MP

Senator A Eggleston

Senator A Ferguson (*ex-officio*)

Senator K O'Brien

Hon L J Brereton, MP

Mr D P M Hawker, MP

Hon D F Jull, MP

Hon J E Moylan, MP

Mr G R Nairn, MP

Hon G D Prosser, MP

Hon B C Scott, MP

Hon W E Snowden, MP

Hon A M Somlyay, MP

Mr C P Thompson, MP



Terms of reference

Examine and report on expanding Australia's trade and investment relationship with the economies of the Gulf States (Bahrain, Iran, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates), with particular reference to:

- the nature of Australia's existing trade and investment relationships with the region;
- likely future trends in these relationships; and
- the role of government, particularly DFAT, Austrade and EFIC, in identifying and assisting Australian companies to maximise opportunities in the Gulf States as they emerge.

Referred by the Minister for Trade on 14 August 2003.



List of abbreviations

| | |
|----------|--|
| AACCI | Australian Arab Chamber of Commerce and Industry |
| AQIS | Australian Quarantine and Inspection Service |
| ATC | Australian Tourist Commission |
| AUD | Australian dollar |
| AWB | Australian Wheat Board |
| Austrade | Australian Trade Commission |
| DAFF | Department of Agriculture, Fisheries and Forestry |
| DEST | Department of Education, Science and Training |
| DFAT | Department of Foreign Affairs and Trade |
| DIMIA | Department of Immigration and Multicultural and Indigenous Affairs |
| EIU | Economist Intelligence Unit |
| EFIC | Export Finance and Insurance Corporation |
| ETMs | Elaborately transformed manufactures |
| FDI | Foreign Direct Investment |
| FTA | Free trade agreement |
| GCC | Gulf Cooperation Council |

| | |
|--------------|---|
| HIC | Health Insurance Commission |
| ICT | Information and communication technology |
| JMC | Joint Ministerial Commission |
| JSCFADT | Joint Standing Committee on Foreign Affairs Defence and Trade |
| LNG | Liquefied natural gas |
| MOU | Memorandum of understanding |
| OECD | Organisation for Economic Cooperation and Development |
| OPCV | Overseas Projects Corporation of Victoria |
| UAE | United Arab Emirates |
| USD | United States dollar |
| UOWD | University of Wollongong in Dubai |
| VET | Vocational education and training |
| Visit report | Report of the Parliamentary Delegation to the Gulf States – June 2004 |
| WTO | World Trade Organisation |

Background to the inquiry

- 1.1 The Minister for Trade referred this inquiry into Australia's trade and investment relations with the Gulf States to the Joint Standing Committee on Foreign Affairs, Defence and Trade (JSCFADT) on 14 August 2003. The Trade Sub-Committee (hereafter referred to as the committee) of the JSCFADT conducted the inquiry. The formal terms of reference are included on page xv.
- 1.2 The committee decided to examine seven countries in the region (Bahrain, Iran, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates). A map of these countries is provided on page iii.

Previous work on the Gulf States

- 1.3 In August 2001 the Foreign Affairs Sub-Committee of the JSCFADT undertook an inquiry into the Middle East which included the Gulf States. Although it was a wide ranging and comprehensive look at Australia's relations with the region it did have a chapter focusing on Australia's trade relationship with the region.
- 1.4 Apart from Middle East inquiry, the region has attracted a relatively minor degree of attention from the Australian parliament. Recent changes in the trading relationship, including the dramatic growth in sales of Australian elaborately transformed manufactures (ETMs), have prompted this renewed interest in the region.

Inquiry process

- 1.5 The inquiry was advertised in major Australian newspapers and in the Arabic and Farsi language press in late 2003. The advertisement outlined the inquiry and sought written submissions from the public.
- 1.6 The committee held the first of four public hearings on 29 March 2004 in Canberra. On 7 April one public hearing was held in Sydney and one in Melbourne. The final public hearing was held in Canberra on 21 June 2004.

Parliamentary delegation to the Gulf States

- 1.7 During the course of the inquiry the parliament supported the visit of a delegation from the Trade Sub-Committee to five of the seven countries in this inquiry.
- 1.8 The Report of the Parliamentary Delegation to the Gulf States has been published separately from this report but the evidence gained during the course of the visit is integral to this report and accordingly has been incorporated.
- 1.9 The recommendations of the visit report have also been incorporated into this report as indicated in the relevant chapters.

Structure of the report

- 1.10 The report is broken into four sections: an introductory chapter on the relevant states (Chapter 2), a chapter describing Australia's current trade and investment relationship with the region (Chapter 3), a chapter outlining which areas hold the most trade and investment potential (Chapter 4), and a chapter addressing particular trade and investment opportunities and actions which might create other opportunities (Chapter 5).

Growth in the Gulf States

Regional overview

- 2.1 Australia's economic relations with the Gulf States are very positive at the time of reporting.¹ The Gulf States have long been a major destination for Australian commodity and basic food exports such as wheat, barley, live sheep, dairy products, rice, gold and alumina. The region is now also the largest export market for Australian manufactured motor vehicles.²
- 2.2 Although there is considerable variation between the countries of the region, the Department of Foreign Affairs and Trade (DFAT) believes they share many common characteristics that have implications for trade and investment. All Gulf states have young, fast-growing populations and are increasingly seeking ways to liberalise their economies.³ A key focus of economic policy in the Gulf is diversification away from reliance on oil revenues, and a focus on a range of industries including agriculture, downstream hydrocarbon products, metal manufacturing, ship-building, construction materials and services such as transport, finance, education, health, and communications and information technology.⁴

1 DFAT, *Submission No 9*, p 5.

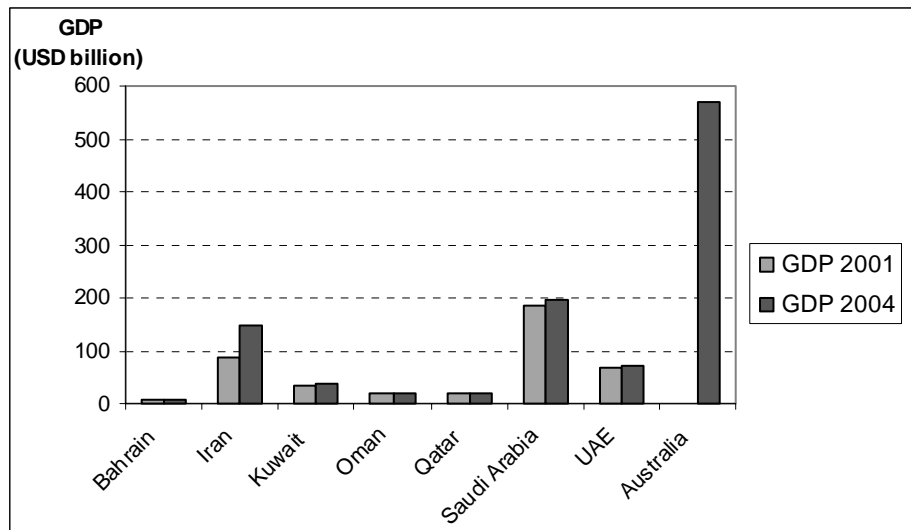
2 Parliamentary Delegation to the Gulf States, *Meeting Notes*.

3 DFAT, *Submission No 9*, p 5.

4 DFAT, *Submission No 9*, p 5.

- 2.3 Over one-third of the Gulf region's population is under the age of 14 (see Table 4.1), and the creation of future employment opportunities is a priority.⁵
- 2.4 Rapid population growth and economic restructuring mean the Gulf countries have a high demand for infrastructure development. DFAT explains that many Gulf countries are increasingly seeking to satisfy the demand for public utility infrastructure through greater private sector involvement (including privatisation and mechanisms such as build-operate-transfer schemes).⁶
- 2.5 The market for sophisticated technologies is growing across the region, reflecting increasing regional wealth, more cosmopolitan consumer preferences and the changing expectations of the region's youthful population.⁷
- 2.6 Relative unfamiliarity with Australian capabilities in sophisticated manufactures and services by regional consumers, and unfamiliarity with the opportunities the region offers on the part of many Australian businesses, are impediments to closer economic engagement.⁸

Graph 2.1 Gulf States (and Australia's) GDP



Source DFAT website, <<http://www.dfat.gov.au/geol#A>>

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

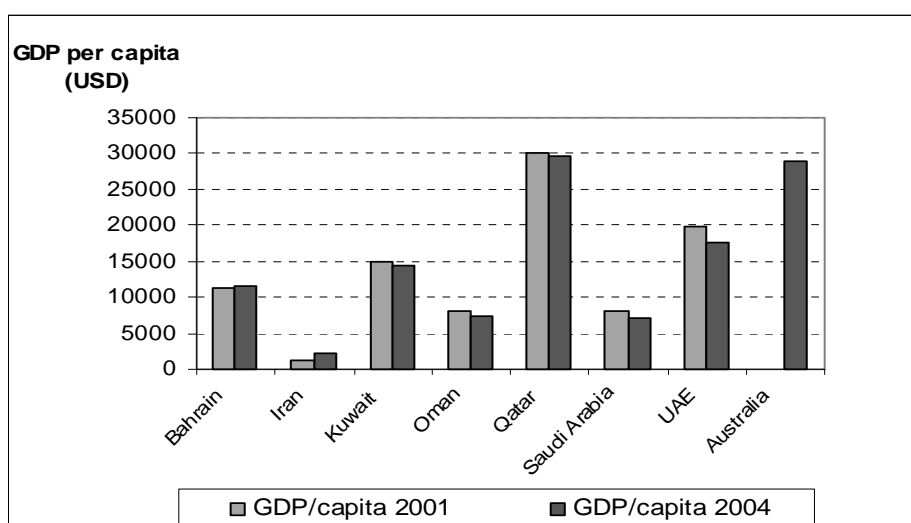
6 DFAT, *Submission No 9*, p 5.

7 DFAT, *Submission No 9*, p 5.

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

- 2.7 There are, however, excellent prospects for further increasing Australia's trade with the Gulf region. Australia's proximity to the Gulf – relative to many major commodity exporters – gives it a competitive edge for the sale of bulk rural and non-rural commodities.⁹
- 2.8 In addition, Australian capabilities in fields such as infrastructure development, high-technology manufacturing, the supply of industrial materials and the provision of sophisticated services place it in a good position to meet a wide range of regional requirements.¹⁰

Graph 2.2 Gulf States (and Australia's) GDP per capita



Source DFAT website, <<http://www.dfat.gov.au/geol/#A>>

- 2.9 Australia is becoming increasingly visible as a tourist and investment destination, especially through the growing air links with the Gulf.¹¹ Recent improvements in transport links – for example, the introduction of direct flights from the east and west coasts of Australia to the regional transport hub of Dubai – have improved access to the region for both exporters and investors.¹²
- 2.10 Australian involvement in an increasingly diverse range of business activities in the Gulf countries, from education operations to large-scale building construction, is raising its profile in many fields for

9 DFAT, *Submission No 9*, p 6.

10 DFAT, *Submission No 9*, p 6

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

12 DFAT, *Submission No 9*, p 6

which Australia was not previously well known in the region.¹³ Multiplex is a good example.¹⁴

- 2.11 DFAT believes the challenge for Australian business and for the government is to build on existing successes in order to capture more of the substantial market opportunities that the region offers.¹⁵ In order to do this, according to DFAT, Australia should further broaden and deepen its ties with the region beyond the transactional trade which has characterised its commercial relations with the region in the past.¹⁶

Table 2.1 Recent and forecast growth (% change per annum)

| | 1998 ^a | 1999 ^a | 2000 ^a | 2001 ^a | 2002 ^a | 2003 ^b | 2004 ^b | 2005 ^b |
|--------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Bahrain | 4.8 | 4.3 | 5.3 | 4.6 | 5.1 | 4.0 | 5.4 | - |
| Iran | 3.8 | 2.0 | 5.3 | 5.8 | 7.6 | 6.2 | 4.2 | 3.9 |
| Kuwait | 3.2 | -1.6 | 3.9 | -1.0 | -2.0 | 4.8 | 0.9 | 1.1 |
| Oman | 2.7 | -0.2 | 5.5 | 9.3 | 2.0 | 1.1 | 1.2 | 1.9 |
| Qatar | - | 5.3 | 11.6 | 7.2 | 4.6 | 7.1 | 5.5 | 7.0 |
| Saudi Arabia | 2.8 | -0.8 | 4.9 | 1.2 | 0.7 | 6.4 | 0.3 | 1.6 |
| UAE | 1.4 | 4.4 | 12.3 | 3.5 | 1.8 | 6.0 | 4.3 | 4.9 |
| Average | 3.1 | 1.9 | 7.0 | 4.4 | 2.8 | 5.1 | 3.1 | 3.4 |

Source ^a DFAT country factsheets, ^b EIU 2004-05 Forecast summary

Gulf States trade profile

- 2.12 The Gulf States are highly trade-exposed.¹⁷ Their total exports of goods and services accounted for about 60 per cent of their combined GDP in 2003.¹⁸ However, reflecting their generally high trade surpluses, the ratio of imports to GDP is somewhat lower (about 43 per cent in 2003) than the exports to GDP ratio.¹⁹
- 2.13 The Gulf States' total exports of goods and services are estimated at USD 217 billion in 2003. Their combined imports of goods and

13 DFAT, *Submission No 9*, p 6

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

15 DFAT, *Submission No 9*, p 6.

16 DFAT, *Submission No 9*, p 6.

17 DFAT, *Submission No 9*, p 6.

18 EIU, Quoted in DFAT, *Submission No 9*, p 6.

19 DFAT, *Submission No 9*, p 6.

services are estimated at USD 158 billion in 2003.²⁰ In comparison, Australia's exports and imports of goods and services are estimated at USD 92 billion and USD 107 billion respectively in 2003.²¹

- 2.14 Petroleum, petroleum related products and gas dominate the region's export trade. These products account for over 80 per cent of the exports of Kuwait and Saudi Arabia, and between 50 and 80 per cent of the exports of Bahrain, Iran, Oman and Qatar.²² The UAE has the region's most diversified export profile, largely as a result of its network of free zones. Nevertheless, petroleum, petroleum products and gas accounted for around almost half of the UAE's exports (excluding re-exports) in 2002.²³
- 2.15 Imports to the region are diversified. The small size of domestic agricultural sectors in the Gulf countries means that demand for imported food products is high.²⁴ The region is already a major market for Australian exports of livestock, meat, dairy produce and grains. The region's narrow manufacturing base means a large demand for imports of consumer goods, industrial supplies and machinery. Military and other government purchases are also priorities for a number of countries in the region.²⁵
- 2.16 European countries were the most significant import suppliers to the Gulf countries in 2002. Germany was the leading supplier, with France, Italy and the United Kingdom also appearing among the top six suppliers. The United States and Japan were the major non-European import suppliers to the region in 2002.²⁶
- 2.17 Intra-regional trade is relatively modest. DFAT believes that the implementation, from 1 January 2003, of the Gulf Cooperation Council (GCC) customs union (Appendix C) should increase trade among the six GCC members (Bahrain, Oman, Saudi Arabia, Kuwait, Qatar and the UAE).²⁷ Given that all GCC members are dependent to some extent on hydrocarbon exports, the GCC economies have only

20 DFAT, *Submission No 9*, p 6.

21 DFAT, *Submission No 9*, p 6.

22 DFAT, *Submission No 9*, p 6.

23 DFAT, *Submission No 9*, p 6.

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

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

26 DFAT, *Submission No 9*, p 7.

27 DFAT, *Submission No 9*, p 7.

modest complementarity. In DFAT's opinion this will tend to limit the extent of intra-GCC trade.²⁸

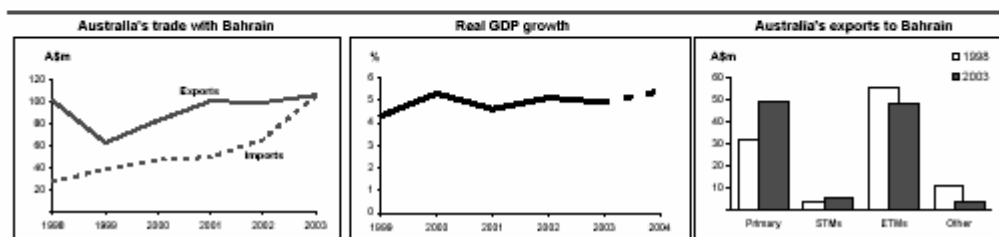
28 DFAT, *Submission No 9*, p 7.

Economies of the Gulf States

Bahrain

Recent economic indicators:

| | 1999 | 2000 | 2001 | 2002 | 2003(a) | 2004(b) |
|-----------------------------------|-------|--------|--------|--------|---------|---------|
| GDP (US\$bn): | 6.8 | 8.5 | 7.9 | 7.7 | 8.2 | 8.2 |
| GDP per capita (US\$): | 9,775 | 12,092 | 11,335 | 10,975 | 11,730 | 11,698 |
| Real GDP growth (% change YOY): | 4.3 | 5.3 | 4.6 | 5.1 | 4.9 | 5.4 |
| Current account balance (US\$m): | -37 | 782 | 147 | -516 | -264 | -965 |
| Current account balance (% GDP): | -0.5 | 9.2 | 1.9 | -6.7 | -3.2 | -11.8 |
| Goods & services exports (% GDP): | 74.7 | 83.0 | 80.7 | 81.1 | 85.2 | 75.2 |
| Inflation (% change YOY): | -1.3 | -0.7 | -1.2 | -0.5 | -0.2 | 0.7 |
| Labour force (m): | 0.3 | 0.3 | 0.3 | 0.3 | 0.4 | 0.4 |



| Major Australian exports | 2003 (AUD m) | Major Australian imports | 2003 (AUD m) |
|------------------------------------|-----------------|---------------------------|-----------------|
| Passenger motor vehicles | 34 | Fertilizers (excl. crude) | 60 |
| Live animals | 29 | Aluminium | 39 |
| Cheese and curd | 6 | Wire products | 3 |
| Inorganic chemical elements | 5 | Textile yarn | 3 |
| Ships, boats & floating structures | 3 | Aircraft & parts | 1 |

Source DFAT Country Factsheets, <<http://www.dfat.gov.au/geo/#A>>

Economic overview

- 2.18 With Oman, it is the only other GCC state with a large indigenous working class. By regional standards, Bahrain's economy is relatively diversified; it is a significant regional tourism and financial centre and major aluminium producer. Bahrain has a well respected central bank and transparent legal institutions.²⁹
- 2.19 Bahrain's own oil production is relatively small at 40 000 barrels per day, with reserves to last until 2015. Saudi crude refined in Bahrain therefore accounts for 80 per cent of Bahrain's petroleum exports.³⁰

29 DFAT, *Assessing Middle East Growth*, Country Summaries.

30 DFAT, *Assessing Middle East Growth*, Country Summaries.

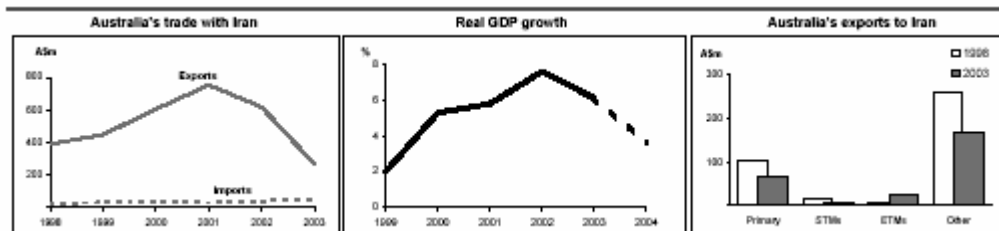
- 2.20 Petroleum production and refining account for about 60% of export receipts, 60% of government revenues, and 30% of GDP. With its highly developed communication and transport facilities, Bahrain is home to numerous multinational firms with business in the Gulf. Bahrain is dependent on Saudi Arabia for oil granted as aid. A large share of exports consists of petroleum products made from refining imported crude.
- 2.21 Unemployment, especially among the young, and the depletion of oil and underground water resources are major long-term economic problems.³¹

31 *CIA World Factbook*, <<http://www.cia.gov/cia/publications/factbook/index.html>> (14 July 2004)

Islamic Republic of Iran

Recent economic indicators:

| | 1999 | 2000 | 2001 | 2002 | 2003(a) | 2004(b) |
|-----------------------------------|-------|--------|-------|-------|---------|---------|
| GDP (US\$bn): | 55.2 | 71.9 | 85.5 | 114.8 | 128.3 | 148.1 |
| GDP per capita (US\$): | 841 | 1,082 | 1,272 | 1,686 | 1,857 | 2,112 |
| Real GDP growth (% change YOY): | 2.0 | 5.3 | 5.8 | 7.6 | 6.1 | 3.6 |
| Current account balance (US\$m): | 6,589 | 12,645 | 5,985 | 3,731 | 3,871 | -3,172 |
| Current account balance (% GDP): | 11.9 | 17.6 | 7.0 | 3.3 | 3.0 | -2.1 |
| Goods & services exports (% GDP): | 21.3 | 17.8 | 14.4 | 15.0 | 16.2 | 10.9 |
| Inflation (% change YOY): | 20.1 | 14.5 | 11.3 | 14.3 | 16.9 | 15.7 |
| Unemployment rate (%): | 13.0 | 14.0 | 13.0 | 13.5 | 13.5 | 14.0 |



| Major Australian exports | 2003 (AUD m) | Major Australian imports | 2003 (AUD m) |
|-------------------------------------|--------------|------------------------------------|--------------|
| Coal | 45 | Crude petroleum | 25 |
| Wool | 10 | Fruit & nuts, fresh or dried | 13 |
| Animal oils & fats | 10 | Floor coverings | 6 |
| Food processing machines | 7 | Alcohols, phenols, phenol-alcohols | 3 |
| Measuring & controlling instruments | 3 | Nitrogen-function compounds | 2 |

Source DFAT Country Factsheets, <<http://www.dfat.gov.au/geol/#A>>

Economic overview

- 2.22 With a large and fast growing population (65.5 million in 2002) the world's fourth largest conventional oil reserves and the world's second largest gas reserves, DFAT argues Iran is a significant regional economy.³²
- 2.23 The economy is heavily dependent on hydrocarbon exports and economic growth is strongly influenced by oil market developments. Oil sales account for more than a third of the government's total income. A key goal of Iranian economic policy over the last 20 years or so has been diversification of the economy away from dependence on oil.³³
- 2.24 Large state-owned enterprises dominate key industries sectors, and quasi-government enterprises controlled by charitable religious

32 DFAT, *Country Briefs*, <http://www.dfat.gov.au/geo/iran/iran_country_brief.html>

33 DFAT, *Country Briefs*, <http://www.dfat.gov.au/geo/iran/iran_country_brief.html>

foundations also account for a large share of GDP.³⁴ The private sector is generally confined to small and medium enterprises although a wider privatisation program, for example in the power sector, is underway.³⁵

- 2.25 In recent years economic growth has not kept pace with labour force growth, leading to an unemployment rate which, on unofficial estimates, exceeds 30% (the official estimate is 16%).³⁶ Increasing the economy's growth rate in order to reduce unemployment is a high priority but, to date, economic reform has proceeded at only a modest pace.³⁷

Trade

- 2.26 DFAT explains that Iran has traditionally been one of Australia's leading wheat export destinations, and has also attracted interest from a range of Australian exporters and investors.³⁸ Other Australian agricultural exports to Iran include barley, animal oils and fats, meat and butter. Coking coal is Australia's major non-agricultural export to Iran. Australian expertise in agriculture, mining and civil engineering has wide application in Iran.³⁹
- 2.27 Australia's exports to Iran fell by 57% to AUD263 million in 2003 largely as a result of a drought related fall in wheat exports and the impact of a stronger Australian dollar. Australia's imports from Iran rose 29 percent to AUD 53million in 2003. Pistachios and carpets have traditionally dominated Australia's imports from Iran. Technical factors have long limited Australia's ability to import Iranian crude oil, but a modest quantity of Iranian crude oil was imported in 2003.⁴⁰
- 2.28 A series of joint ministerial commissions (JMCs) has helped to expand trade and investment ties. The Minister for Trade led a delegation of 54 business representatives to Tehran in September 2002 for the 9th meeting of the Australia-Iran JMC. Australia and Iran are negotiating a bilateral investment promotion and protection agreement to

34 DFAT, *Country Briefs*, <http://www.dfat.gov.au/geo/iran/iran_country_brief.html>

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

36 DFAT, *Country Briefs*, <http://www.dfat.gov.au/geo/iran/iran_country_brief.html>

37 DFAT, *Country Briefs*, <http://www.dfat.gov.au/geo/iran/iran_country_brief.html>

38 DFAT, *Country Briefs*, <http://www.dfat.gov.au/geo/iran/iran_country_brief.html>

39 DFAT, *Country Briefs*, <http://www.dfat.gov.au/geo/iran/iran_country_brief.html>

40 DFAT, *Country Briefs*, <http://www.dfat.gov.au/geo/iran/iran_country_brief.html>

facilitate two-way investment.⁴¹ The visit report supported this course of action.

41 DFAT, *Country Briefs*, <http://www.dfat.gov.au/geo/iran/iran_country_brief.html>

Kuwait

Recent economic indicators:

| | 1999 | 2000 | 2001 | 2002 | 2003(a) | 2004(b) |
|-----------------------------------|--------|--------|--------|--------|---------|---------|
| GDP (US\$bn): | 29.2 | 37.0 | 34.2 | 35.3 | 41.6 | 37.7 |
| GDP per capita (US\$): | 12,913 | 16,677 | 14,816 | 14,601 | 16,571 | 14,501 |
| Real GDP growth (% change YOY): | -1.6 | 3.9 | -1.0 | -1.0 | 4.6 | 0.7 |
| Current account balance (US\$m): | 5,011 | 14,672 | 8,325 | 4,135 | 8,340 | 2,244 |
| Current account balance (% GDP): | 17.2 | 39.6 | 24.3 | 11.7 | 20.1 | 6.0 |
| Goods & services exports (% GDP): | 47.4 | 57.5 | 52.3 | 48.2 | 57.9 | 49.4 |
| Inflation (% change YOY): | 3.0 | 1.9 | 1.6 | 1.3 | 1.2 | 1.7 |
| Unemployment rate (%): | n.a. | n.a. | n.a. | n.a. | 1.0 | 1.0 |



| Major Australian exports | 2003 (AUD m) | Major Australian imports | 2003 (AUD m) |
|--------------------------|--------------|---------------------------|--------------|
| Passenger motor vehicles | 291 | Crude petroleum | 15 |
| Live animals | 109 | Fertilizers (excl. crude) | 2 |
| Bovine meat | 17 | | |
| Cheese and curd | 16 | | |
| Milk and cream | 11 | | |

**Includes \$120 of confidential items, 87% of total imports*

Source DFAT Country Factsheets <<http://www.dfat.gov.au/geo/#A>>

Economic overview

- 2.29 Kuwait's economic significance derives from having over 9% of the world's conventional oil reserves, the fourth largest behind Saudi Arabia, Iraq and the United Arab Emirates.⁴²
- 2.30 Kuwait's non-oil economy suffers from a low-growth, low diversification economic path. More than 75% of GDP is generated by the state sector, and even in Kuwait's non-oil economy, the public sector accounts for 45% of activity.⁴³
- 2.31 Over 90% of Kuwaitis work for the public sector, and hidden unemployment is high. Kuwait's government has developed a new five-year plan, which is expected to lay considerable emphasis on the private sector to achieve an economic growth target of 2.1%.⁴⁴ Over

42 DFAT, *Country Briefs*, <http://www.dfat.gov.au/geo/iran/iran_country_brief.html>

43 DFAT, *Country Briefs*, <http://www.dfat.gov.au/geo/iran/iran_country_brief.html>

44 DFAT, *Country Briefs*, <http://www.dfat.gov.au/geo/iran/iran_country_brief.html>

the last five years, Kuwait's real GDP grew at an average of only 0.5% per annum.

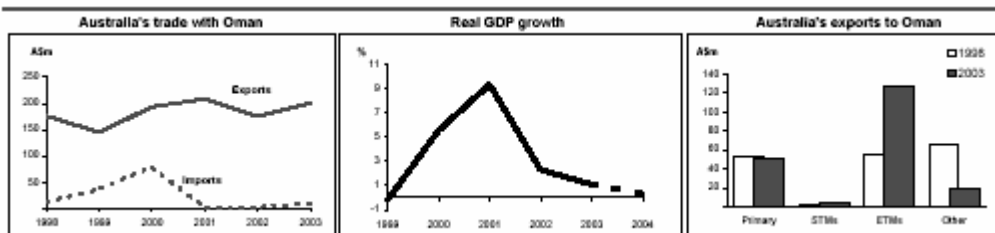
- 2.32 The EIU estimates real GDP growth of 4.2% in 2003, easing to around 1% in 2004 and 2005.⁴⁵

45 DFAT, *Country Briefs*, <http://www.dfat.gov.au/geo/iran/iran_country_brief.html>

Oman

Recent economic indicators:

| | 1999 | 2000 | 2001 | 2002 | 2003(a) | 2004(b) |
|-----------------------------------|-------|-------|-------|-------|---------|---------|
| GDP (US\$bn): | 15.7 | 19.9 | 19.9 | 20.3 | 21.1 | 19.7 |
| GDP per capita (US\$): | 6,744 | 8,271 | 8,048 | 7,997 | 8,085 | 7,334 |
| Real GDP growth (% change YOY): | -0.2 | 5.5 | 9.3 | 2.3 | 1.1 | 0.3 |
| Current account balance (US\$m): | -291 | 3,423 | 2,314 | 1,948 | 2,261 | 257 |
| Current account balance (% GDP): | -1.9 | 17.2 | 11.6 | 9.6 | 10.7 | 1.3 |
| Goods & services exports (% GDP): | 48.6 | 59.1 | 57.3 | 56.0 | 55.5 | 50.8 |
| Inflation (% change YOY): | 0.4 | -1.1 | -1.0 | -0.7 | -0.4 | 0.2 |
| Unemployment rate (%): | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |



| Major Australian exports | 2003 (AUD m) | Major Australian imports | 2003 (AUD m) |
|--------------------------|-----------------|--------------------------|-----------------|
| Passenger motor vehicles | 112 | Copper | 7 |
| Live animals | 19 | Construction materials | 1 |
| Milk and cream | 17 | Cereal preparations | 1 |
| Copper | 7 | | |
| Meat (excl. bovine) | 5 | | |

Source DFAT Country Factsheets <<http://www.dfat.gov.au/geol/#A>>

Economic overview

- 2.33 As in most Gulf countries, hydrocarbons form the most important sector of the Omani economy, with crude oil accounting for over 30% of GDP in real terms since 1980.⁴⁶
- 2.34 However, in contrast to neighbouring states such as Saudi Arabia and the UAE, Oman's oil resources are relatively limited and difficult to extract. Indeed, problems within the complex fields have seen production fall sharply since 2001, with further declines anticipated in 2004 and 2005.⁴⁷
- 2.35 The EIU explains these problems have added additional urgency to Oman's long-standing drive to diversify the economy away from its reliance on oil exports.⁴⁸ In the 1980s the government of Oman

46 EIU, *Country profile*.

47 EIU, *Country profile*.

48 EIU, *Country profile*.

emphasised the development of non-oil manufactured exports, with much of this activity centred on an industrial area on the outskirts of the capital. Natural gas was discovered in large quantities in the late 1980s and early 1990s, and diversification plans now focus on this resource both as a direct export (Oman has a growing liquefied natural gas (LNG) capacity) and as a fuel and feedstock for other industrial ventures.⁴⁹

- 2.36 Before oil was discovered, agriculture was the mainstay of the economy and the sector still plays an important role in employment. However, its contribution to GDP is small, and water-resource problems place the future of this sector in doubt. Agricultural activity is centred along the Batinah coast in northern Oman and in the south around Salalah.⁵⁰
- 2.37 In 1994 DFAT explains, Oman offered the Gulf's first build, operate, transfer project (BOT), the Manah power station. Currently, it is extending BOT type arrangements to other infrastructure areas, and privatising ports telecommunications, airports, utilities, banking, insurance and power generation. Further, it is developing a strong regulatory framework in the electricity sector, allowing competition between generators.⁵¹

49 EIU, *Country profile*.

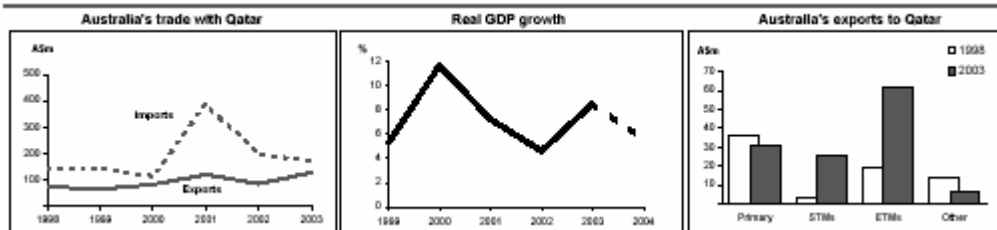
50 EIU, *Country profile*.

51 DFAT, *Assessing Middle East Growth*, Country Summaries.

Qatar

Recent economic indicators:

| | 1999 | 2000 | 2001 | 2002 | 2003(a) | 2004(b) |
|-----------------------------------|--------|--------|--------|--------|---------|---------|
| GDP (US\$bn): | 12.4 | 17.8 | 17.7 | 17.9 | 19.6 | 18.9 |
| GDP per capita (US\$): | 21,742 | 30,621 | 30,070 | 29,802 | 31,544 | 29,496 |
| Real GDP growth (% change YOY): | 5.3 | 11.6 | 7.2 | 4.6 | 8.5 | 5.5 |
| Current account balance (US\$m): | 2,171 | 4,576 | 4,152 | 3,203 | 3,050 | 1,336 |
| Current account balance (% GDP): | 17.5 | 25.8 | 23.4 | 17.9 | 15.6 | 7.1 |
| Goods & services exports (% GDP): | 59.8 | 71.9 | 68.0 | 68.5 | 70.6 | 68.1 |
| Inflation (% change YOY): | 2.1 | 1.7 | 1.4 | 1.0 | 1.0 | 2.2 |
| Labour force (m): | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |



| Major Australian exports | 2003 (AUD m) | Major Australian imports | 2003 (AUD m) |
|--------------------------|-----------------|--|-----------------|
| Passenger motor vehicles | 53 | Fertilizers (excl. crude) | 26 |
| Pig iron | 26 | Crude petroleum | 24 |
| Live animals | 13 | Polymers of ethylene | 8 |
| Meat (excl. bovine) | 8 | | |
| Bovine meat | 3 | <i>*Includes \$110 million of confidential items, 66% of total imports</i> | |

Source DFAT Country Factsheets <<http://www.dfat.gov.au/geo/#A>>

Economic overview

2.38 Qatar is the smallest Gulf country. Oil and gas dominate Qatar's economy. Qatar shares the world's largest gas field with Iran, and has spent US\$25 billion since 1987 on an investment program to develop this gas field and associated downstream industries. LNG sales are set to rise from 5.7 million tonnes in 1999 to 18.3 million tonnes in 2003 according to DFAT, with the LNG sector's share in GDP projected to rise from 8 per cent in 1998 to 18 percent in 2003.⁵²

2.39 In nominal terms, the growth rate of the Qatari economy has fluctuated dramatically over the past several years, reflecting the country's vulnerability to oil price fluctuations. Despite diversification efforts, the economy remains heavily dependent on oil (and gas). In 1975, after the quadrupling of oil prices had fed through

52 DFAT, *Accessing Middle East Growth*, <<http://www.dfat.gov.au/publications/megrowth/index.html>> (8 July 2004)

into the economy, oil accounted for 71.9% of GDP. Falling oil prices in the late 1990s resulted in the oil and gas sector's share falling below 50%, but it rose again in the following three years, as oil prices rose and gas output increased.⁵³

2.40 In 2002 the contribution of the oil and gas sector to nominal GDP reached 60%. However, figures for the oil sector's direct contribution to GDP show only part of the picture, as government spending of oil revenue on infrastructure projects and civil service salaries determines the buoyancy of the small, local economy.⁵⁴ Qatar's oil is produced from seven offshore fields and one onshore field.⁵⁵

2.41 DFAT believes the importance of natural gas to the Qatari economy has been rising. Qatar has the world's third largest gas reserves, after Russia and Iran. In energy terms, these reserves are equivalent to over 150 billion barrels of oil and are expected to last more than 300 years at the current and anticipated rate of production. Crude oil is only expected to last around 20 years. Gas has become an increasingly important source of export revenue, and has also provided the fuel or feedstock for a string of petrochemicals projects.⁵⁶

53 DFAT, *Accessing Middle East Growth*,
<<http://www.dfat.gov.au/publications/megrowth/index.html>> (8 July 2004)

54 DFAT, *Accessing Middle East Growth*,
<<http://www.dfat.gov.au/publications/megrowth/index.html>> (8 July 2004)

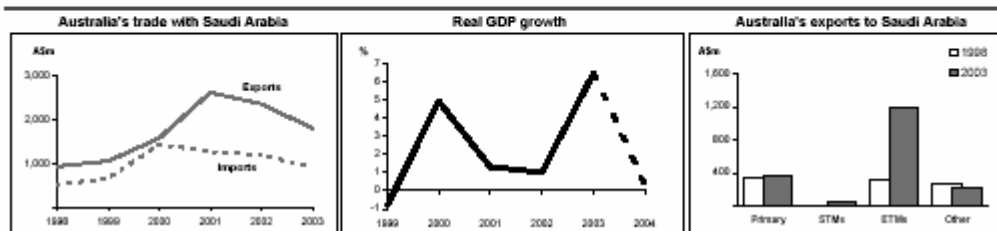
55 DFAT, *Accessing Middle East Growth*,
<<http://www.dfat.gov.au/publications/megrowth/index.html>> (8 July 2004)

56 DFAT, *Accessing Middle East Growth*,
<<http://www.dfat.gov.au/publications/megrowth/index.html>> (8 July 2004)

Saudi Arabia

Recent economic indicators:

| | 1999 | 2000 | 2001 | 2002 | 2003(a) | 2004(b) |
|-----------------------------------|-------|--------|-------|--------|---------|---------|
| GDP (US\$bn): | 161.2 | 188.7 | 183.3 | 188.5 | 211.6 | 197.5 |
| GDP per capita (US\$): | 7,496 | 8,500 | 8,038 | 8,020 | 8,742 | 7,901 |
| Real GDP growth (% change YOY): | -0.8 | 4.9 | 1.3 | 1.0 | 6.4 | 0.5 |
| Current account balance (US\$m): | 411 | 14,335 | 9,366 | 11,696 | 24,871 | 5,179 |
| Current account balance (% GDP): | 0.3 | 7.6 | 5.1 | 6.2 | 11.8 | 2.6 |
| Goods & services exports (% GDP): | 29.8 | 34.8 | 43.6 | 39.9 | 43.4 | 36.5 |
| Inflation (% change YOY): | -1.3 | -1.2 | -1.1 | 0.3 | 0.5 | 0.2 |
| Unemployment rate (%): | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |



| Major Australian exports | 2003 (AUD m) | Major Australian imports | 2003 (AUD m) |
|--------------------------|-----------------|----------------------------|-----------------|
| Passenger motor vehicles | 1097 | Crude petroleum | 26 |
| Live animals | 114 | Refined petroleum | 169 |
| Meat (excl. bovine) | 82 | Fertilizers (excl. crude) | 89 |
| Cheese and curd | 80 | Liquefied propane & butane | 72 |
| Zinc | 30 | Woven synthetic fabrics | 11 |

Source DFAT Country Factsheets <<http://www.dfat.gov.au/geo/#A>>

Economic overview

2.42 With a population of almost 22 million, and over 25 percent of the world's conventional oil reserves, Saudi Arabia is the Gulf region's largest economy (see Graphs 2.1 and 2.2). In 2002 it had a GDP equivalent of about AUD 132 billion. Although efforts have been made to diversify Saudi Arabia's economy, it remains heavily dependent on the oil sector and will continue to be so for the foreseeable future.⁵⁷ Private non-oil sector contribution to GDP has increased over the past decade, but oil and oil derivatives still account for 90-95% of Saudi export earnings, 75% of budget revenues and about 30-35% of GDP.⁵⁸

2.43 DFAT explains that during the past three years, under the leadership of Crown Prince Abdullah, the Saudi government has initiated structural reforms measures designed to encourage privatisation,

57 DFAT, *Country Brief*, <<http://www.dfat.gov.au/geo/#A>>

58 DFAT, *Country Brief*, <<http://www.dfat.gov.au/geo/#A>>

liberalise foreign trade and reform investment regimes. Commercial law has been amended and initial steps have been taken to free up foreign investment and privatise parts of the dominant state sector. Saudi Arabia is also in the process of acceding to the World Trade Organisation (WTO).⁵⁹

- 2.44 On 1 January 2003 the GCC member states implemented a customs union. A 5% duty is imposed on most imports. Some 417 tariff lines (mainly food, animals and medicines) attract a zero duty rate. Member states may each also nominate a list of 'protected commodities' on which they can charge duty rates of 12 or 20%. Saudi Arabia has listed 839 protected commodities.⁶⁰

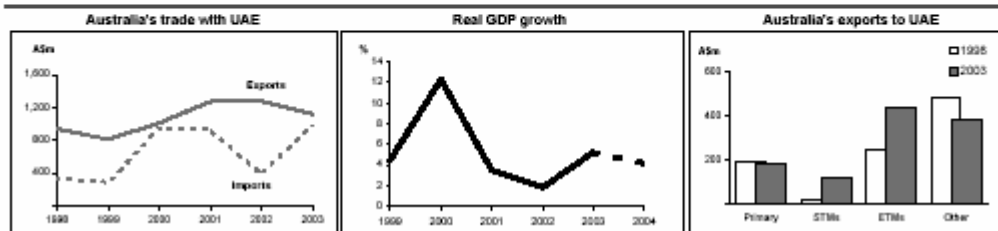
59 DFAT, *Country Brief*, <<http://www.dfat.gov.au/geo/#A>>

60 DFAT, *Country Brief*, <<http://www.dfat.gov.au/geo/#A>>

United Arab Emirates

Recent economic indicators:

| | 1999 | 2000 | 2001 | 2002 | 2003(a) | 2004(b) |
|-----------------------------------|--------|--------|--------|--------|---------|---------|
| GDP (US\$bn): | 54.9 | 70.2 | 69.2 | 71.0 | 78.4 | 73.7 |
| GDP per capita (US\$): | 19,624 | 21,952 | 19,779 | 18,677 | 19,593 | 17,547 |
| Real GDP growth (% change YOY): | 4.4 | 12.3 | 3.5 | 1.8 | 5.2 | 4.1 |
| Current account balance (US\$m): | 3,487 | 13,752 | 9,948 | 8,440 | 12,365 | 5,206 |
| Current account balance (% GDP): | 6.3 | 19.6 | 14.4 | 11.9 | 15.8 | 7.1 |
| Goods & services exports (% GDP): | 70.2 | 74.0 | 73.9 | 73.5 | 76.2 | 74.8 |
| Inflation (% change YOY): | 2.1 | 1.3 | 2.7 | 2.9 | 3.2 | 3.0 |
| Unemployment rate (%): | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |



| Major Australian exports | 2003 (AUD m) | Major Australian imports | 2003 (AUD m) |
|--------------------------|-----------------|------------------------------------|-----------------|
| Passenger motor vehicles | 247 | Crude petroleum | 876 |
| Zinc | 98 | Liquefied propane & butane | 13 |
| Meat (excl. bovine) | 49 | Iron, steel & aluminium structures | 12 |
| Live animals | 25 | Jewellery | 10 |
| Motor vehicle parts | 16 | Glassware | 9 |

*Includes \$360 million of confidential items, 32% of total exports

Source DFAT Country Factsheets, <<http://www.dfat.gov.au/geo/#A>>

Economic overview

2.45 The UAE has the world's third largest conventional oil reserves and fifth largest natural gas reserves and is a major player in world energy markets. It is the Middle East's third largest economy, with GDP equivalent to around AUD 130 billion in 2002, and has one of the world's highest per capita incomes (equivalent to about AUD 35,000 in 2002).⁶¹ Its population was estimated at 3.5 million in 2002, with about 80 per cent being expatriate (predominantly South Asian).⁶²

2.46 The UAE economy has proved reasonably resilient to periodic weakness in global oil demand due to continuing economic diversification efforts and extensive offshore financial investments. Over the past five years, the UAE economy recorded average real

61 DFAT, *Country Brief*, <<http://www.dfat.gov.au/geo/#A>>

62 DFAT, *Country Brief*, <<http://www.dfat.gov.au/geo/#A>>

GDP growth of about 5 per cent per annum, despite a sharp slowdown in 2002.⁶³

- 2.47 In the medium term, the UAE economy will continue to rely on its huge oil and gas reserves. This dependence on crude oil - which accounted for 28% of GDP in 2002, 39% of exports in 2001 and the bulk of government revenue - will see it remain exposed to fluctuations in the global oil market.⁶⁴
- 2.48 With only modest oil reserves, Dubai Emirate has undertaken a range of diversification efforts to establish itself as a tourism, ICT, re-export and financial hub. Taking full advantage of its position near the head of the Gulf, it has become the key regional entrepot.⁶⁵ Dubai has developed prestige hotels, massive port facilities and a range of free trade zones to attract both manufacturing and services industries (See Chapters 4 and 5 for examples).⁶⁶
- 2.49 The UAE maintains a relatively open trade system. In contrast to other GCC members, the UAE imposes few, if any, tariffs.⁶⁷ In general, foreign companies are limited to 49 per cent ownership, except in the free trade zones where 100 per cent ownership is possible.⁶⁸

63 DFAT, *Country Brief*, <<http://www.dfat.gov.au/geo/#A>>

64 DFAT, *Country Brief*, <<http://www.dfat.gov.au/geo/#A>>

65 DFAT, *Country Brief*, <<http://www.dfat.gov.au/geo/#A>>

66 DFAT, *Country Brief*, <<http://www.dfat.gov.au/geo/#A>>

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

68 DFAT, *Country Brief*, <<http://www.dfat.gov.au/geo/#A>>

Australian trade and investment with the Gulf States

Australia's strategy for engaging with the Gulf States

- 3.1 Australia has adopted a strategy for approaching trade and investment relations with the region which comprises three key elements.
- 3.2 The first element of the strategy is to 'encourage countries in the region to pursue economic reform and trade and investment liberalisation'.¹ Such reform is necessary if the Gulf States are to achieve enough sustainable economic growth to provide employment to their young and fast growing countries.
- 3.3 Australia encourages those states that have acceded to the WTO to conform to WTO requirements. Iran and Saudi Arabia have yet to accede. These measures have already delivered benefits to Australian exporters according to DFAT.²
- 3.4 The second element of Australia's strategy is to develop 'bilateral and regional paths to trade and investment liberalisation'.³ In pursuing closer cooperation with the GCC and individual Gulf countries, the government hopes to create more economic engagement and therefore access to those economies.

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

2 DFAT, *Submission No 9*, p 17.

3 DFAT, *Submission No 9*, p 17.

- 3.5 Australia is currently negotiating investment promotion and protection agreements with the UAE, Saudi Arabia and Iran. Australia is currently exploring options for a possible free trade agreement with the UAE. It is also pursuing an economic dialogue with the GCC countries which may involve a framework economic agreement or an FTA at some future time.⁴
- 3.6 The final key element of the strategy is the pursuit of bilateral trade facilitation. Australia has in place framework agreements with Bahrain (1979), Iran (1974), Kuwait (1982), Oman (1982), Saudi Arabia (1981) and the UAE (1985). An agreement with Qatar is currently under negotiation. These agreements focus on trade facilitation and bilateral cooperation in economic and technical areas.

Australia's trade with the Gulf States

Merchandise trade

- 3.7 Australia's merchandise exports to the Gulf countries grew from \$1.4 billion in 1993 to AUD 4.2 billion in 2003, an average annual growth rate of 15.8 per cent (see Tables 3.1 and 3.2). They now comprise 3.9 per cent of Australia's total merchandise exports, compared to 2.3 per cent in 1993.⁵
- 3.8 Over the last five years, merchandise exports rose at an average annual rate of 12.2 per cent. To a large extent this strong growth reflects generally strong regional import demand, as oil prices recovered from their low levels of 1997, and competitiveness effects arising from exchange rate changes. The success of Australian motor vehicle and parts exports - which grew from AUD 129 million in 1996 to AUD 1,885 million in 2003 - has helped drive growth in total merchandise exports to the region.⁶
- 3.9 Australia's exports to the Gulf countries fell by almost 19 per cent in 2003. DFAT explained the key factors contributing to this fall include the impact of drought conditions on the supply of agricultural exports and valuation effects arising from the strengthening of the Australian

4 DFAT, *Submission No 9*, p 17.

5 DFAT, *Submission No 9*, p 8.

6 DFAT, *Submission No 9*, p 8.

dollar during 2003.⁷ Exports of wheat and dairy product also fell sharply in 2003.⁸

- 3.10 Manufactures exports to the region rose by 2.1 per cent in 2003 reflecting a 14.4 per cent rise in simply transformed manufactures and a modest 1.1 per cent rise in the dominant elaborately transformed manufactures (ETM) category.⁹

Table 3.1 Australia's merchandise trade with the Gulf States (AUD million)

| | 1993 | 1999 | 2000 | 2001 | 2002 | 2003 |
|--------------------|-------|-------|-------|-------|-------|-------|
| Australian exports | 1,427 | 2,884 | 3,88 | 5,564 | 5,153 | 4,193 |
| Australian imports | 1,638 | 1,271 | 2,820 | 2,789 | 2,058 | 2,377 |
| Balance of Trade | -211 | 1,613 | 1,059 | 2,775 | 3,096 | 1,816 |

Source DFAT, *Market information and analysis unit*¹⁰

- 3.11 There have been significant changes in the composition of Australian exports to the Gulf countries in the past decade (see Chapter 2 for principal exports and imports to each country).¹¹
- 3.12 Key primary commodities remain extremely important to Australian exports to the Gulf countries, but elaborately transformed manufactures (ETMs) have grown to dominate the export mix over the past decade. In 2003, DFAT highlights, ETMs made up over 52 per cent of Australia's merchandise exports to the region, compared with only 15 per cent in 1993.¹²
- 3.13 As noted above, the growth in ETM exports has been largely driven by exports of passenger motor vehicles and parts.¹³ In the last five years ETM exports (excluding passenger motor vehicles and parts) grew at an average annual rate of about 12 per cent to reach AUD 309 million.¹⁴
- 3.14 Similar products which have also shown strong growth in recent years include specialised industrial machinery, electrical power machinery, mechanical handling equipment, food processing

7 DFAT, *Submission No 9*, p 8.

8 DFAT, *Submission No 9*, p 8.

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

10 DFAT, *Submission No 9*, p 9.

11 DFAT, *Submission No 9*, p 9.

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

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

14 DFAT, *Submission No 9*, p 9.

machines, marine craft, aircraft and parts, clothing, footwear and measuring and controlling instruments.¹⁵

- 3.15 Defence exports are playing a growing role in our exports to the region. The Gulf countries are among the world's largest markets for defence goods and services, and DFAT explains, Australia has exported defence products and services to the Gulf countries for over a decade.¹⁶
- 3.16 Australia's defence exports to the region are small compared to sales by the major European, US, Russian and Chinese defence industries, but they show strong growth according to DFAT. Australian defence exports to the Gulf countries rose from AUD 0.4 million in 1999 to AUD 1.9 million in 2003.¹⁷
- 3.17 Significant sales in recent years include Kuwait's purchase of four Tenix-built patrol vessels in 1995 for AUD 30 million and 22 Tenix-built Shorland Armoured Personnel Carriers in 1997 for AUD 16 million. In 2001 the UAE announced it would purchase mine-clearing equipment worth AUD 5.5 million from Australian Defence Industries.

Table 3.2 Selected Australian exports to the Gulf States (AUD million)

| | 1993 | 1999 | 2000 | 2001 | 2002 | 2003 |
|------------------------------------|------|------|-------|-------|-------|-------|
| Passenger motor vehicles and parts | 7 | 812 | 1,357 | 1,97 | 1,794 | 1,885 |
| Confidential items ¹⁸ | 360 | 879 | 1,227 | 1,312 | 1,056 | 841 |
| Live animals | 99 | 130 | 171 | 326 | 381 | 310 |
| Dairy products | 98 | 205 | 275 | 338 | 331 | 215 |
| Meat products | 144 | 128 | 136 | 235 | 215 | 198 |
| Non-monetary gold | 7 | 87 | 95 | 466 | 200 | 15 |

Source DFAT, *Market information and analysis unit*¹⁹

- 3.18 There have been significant differences between the rates of growth of Australian exports to individual Gulf country markets over the past decade (Table 3.3).

15 DFAT, *Submission No 9*, p 9.

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

17 DFAT, *Submission No 9*, p 9.

18 Includes wheat, barley, rice and alumina.

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

- 3.19 Exports to Saudi Arabia and Kuwait grew particularly rapidly between 1993 and 2003, and both countries increased their imports from Australia.
- 3.20 Saudi Arabia is now the largest individual Gulf country destination for Australian exports. In 2003, it imported AUD 1,819 million worth of Australian goods, 43.4% of total Australian exports to the Gulf countries.

Table 3.3 Australian exports to the Gulf States by country (AUD '000)

| | Saudi Arabia | UAE | Kuwait | Iran | Oman | Qatar | Bahrain |
|--|--------------|-------|--------|------|------|-------|---------|
| Value of Exports in '93 | 304 | 423 | 90 | 436 | 92 | 41 | 42 |
| Value of Exports in '03 | 1,819 | 1,122 | 555 | 263 | 201 | 125 | 107 |
| Rank in Exports to Gulf countries '93 | 3 | 2 | 5 | 1 | 4 | 7 | 6 |
| Rank in Exports to Gulf countries '03 | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Share of Exports to Gulf countries '03 | 43.4 | 26.8 | 13.2 | 6.3 | 4.8 | 3.0 | 2.5 |
| Growth Rate '93 to '03 (%) | 26.9 | 13.4 | 23.9 | 0.7 | 9.3 | 10.6 | 11.3 |

Source DFAT, *Market information and analysis unit*²⁰

- 3.21 Australian exports to the UAE, Bahrain, Qatar and Oman also grew at a healthy rate over the last decade. Iran was, however, a notable exception. In trend terms, Australian exports to Iran showed little real growth over the period, and the country's ranking among Australian export markets in the region fell from first in 1993 to fourth in 2003.²¹ Australian exports to Iran are dominated by wheat exports, and these did not keep pace with the rapid growth in ETM exports to the region over the period.²²

Table 3.4 Selected Australian imports from the Gulf States (AUD million)

| | 1993 | 1999 | 2000 | 2001 | 2002 | 2003 |
|----------------------------------|------|------|-------|-------|------|-------|
| Crude petroleum | 983 | 629 | 1,776 | 1,751 | 947 | 1,416 |
| Refined petroleum | 522 | 235 | 404 | 318 | 508 | 170 |
| Confidential items ²³ | 86 | 146 | 221 | 277 | 296 | 328 |
| Fertilizers (excludes crude) | 15 | 76 | 110 | 118 | 97 | 177 |
| Liquefied propane and butane | 1 | 65 | 130 | 89 | 44 | 85 |
| Aluminium | 3 | 19 | 24 | 32 | 37 | 40 |
| Glassware | 0 | 3 | 8 | 16 | 23 | 17 |

Source DFAT, *Market information and analysis unit*²⁴

20 DFAT, *Submission No 9*, p 10.

21 DFAT, *Submission No 9*, p 10.

22 DFAT, *Submission No 9*, p 10.

23 Includes certain petrochemicals

- 3.22 DFAT states that Australia's merchandise imports from the Gulf countries are dominated by crude petroleum which, in 2003, accounted for over 70% of imports from the region. Refined petroleum products and petrochemicals are also among the major imports from the region.²⁵
- 3.23 A number of non-oil imports from the region have shown strong growth over the last five years including aluminium, glassware, woven synthetic fabrics, construction materials, jewellery and selected food products.²⁶

Table 3.5 Australian merchandise imports from the Gulf States

| | 1993 | 1999 | 2000 | 2001 | 2002 | 2003 |
|--------------|------|------|-------|-------|-------|------|
| Saudi Arabia | 714 | 660 | 1,450 | 1,275 | 1,206 | 916 |
| UAE | 739 | 288 | 940 | 930 | 382 | 987 |
| Qatar | 84 | 142 | 113 | 385 | 198 | 168 |
| Kuwait | 64 | 77 | 160 | 122 | 166 | 138 |
| Bahrain | 13 | 39 | 47 | 50 | 66 | 106 |
| Iran | 16 | 28 | 30 | 26 | 38 | 53 |
| Oman | 8 | 37 | 79 | 1 | 2 | 10 |

Source DFAT, *Market information and analysis unit*²⁷

- 3.24 Saudi Arabia and the UAE are the dominant Gulf country import suppliers to Australia (see Table 3.5) according to DFAT. Over the past decade they have supplied, on average, over 80 per cent of Australia's total merchandise imports from the region.²⁸ In recent years, imports from Kuwait, Qatar and Bahrain have risen strongly.

Services trade

- 3.25 The Australian Bureau of Statistics publishes few statistics on Australia's services trade with the Gulf countries. DFAT²⁹ and the Australia Arab Chamber of Commerce and Industry (AACCI)³⁰ make this point and explain the difficulties this creates when trying to analyse services trade between Australia and the region.

24 DFAT, *Submission No 9*, p 11.

25 DFAT, *Submission No 9*, p 11.

26 DFAT, *Submission No 9*, p 11.

27 DFAT, *Submission No 9*, p 11.

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

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

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

- 3.26 This lack of data on services trade is an issue in the inquiry because several submissions were from services exporters, mainly recruitment firms. Their arguments were framed in terms of the returns their service provided to Australia. Clearly without an objective measure of that return, decisions about solutions to the problems are more difficult.
- 3.27 Accordingly, the committee urges the government to address this problem to allow for more informed consideration of issues related to the trade in services.
- 3.28 It appears, however, that two-way services trade between Australia and the Gulf countries has grown strongly over the past decade.³¹
- 3.29 The most obvious services exported are education and tourism and DEST's and DIMIA's submissions provide some insight into the growth in these areas.
- 3.30 Table 3.6 provides information on student visa granted over the last few years.

Table 3.6 Student visas granted to Gulf nationals

| Citizenship | September 2002 | September 2003 | % variation | December 2002 | December 2003 | % variation |
|--------------|----------------|----------------|-------------|---------------|---------------|-------------|
| Bahrain | 61 | 109 | 79 | 38 | 54 | 42 |
| Iran | 421 | 614 | 46 | 430 | 655 | 52 |
| Kuwait | 73 | 70 | -4 | 29 | 24 | -17 |
| Oman | 271 | 480 | 77 | 124 | 164 | 32 |
| Qatar | 73 | 118 | 62 | 23 | 22 | -4 |
| Saudi Arabia | 135 | 359 | 166 | 76 | 236 | 211 |
| UAE | 137 | 255 | 86 | 62 | 86 | 39 |

Source DIMIA³²

- 3.31 Clearly growth has been strong up to 2002-03 in all countries, except Kuwait in the last year where numbers went down substantially and in Qatar where they went down marginally.
- 3.32 In terms of tourism services Australia has been loosing ground in the region (see Table 3.7). DIMIA attributes this steady fall in tourism numbers arriving in Australia since 2001, to the international security situation.³³

31 AACCI, *Submission No 2*, p 2 and DFAT, *Submission No 9*, p 12.

32 DIMIA, *Submission No 19*, p 7.

33 DIMIA, *Submission No 19*, p 12.

3.33 One area of rapid growth from a small base has been in educational services. According to DEST the number of Gulf state nationals enrolled in Australian universities rose from just over 300 in 1997³⁴ to 2,475 in 2003.³⁵ Figure 3.1 shows the growth trajectory of Gulf student numbers coming to Australia (excluding Iran) and Appendix C shows the country and educational breakdown of those numbers (including Iran).

Table 3.7 Visitor visa grants 2000/01 to date

| Country of Citizenship | 2000/01 | 2001/02 | 2002/03 | 2003/04 (as at 29 Feb 04) |
|------------------------|---------------|---------------|--------------|------------------------------|
| Bahrain | 625 | 595 | 542 | 438 |
| Iran | 1,873 | 1,603 | 1,574 | 1,214 |
| Kuwait | 3,903 | 3,697 | 2,394 | 1,273 |
| Oman | 803 | 767 | 706 | 434 |
| Qatar | 410 | 387 | 234 | 171 |
| Saudi Arabia | 1,721 | 1,737 | 1,552 | 1,228 |
| United Arab Emirates | 4,687 | 3,563 | 2,238 | 1,585 |
| TOTAL | 14,022 | 12,349 | 9,240 | 6,343 |

Source DIMIA³⁶

Gulf States' investment profile

3.34 According to DFAT, the Gulf countries' investment profile is characterised by large net outward investment flows and extensive net foreign assets.³⁷ The key factor underlying these large outflows is the large current account surpluses which the Gulf countries typically produce. The EIU estimates that the Gulf countries had an aggregate current account surplus of USD 57 billion in 2003.³⁸

3.35 The Gulf countries' foreign investment outflows are dominated by portfolio investment. Foreign direct investment (FDI) outflows are relatively modest (an average of USD 1.3 billion per year between 1998 and 2002). DFAT believes the relative scarcity of large manufacturing and service enterprises based in the Gulf countries

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

35 DEST, *Submission No 17*, p 3.

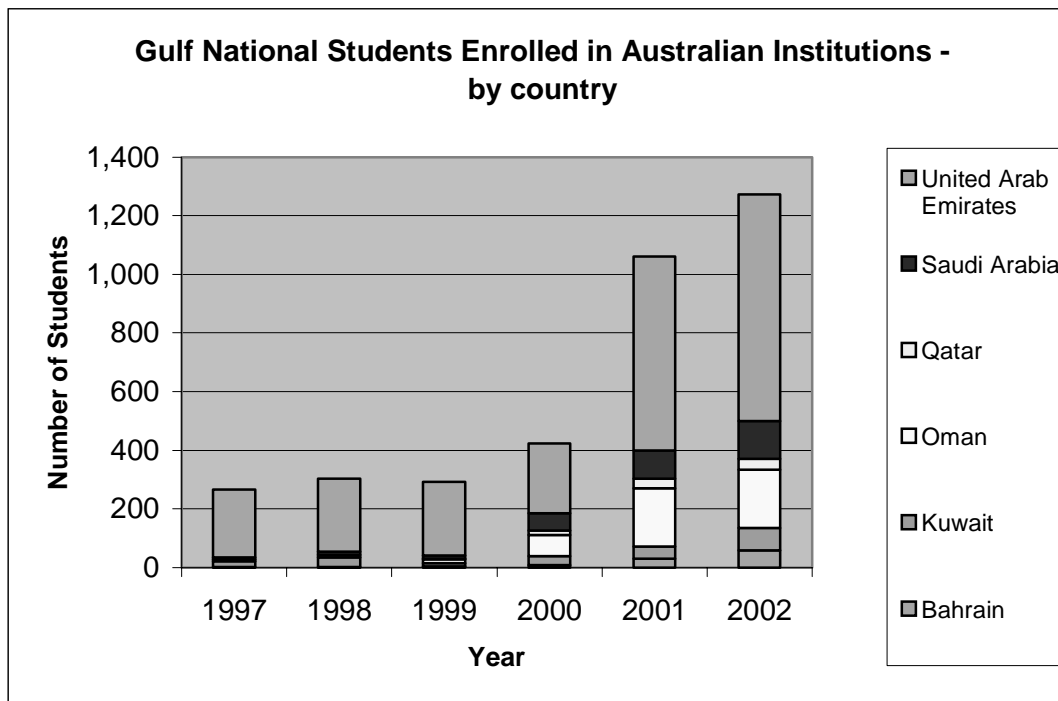
36 DIMIA, *Submission No 19*, p 12.

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

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

(particularly in the non-oil sector) is a key reason for the low level of outward FDI.³⁹

Graph 3.1 Gulf nationals enrolled in Australian education institutions – by country



Source DEST⁴⁰

3.36 FDI inflows to the region are also relatively modest. Between 1998 and 2002, these flows averaged USD 1.2 billion per year.⁴¹ The modest rate of FDI inflow to the region reflects a number of factors, including restrictive domestic investment regulations, perceived political risk and the ample supply of domestically-generated investment capital.⁴²

Australia’s investment relations with the Gulf States

3.37 Although comprehensive data are not published, as discussed earlier, it appears that Australian direct investment in the Gulf countries is modest.⁴³ Anecdotal evidence suggests that there has been a

39 DFAT, *Submission No 9*, p 12.
 40 DEST, *Submission No 1*, p 8.
 41 DFAT, *Submission No 9*, p 12.
 42 DFAT, *Submission No 9*, p 12.
 43 DFAT, *Submission No 9*, p 13.

significant increase in the interest of Australian investors in the region in recent years.⁴⁴

- 3.38 DFAT believes this modest level of Australian investment in the Gulf countries may itself be a potential impediment to trade. Trade associated with direct investment links can often be more durable than the transactional trade that characterises our trade with the Gulf countries.⁴⁵
- 3.39 There are several examples of successful investment in the region, including the University of Wollongong, Perth-based construction company Multiplex, and professional services consultancy GHD.⁴⁶
- 3.40 Multiplex has been active in the UAE, through a joint venture known as NASA-Multiplex, since 1997. In that time, it has constructed numerous commercial, tourist and residential buildings, including some of the best-known buildings in Dubai. The total value of projects undertaken in the UAE by NASA-Multiplex since its establishment is almost AUD 1.12 billion.⁴⁷
- 3.41 GHD's regional offices have been involved in a range of residential, infrastructure and environmental projects in the region. GHD's offices in UAE and Qatar employ about 140 staff.⁴⁸
- 3.42 Other Australian companies with a presence in the region include Clough Engineering Ltd, Clipsal Australia, the Cox Group, the GRM Group, the Meinhardt Group, Rydges Hotels and Resorts, SMEC, Val Morgan and Worley Ltd.⁴⁹
- 3.43 Despite restrictive local investment regulations, DFAT argues there are many opportunities for investment by foreign companies in a range of industries in the Gulf States.⁵⁰

44 DFAT, *Submission No 9*, p 13.

45 DFAT, *Submission No 9*, p 13.

46 DFAT, *Submission No 9*, p 13.

47 1 AUD = 2.68 UAE Dirhams as at 20 July 2004.
<<http://www.oanda.com/convert/classic>>

48 DFAT, *Submission No 9*, p 13.

49 DFAT, *Submission No 9*, p 13.

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

Impediments to Australia's trade and investment links to the region

- 3.44 To differing degrees, the Gulf countries are working to liberalise trade and investment arrangements. Five Gulf States (Bahrain, Kuwait, Oman, Qatar and UAE)⁵¹ are already members of the WTO. Saudi Arabia is in the process of negotiating accession to the WTO and Iran has submitted an application. But barriers to trade and investment persist in a number of areas.⁵²
- 3.45 Iran maintains high tariffs and quantitative restrictions on a wide range of imports.⁵³ While the GCC countries impose a reasonably low maximum duty of five per cent on many dutiable items, individual GCC members are able to impose duties of between 12 and 20 per cent on certain 'protected commodities'. As well, alcohol, pork and tobacco products imports face very high tariffs, or outright import prohibitions (see Appendix C for more information on the GCC).⁵⁴
- 3.46 The Gulf States also impose a range of non-tariff barriers including government procurement policies, licensing and labelling regulations. Exporters often face restrictive agency arrangements when seeking agents for their products in Gulf countries.⁵⁵ As well, most Gulf countries impose limitations on the movement of business people which can act as an impediment to trade, particularly services trade according to DFAT. Quarantine and cultural issues can also act to inhibit trade. One example is the religious prescriptions in relation to the livestock trade and the sale of some processed foodstuffs.⁵⁶
- 3.47 Widespread restrictions on foreign direct investment imposed by Gulf countries also impact on the region's openness. All countries either prohibit or severely limit foreign investment in oil production, and many of the large industrial enterprises in the region are state-owned.⁵⁷ Although Iran has rescinded its prohibition on foreign investment,⁵⁸ cumbersome barriers to investment remain.⁵⁹

51 <http://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm>

52 DFAT, *Submission No 9*, p 14.

53 DFAT, *Submission No 9*, p 15.

54 DFAT, *Submission No 9*, p 15.

55 DFAT, *Submission No 9*, p 15.

56 DFAT, *Submission No 9*, p 15.

57 DFAT, *Submission No 9*, p 15.

58 Embassy of the Islamic Republic of Iran, *Submissions 10 & 12*.

59 DFAT, *Submission No 9*, p 15.

- 3.48 Non-GCC foreign investors are limited to a maximum stake of 49 per cent in GCC-based companies, and foreign investors are generally unable to purchase real estate in Gulf countries. However, many Gulf countries have established free trade zones which offer various incentives, including a relaxation of many trade and investment restrictions.⁶⁰ The UAE is probably the most advanced in this regard.⁶¹
- 3.49 Another impediment to closer engagement with the region is relative unfamiliarity on the part of regional business people with what Australia can offer, compared with the United States, Asia and Europe.⁶²
- 3.50 SMEC points out that Australians too have a limited understanding of the region. Just as Australians came over time to understand business practices in Asia, it too must also spend time and effort coming to terms to business practice in the Gulf.⁶³
- 3.51 Austrade advised the committee that understanding the personal nature of business relationships, the importance of cultural mores of hospitality and courtesy, and religious and social practices, is vitally important to establishing effective business relationships in the region.⁶⁴

Trade risk

- 3.52 EFIC assesses the Gulf States to be reasonably low risk in terms of whether they will serve their external debt. In EFIC words 'except for Iran's rating, [the Gulf States] are mid-to-low investment grade – neither speculative grade credits, nor gilt-edged Aaa/Aa credits'.⁶⁵
- 3.53 These reasonably low ratings, which are compared to a range of other ratings in Table 3.8, mean EFIC are in principle 'prepared to support Australian exporters and investors into all of these countries'.⁶⁶ Further, EFIC has more 'capacity for exposure in each of the Gulf States than is currently being used.'⁶⁷

60 DFAT, *Submission No 9*, p 15.

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

62 DFAT, *Submission No 9*, p 15.

63 SMEC, *Submission No 16*, p 4.

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

65 EFIC, *Submission No 3*, p 3.

66 EFIC, *Submission No 3*, p 3.

67 EFIC, *Submission No 3*, p 4.

Table 3.8 Trade risk ratings

| | EFIC rating | OECD rating | Moody's rating | Fitch rating | Standard & Poor rating |
|--------------|-------------|-------------|----------------|--------------|------------------------|
| Bahrain | 3 | 3 | Baa1 | A- | A- |
| Iran | 5 | 4 | C | B+ | Not rated |
| Kuwait | 3 | 2 | A2 | AA- | A+ |
| Oman | 3 | 3 | Baa2 | Not rated | Not rated |
| Qatar | 3 | 3 | A3 | Not rated | A+ |
| Saudi Arabia | 3 | 3 | Baa2 | Not rated | A |
| UAE | 3 | 2 | A2 | Not rated | Not rated |

Source EFIC, Submission No 3, p 3.

Level of economic liberalism in the Gulf States

3.54 One final general indicator of interest is the Heritage Foundation's Economic Freedom index. Although it is not directly related to trade, the level of economic freedom in a country clearly has some indirect impact on trade.

3.55 Table 2.2 lists the degree of economic freedom in the Gulf States in terms of a range of criteria.

Table 3.9 Economic freedom in the Gulf States

| | Bahrain | Iran | Kuwait | Oman | Qatar | Saudi Arabia | UAE | Australia | Singapore |
|-------------------------|-----------|------------|-----------|-----------|-----------|--------------|-----------|-----------|-----------|
| Trade Policy | 3.0 | 2.0 | 2.0 | 3.0 | 3.0 | 4.0 | 2.0 | 2.0 | 1.0 |
| Fiscal Burden | 1.8 | 3.6 | 1.5 | 1.5 | 3.1 | 2.0 | 2.0 | 3.8 | 2.6 |
| Government Intervention | 4.0 | 5.0 | 4.5 | 4.5 | 4.5 | 4.5 | 4.0 | 2.0 | 3.5 |
| Monetary Policy | 1.0 | 4.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 2.0 | 1.0 |
| Foreign Investment | 2.0 | 4.0 | 4.0 | 3.0 | 3.0 | 4.0 | 3.0 | 2.0 | 1.0 |
| Banking and Finance | 1.0 | 5.0 | 3.0 | 3.0 | 3.0 | 4.0 | 4.0 | 1.0 | 2.0 |
| Wages and Prices | 3.0 | 4.0 | 3.0 | 4.0 | 2.0 | 2.0 | 3.0 | 2.0 | 2.0 |
| Property Rights | 1.0 | 5.0 | 3.0 | 3.0 | 3.0 | 3.0 | 2.0 | 1.0 | 1.0 |
| Regulation | 2.0 | 5.0 | 3.0 | 3.0 | 4.0 | 3.0 | 3.0 | 2.0 | 1.0 |
| Informal Market | 2.0 | 5.0 | 2.0 | 2.0 | 2.0 | 3.0 | 2.0 | 1.0 | 1.0 |
| Overall ranking | 20 | 148 | 48 | 54 | 60 | 74 | 42 | 11 | 2 |

Source The Heritage Foundation⁶⁸

3.56 The level of economic freedom in a country reflects to some degree the nature of the economy and what forces are driving it. Economic

68 <<http://www.heritage.org/research/features/index/>>

freedom, for example, has a strong relationship with economic growth.⁶⁹

- 3.57 Bahrain and UAE are clearly the most liberal economies in the Gulf, with Kuwait, Oman and Qatar following. Saudi Arabia is somewhat less liberal and Iran is the least free economy in the region. Australia and Singapore have been included for comparative purposes.

⁶⁹ Julio Cole, 'The contribution of economic freedom to world economic growth, 1980-99', *Cato Journal*, Vol 23, No 2 (Fall 2003).

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
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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*.

Particular opportunities and challenges in the Gulf region

Islamic Republic of Iran

- 5.1 With GDP growth levels in the 5-7.5% range¹, a population of 65 million and economic reformist momentum in the country, Iran clearly has significant long term potential as a trading partner (see Chapter 2 for an overview of the Iranian economy).
- 5.2 The meetings held in Iran during the visit confirmed that there is a degree of consensus on the need for economic reform. This consensus is reflected in laws such as 2002 Foreign Investment and Promotion Act which, in the words of the Iranian embassy in Canberra, 'encourages, welcomes and protects foreign investments'.²
- 5.3 Like most other countries in the region, Iran has a large number of young people, with 70% of the population being under 30 years of age³ (see Table 4.1 for mean age comparisons). It also has a well educated population.⁴ All sources acknowledged the challenge the young population poses and the consensus on economic reform is the broad response.⁵
- 5.4 In terms of economic performance Iran has done well in recent years. 2004, the last year of the 3rd Economic Development Plan, saw growth

1 Embassy of the Islamic Republic of Iran, *Submission No 10*, p 3.

2 Embassy of the Islamic Republic of Iran, *Submission No 12*.

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

4 Embassy of the Islamic Republic of Iran, *Submission No 10*, p 3.

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

reaching 7.4%. The Central Bank expects 2005 to deliver a more modest but still commendable 6.5% growth.⁶

- 5.5 Inflation, which has been a problem through the 1990s, has been reduced to 15% and the Central Bank hopes to have it down to less than 10% within the next couple of years.⁷
- 5.6 In terms of economic liberalisation, Iran plans to reduce the corporate tax rate from 60% to a more competitive 25%. It has a tax holiday arrangement for industrial and manufacturing investors.⁸ Iran has also expressed interest in WTO membership.
- 5.7 The banking sector, like most sectors in Iran, is either heavily regulated or owned by government. Some efforts have been made to partially privatise some banks and the first licenses for private banks have been issued. The 4th Economic Development Plan has also given more independence to the Central Bank.⁹

Opportunities

- 5.8 The potential size of the market is an attractive aspect of Iran. If its current growth levels are maintained there will be substantial opportunities for Australia. The difference between Iran and the other Gulf countries, however, is that trading or investing in Iran would require longer term efforts. High levels of regulation and reasonably restrictive investment conditions¹⁰ mean that efforts to invest or trade require a degree of effort and commitment that would not be needed in the more open economies such as UAE.
- 5.9 Some of the significant areas of potential economic cooperation appeared to be in agriculture and agricultural technology. Strong climactic similarities and Australia's perceived technological lead in this area prompted the Iranian Deputy Minister for Agriculture to make numerous suggestions for cooperation in this area. CSIRO is a good example of cooperative success. It has undertaken a number of consultancies in Iran, contributing to Australia's reputation and profile and positioning itself well for future commercial opportunities.¹¹

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

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

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

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

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

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

- 5.10 Throughout discussions during the visit three main areas of interest emerged in terms of increased cooperation. These were:
- Agricultural knowledge transfer – Australia is viewed as a leader and Iran wishes to develop its agriculture and draw on Australia’s expertise through some mutually beneficial cooperative arrangements.
 - Post harvest technology – Australia is again viewed as a leader in the field and Iran wants to improve dramatically on its 30% spoilage rates for fresh produce.¹²
 - Vocational training in agriculture – in line with the above suggestions it was believed that Australia could assist in vocational agricultural education through some cooperative arrangements.
- 5.11 Iran was also keen to invest heavily in exploiting its enormous oil and gas reserves. The Iranian embassy in Australia points out that Iran ‘possesses almost 10% of the world’s proven oil reserves, and close to 16% of the world’s natural gas.’¹³
- 5.12 Massive investment is required to develop these resources and all meetings suggested that Iran is keen to attract Australian investment and expertise.¹⁴ BHP unfortunately, after trying for several years to build an enterprise in Iran, curtailed its efforts in late 2001.¹⁵
- 5.13 A very important aspect of the 4th Economic Development Plan in Iran is the diversification of the economy and the development of manufacturing industries.¹⁶ Foreign investors in manufacturing are obliged to take a local partner. They then in turn receive a range of benefits mainly in the form of tax exemptions. A range of Japanese, South Koreans and European firms have taken up these opportunities to locally produce cars, whitegoods and other manufactures.¹⁷
- 5.14 The Deputy Minister for International and Economic Affairs pointed out 52 joint industrial projects had been approved in 2003 valued at around USD 200 billion.¹⁸

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

13 Embassy of the Islamic Republic of Iran, *Submission No 10*, p 2.

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

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

16 Embassy of the Islamic Republic of Iran, *Submission No 10*, p 2.

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

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

- 5.15 Another opportunity raised by the Iran Chamber of Commerce and Industry is the expected demand for cheap housing and building materials. The demographic challenge mentioned previously and the high growth rate mean the emerging middle class will need to be housed. Accordingly representatives of the chamber believed that housing materials will be in great demand in the future.¹⁹
- 5.16 The committee feels that Australia is strong in this field, especially in the provision of cheap housing (such as kit homes) and could find export opportunities in Iran.
- 5.17 The Chamber believes opportunities also exist for trade in a range of other areas including:
- Mining and energy
 - Agricultural technology (especially in post harvest technology)
 - Raw materials for building (such as masonry)
 - English language training
 - Tourism training
- 5.18 One issue of concern which was raised several times was the inability of Iranian firms to provide credit card facilities. The US embargo on Iran meant major credit card operators were unable to work in Iran and accordingly the committee felt that this would disadvantage in Iran in some sectors such as tourism.
- 5.19 'Iran treats very seriously its policy to attract more tourists into the country and, in general, to make the industry more active' pointed out the Iranian embassy in Australia.²⁰
- 5.20 Australia's strong track record in construction both at home and in the region also places it well to pursue major infrastructure projects as they arise in Iran.
- 5.21 The committee believes the Australian government should take steps to enable these growing opportunities to be pursued in Iran. Accordingly the committee supports strongly the government in renegotiating Australia's framework economic agreement with Iran, which it is currently doing.²¹

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

20 Embassy of the Islamic Republic of Iran, *Submission No 10*, p 3.

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

Recommendation 4²²**The committee recommends that the government expedite an investment protection agreement between Australia and Iran**

- 5.22 As incomes rise in Iran and the economy opens, the demand for higher quality health and education services is likely to grow. This view is being borne out by Iranian enrolments in Australian education institutions (see Appendix D). Iran is a close second to Oman in terms of numbers in Australia with 560 in 2003.²³ Interestingly most Iranians studying in Australia are in higher education.
- 5.23 Saeed Jamshidi Fard also points out that Iran is well placed to access the economies of the Caspian Sea states (which includes Armenia, Azerbaijan, Kazakhstan, Turkmenistan and Russia). Iran's reasonably developed transport infrastructure could facilitate trade with the region through Iran.²⁴

Agriculture

- 5.24 There are two categories of agricultural opportunities for Australian firms in the region: food and beverage products to those Gulf countries without agriculture, and agricultural technology and expertise to those that do have agriculture.
- 5.25 Iran fits into the second category, having worked to develop its agriculture over past five year plans. The industry has many problems however, and the similarity between Iran's and Australia's climates mean Australian agriculture has a lot to offer Iran in terms of technology and expertise. Unfortunately this also means that Australia is unlikely to be able to easily export food and beverage products into Iran.
- 5.26 One suggestion raised by Deputy Minister Dr Emadi from the Ministry of Agriculture, who undertook his doctoral studies in Australia, was that Iran and Australia jointly host and fund a major symposium to discover areas of potential technical cooperation and mutual gain. The symposium should have three components, reflecting areas of greatest perceived potential:

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

23 DEST, *Submission No 17*, p 3.

24 Saeed Jamshidi Fard, *Submission 20*, p8.

- Mining
- Agriculture and agricultural training (including dry land farming, forestry and vocational agricultural training)
- Post harvest technology.

5.27 The committee agrees with this view and feels that such a symposium should be structured so as to complement the Joint Ministerial Commission process.

Recommendation 5²⁵

The committee recommends the Australian government jointly host a symposium to investigate areas of potential technical cooperation between Australia and Iran. The symposium should include the following components:

- **Mining**
- **Agriculture and agricultural training (including dry-land farming, forestry and vocational agricultural training)**
- **Post harvest technology.**

5.28 The Iran Chamber of Commerce also informed the committee that a trade delegation comprising 42 of its members will be travelling to Australia in the near future.²⁶

Kuwait

5.29 Kuwait's economy is typical of the region. It is heavily oil dependent, looking to diversity both its economy and its sources of imports. It has a very young population with 60% of the population being under 30 years of age (see Table 4.1 for comparison of mean ages in the Gulf).

5.30 It is working to liberalise its economy and encourage private sector development. It is working on reforming its foreign investment laws and altering its tax regime to make it more investor friendly.

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

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

Opportunities

- 5.31 Like in most of the other countries of the Gulf, Kuwait lacks a health system of the standard of Australia.²⁷ Its health system is being developed but relies heavily on overseas health services providers. Once again Kuwait would have traditionally looked to the US and UK as sources of these services and Australia has an opportunity to target this market.
- 5.32 This would include both seeking health services in overseas destinations like Australia, but also in buying the provision of training services in Kuwait in order to train its own health workforce as the sector is developed.
- 5.33 Clearly the tax exemption issue of s23AF is important here. If Australia's ruling disadvantages Australian professionals relative to our competitors, Australia will be less likely to compete in this area.
- 5.34 The same is true for education services and education training. As the sector is being developed there will opportunities both to sell education services in Australia and also to provide them in Kuwait. But again Australian professionals need to be able to compete on an even footing with professionals from other countries.
- 5.35 Tourism is one sector of the domestic economy the Kuwaiti government would like to expand. Once again its lack of training facilities and capacity provides an opportunity for Australian tourism vocational education and training.
- 5.36 Bearing in mind that Australia's Gold Coast is already a popular destination for Kuwaiti tourists,²⁸ the committee felt that the packaging of tourism with healthcare services could be lucrative.
- 5.37 Kuwait also seeks to diversify its sources of imports and as with Saudi Arabia, Australia represents an alternative to dominant US military hardware and services suppliers. Accordingly the relevant recommendation in the visit report, to do with investigating such opportunities and reconsidering the number and role of military postings in the region, applies equally to Kuwait.²⁹
- 5.38 At the meeting with the Kuwaiti Deputy Prime Minister and Minister for Defence the issue of Australian patrol boats was raised, based on

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

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

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

the recent sale of Australia patrol boats to Yemen. The Deputy Prime Minister was interested in this fact and suggested his department might investigate Kuwait's needs and in the future in terms of patrol boats.

5.39 Suggestions were also made to the committee about the opportunities to enter the Iraq market through Kuwait. Approximately one thousand trucks a day cross from Kuwait into Iraq carrying all manner of goods according to the Kuwait Minister for Trade and Industry.³⁰ Kuwait also has a free trade zone near the border with Iraq.³¹ The Kuwaitis therefore believe that the best country through which to enter the Iraq market at the moment is Kuwait.

5.40 Austrade acknowledges Kuwait's strategy in this regard and points out:

Kuwait sees itself as an entry for Iraq. It also appears to be recovering and trying to establish itself as a major centre in the region after having been a little bit cautious about investment in the country. There is enormous growth in Kuwait as well...³²

5.41 The committee acknowledges the decision to establish an embassy in Kuwait made in May 2003³³ and the trade representatives placed in Baghdad (May 2004) and Amman (April 2004)³⁴ to primarily cover opportunities in Iraq.

5.42 For the reasons discussed above, the committee believes Australia's trade representation in Kuwait should be strengthened. This would allow the position to develop opportunities both in Kuwait and in coordination with the representative in Iraq. Kuwait provides strong opportunities on its own, and a representative in Kuwait would help build the Iraq trade 'from both ends'.

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

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

32 Austrade, *Transcript 29 March 2004*, p 6.

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

34 Austrade, *Submission No 21*, p 2.

Recommendation 6

The committee recommends the government consider strengthening Australian trade representation in Kuwait.

- 5.43 The committee was also fortunate to meet with the CEO and President of Kuwait Flour Mills and Bakeries (KFM) Mr Salah M. Al Kulaib. KFM buys all its wheat from Australia through AWB and had done so for over 20 years.³⁵ The committee would like to recognize this strong business relationship.
- 5.44 The committee was surprised to learn that it had been the first high level Australian visit to KFM over this period – an unfortunate oversight considering the loyalty showed to Australian wheat and AWB.
- 5.45 This reinforced the committee’s view that the UAE received a lot of Australian official attention but neighbouring countries, some providing equally good opportunities, tended not to draw official visitors.

Qatar

- 5.46 Australia’s visit to the Qatar was an unscheduled addition to the visit program. While in Dubai the committee received a joint invitation from the CEO of Qatar Airways Mr Akbar Al-Baker, the Qatar Tourism Authority and Doha International Airport for the delegation to visit Qatar. The committee accepted the offer and spent a day in Doha.
- 5.47 The Qatar visit involved a tour of a range of construction projects and a working lunch. The committee spoke at length with Mr Al-Baker, senior executives of Qatar Airways and some Qatar based expatriate Australians working in hospitality.
- 5.48 The opportunities discussed below are drawn mainly from information gained at Qatar Airways meetings and information supplied by their staff. There are however many similarities with the region allowing the committee to draw broader conclusions from the discussions in Doha.

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

Opportunities

- 5.49 Qatar's GDP per capita is one of the highest in the world – higher than Australia's (see Graph 2.2) and the highest in the Gulf region. It also has one of the largest reserves of natural gas in the world, which assures Qatar of windfall revenue for the indefinite future.
- 5.50 As mentioned in Chapter 2, Qatar has plans to spend AUD 7.03 billion³⁶ 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 \$1.14 billion on health and education facilities.³⁷
- 5.51 As of the visit by the committee 46 major infrastructure projects were in train, worth more than AUD 390 million.³⁸
- 5.52 Such construction plans were very impressive and it was noted that some Australian companies were already involved in Qatar, such as GHD Consulting.
- 5.53 Qatar was also in the process of developing an alumina smelter worth about AUD 3.5 billion which will when finished produce 700,000 to 1 million tonnes of alumina per annum.³⁹
- 5.54 Although it was clear there were not as many Australians and Australian companies in Doha as there were in Dubai, the scale of development plans here and the staggering value of natural resources at the disposal of Qatar's government in the medium and long term, make Qatar a good long term prospect for trade and investment.
- 5.55 Mr Al-Baker was also interested in having Qatar Airways emulate Emirate's success with daily flights to Australia. Clearly this would ease trade flows and add to the potential for trade and investment.

Saudi Arabia

- 5.56 Saudi Arabia has the second largest population and the largest economy in the region (see Chapter 2 for overview). It is therefore a major part of the GCC economy and a key market in the region.

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

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

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

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

- 5.57 The bulk of Australia's exports to Saudi Arabia are cars and agricultural produce. Also as evidenced by figures in Table 3.3 Australian exports to Saudi Arabia have increased by a factor of six since 1993.
- 5.58 Saudi Arabia has similar characteristics and challenges as other Gulf States such as a high proportion of youth in the population, a lack of job opportunities and a heavily oil dependent economy. It too is trying to diversify and liberalise the economy so as to create the growth that will create jobs for the young population.
- 5.59 Opportunities for traditional exports to Saudi Arabia such as live animals (see Chapter 4) and foodstuffs remain.

Opportunities

- 5.60 The most obvious new opportunity for Australian exports stemming from the success in exporting cars to Saudi Arabia is the potential for the sale of more cars and after market car accessories.⁴⁰ Toyota recently celebrated the 300,000th Australian built Camry to be delivered to the Middle East,⁴¹ the bulk of which have gone to Saudi Arabia.
- 5.61 Automotive exports have clearly been a magnificent success for Australia and the longer the success is sustained the bigger the market for accessories will become.
- 5.62 In trying to develop and diversify its economy, the government of Saudi Arabia is investing heavily in infrastructure, much like in the other Gulf States. This includes both social infrastructure (health and education) and physical infrastructure such as roads, highways, ports etc.⁴²
- 5.63 Australia is clearly very strong in both of these fields and is already established in the region in both fields in some form. Australian health professionals and trainers are common in Saudi Arabia and the region, and Australia construction firms are very well established in other parts of the Gulf especially the UAE. Saudi Arabia has plans to develop its railways and the mining sector.⁴³

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

41 *Sunday Times* (Perth), 9 May 2004.

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

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

- 5.64 The committee believes good opportunities in Saudi Arabia are common but as the Senior Trade Commissioner to Riyadh points out, doing such business in Saudi Arabia is closely tied to personal relationships and cultural understanding.⁴⁴ The Senior Trade Commissioner also pointed out that Australia does well in the region when it concentrates on supplying niche markets in which Australian products are particularly good.⁴⁵
- 5.65 Cheap housing is an area of developing opportunity. Like other countries in the Gulf the growing and reasonably wealthy population means a growing demand for quality, affordable housing.⁴⁶ Australia would be well placed to supply this market.
- 5.66 Another area of potential in a relatively wealthy market is in the export of leisure goods. Like in the UAE, a substantial proportion of the population is cash rich. Accordingly leisure goods and consumables are in demand. Australian exporters in these areas could benefit.⁴⁷
- 5.67 Following Australia's success in automotive sales, the committee feels that the market for maritime leisure craft in Saudi Arabia could be a good opportunity for Australian producers. Saudi Arabia is aware of Australia's expertise in the area but as yet there have not been many sales.⁴⁸

Defence hardware and training

- 5.68 The committee heard several times during the visit that Gulf governments were looking to diversify their sources of imports, and Australia would have a window of opportunity to capitalise on this. In terms of defence procurement and training, Saudi Arabia was a massive importer of US defence hardware and services such as training.⁴⁹ As Austrade points out the region spends USD 45 billion annually on defence.⁵⁰
- 5.69 The committee felt that Australia currently has an opportunity to capitalise on this expenditure in the region. Australia over the last decade has positioned itself well in education exports but no so with

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

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

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

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

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

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

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

regard to defence material exports. Accordingly Australia's defence representation in the region was tiny relative to the opportunities in this area (with two representatives in Riyadh and one in Abu Dhabi).⁵¹

- 5.70 The committee felt this was unfortunate and believes the government should ensure Australian defence attaches are accredited to all Gulf States to provide full opportunities for the marketing of defence equipment and services.
- 5.71 The committee understands that the government is currently developing a strategy for exporting defence hardware and services to the region.
- 5.72 The committee strongly supports this process and would like to suggest that the government consider carefully the level of defence export related representation in the region, and how various representatives from different agencies will cooperate for the best results. It would also suggest the government consider the potential long term benefits that may arise from Gulf nationals undertaking military training in Australia.
- 5.73 The recent success of Australia selling approximately AUD 100 million worth of patrol boats to the Yemeni government is a good example of Australia's opportunities in the region.

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

Recommendation 7⁵²

The committee strongly supports the government's plans to develop a strategy for the export of defence related hardware and services to the region. The committee recommends the strategy consider:

- **What specific opportunities exist for the export of defence related hardware and services**
- **How the relevant agencies should cooperate, in terms of resourcing and personnel posted to the region, to optimise defence related exports to the region**
- **The long term export opportunities which would flow from Gulf nationals undertaking military training in Australia.**

United Arab Emirates

- 5.74 The region provides extensive opportunities for Australian exporters and investors. Growth in GDP in the Gulf region is currently running at 5% per annum.⁵³ Growth for Dubai was 6.2% in 2003 and at a similar level for Abu Dhabi.⁵⁴
- 5.75 Dubai is also working to establish itself as the regional services centre, positioning itself as the Singapore of the Middle East. To achieve this it is moving quickly to develop all the necessary infrastructure, which drives many of the development projects underway. There are also three free trade zones in the UAE: one in Abu Dhabi, one in Dubai and one in the eastern region.
- 5.76 As of the visit to the region by the committee, 622 multi-storey buildings were under construction in Dubai. Retail space is to increase four fold by 2010 making Dubai the most densely 'shopped' city in the world.⁵⁵ Emirates Mall which is currently under construction will be the largest shopping centre in the world outside the USA at 225 000 square metres.⁵⁶

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

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

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

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

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

- 5.77 On top of the impressive construction facts for Dubai mentioned earlier, fifty five star hotels are currently under construction and hotel occupancy rates are running at more than 90%.⁵⁷ Dubai in 2002 sold 4.26 million hotel room nights⁵⁸ in 1996, which represented 146% growth since 1996.⁵⁹
- 5.78 In terms of air traffic through Dubai in 2002, 18 million passengers pass through Dubai airport per annum, as compared to approximately 25 million through all Australian airports per annum. With the doubling of flight and terminal capacity currently under construction, this figure for Dubai is likely to double by 2012.⁶⁰
- 5.79 With Palm Island I nearing completion and having been sold out within weeks of being offered for sale, Palm Island II is under construction as well as a third, larger project with an island complex in the shape of the globe. There is also an underwater hotel under construction and a year round ski complex.⁶¹
- 5.80 Dubai is also working to develop a number of high value commercial and services 'clusters'. Among them are the Dubai International Financial Centre, Internet City, Knowledge Village, Healthcare City and Dubailand. As mentioned Dubailand is a USD 5 billion project which will cover 185 million square metres of land (which would cover an area 13km by 13km)⁶² and incorporate numerous theme parks, zoos, health resorts, schools, hotels, artificial ski slopes, film production facilities, sports facilities (including a formula one racing track), cinema complex, museums, art gallery and other attractions.⁶³

Note on UAE and Dubai

- 5.81 The UAE was clearly the standout in terms of the level of development of a modern economy and society. It clearly had the best and most modern infrastructure of the region and operated as a very business friendly environment. It also provides a relaxed environment for business people servicing the region.

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

58 One room-night is one hotel room rented for one night.

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

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

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

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

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

- 5.82 The ambition and vision of the government of UAE is breathtaking and the results of their efforts to date have been extremely impressive. Dubai clearly is the hub for the region (as discussed in Chapter 4) and the committee would encourage Australian exporters and investors to use it as such. Using Dubai as an entry point or basing Middle East operations in Dubai appears to be a prudent step into the market. Dubai is clearly the entry point of choice to date for international business.
- 5.83 The committee would also suggest that Austrade strengthen further its resources in Dubai to encourage Australian businesses to explore opportunities in the region.

Bahrain and Oman

- 5.84 The committee did not visit Bahrain or Oman and accordingly cannot provide specific information on particular opportunities observed. It is clear, however, that the economies of these two countries are quite similar to the other Gulf States (see previous chapters) and accordingly have similar needs and challenges, and therefore offer similar opportunities.
- 5.85 Evidence about Bahrain brought to the committee's attention, however, suggested that Bahrain might benefit from a greater Austrade presence than it currently has.
- 5.86 The evidence came from two sources. The first was the Austrade Senior Trade Commissioner to Riyadh. He pointed out that even though Bahrain was not the hub that Dubai was, it provided a good environment for 'testing' Australian products in the Middle East.

I am keen on Bahrain because it is an idea country for very small Australian companies. Whereas Saudi Arabia is a large economy and dominates the region, Bahrain offers niche opportunities for small Australian companies. It is a small market of 350,000 people, so in terms of a small company testing whether their products or services are saleable in the Middle East, I think Bahrain is a good litmus test for the Middle East.⁶⁴

- 5.87 The other source of evidence was expatriate Australian professionals in the region. Again many Australians are well positioned in key organisations in the region, including in Bahrain. By virtue of their

64 Austrade, *Transcript 29 March 2004*, p 6.

positions and links to Australia, Australian firms would have a strong competitive advantage in providing goods and services to those organisations. Gulf Air is a good example. It has a range of Australians in senior positions in the company including its Chief Executive Mr James Hogan.⁶⁵

- 5.88 Accordingly the committee believes the government should consider some form of enhanced Austrade representation in Bahrain. This could take the form of locally engaged business development manager.

Recommendation 8

The committee recommends the government consider strengthening Australia's trade representation in Bahrain.

Bridging the cultural and institutional divide

- 5.89 Other challenges for Australians wishing to trade with or invest in the region revolve around cultural differences and differences in business practice.
- 5.90 Several submissions made related points with different emphases. Austrade spoke about the need to maintain local knowledge in terms of 'maintaining effective business relationships'.⁶⁶
- 5.91 SMEC points out that few Australians speak Arabic, and business knowledge about 'how problems can be solved and bottlenecks overcome' is not commonly held here.⁶⁷
- 5.92 Abdul Ayan made a similar point in his submission: 'Middle Easterners on the whole do business, make friends, maintain relationships and manage conflicts in ways that are different from Australians'.⁶⁸
- 5.93 These issues can be addressed in a range of ways and several suggestions were made to the committee through evidence received.

65 <<http://www.gulfairco.com/about/profile.asp>> (26 August 2004)

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

67 SMEC, *Submission No 16*, p 4.

68 Abdul Ayan, *Submission No 7*, p 10.

Understanding the 'Halal' concept

- 5.94 Abdul Ayan made a number of suggestions about the importance of understanding the 'Halal' concept. He explains that this not only applies to the preparation of food but is a philosophy which underlies all aspects of life for Muslims. He explains that 'Halal is a religious concept embedded in Muslim law and that it is the preserve of Muslims to fully manage and control Halal and its processes'.⁶⁹ Further Mr Ayan explained '[Halal's] moral imperative is wider in scope and extends to all human actions... Halal is therefore equally pertinent to food and beverages as it is to investment, banking and finance.'⁷⁰
- 5.95 Accordingly Mr Ayan made a number of suggestions about the oversight of Halal food standards in Australia. Although Mr Ayan's conclusions, with regard to food standards, were not wholly accepted by the committee,⁷¹ it did note with interest his comments on the importance of the Halal concept in all activities, including trading, when engaging with Islamic societies.⁷²

Islamic banking

- 5.96 Building on the point made above Mr Ayan believes that ANZ Bank has an office in Bahrain which provides financial services utilizing Islamic banking principles.
- 5.97 Although Mr Ayan provided no reference for this information it is clear that the popularity of Islamic banking is growing. The Institute of Islamic Banking and Insurance in London believes 'Islamic banking is estimated to be managing funds in the order of US\$ 200 billion'.⁷³ The institute believes the success of Islamic banking and its growth is due to 'its value-orientated ethos that enables it to draw finances from both Muslims and non-Muslims alike.'⁷⁴
- 5.98 Although the committee has not examined this issue in detail, it commends Australian financial and other institutions which are

69 Mr Abdul Ayan, *Submission No 7*, p 6.

70 Mr Abdul Ayan, *Submission No 7*, p 7.

71 Mr Abdul Ayan, *Transcript 7 April 2004*, p 13. An example of successful Halal cheese exports was discussed.

72 An internet search revealed that ANZ bank had branches in UAE and Qatar but did not confirm if there was a branch in Bahrain.

73 <<http://www.islamic-banking.com/ibanking/statusib.php>> (19 August 2004)

74 <<http://www.islamic-banking.com/ibanking/statusib.php>> (19 August 2004)

flexible and sensitive enough to adapt and respond to the demand for these sorts of services.

Legal and bureaucratic constraints on business

- 5.99 The state-centred nature of most of the economies in the Gulf States also creates some challenges for Australian business.
- 5.100 SMEC listed two constraints on the growth in the trade relationship with the Gulf States. The first was ‘company legislation and procedures’. SMEC believes an excessive amount of administrative procedures and regulations had to be complied with. These demands were in SMEC’s view, ‘trying’ and by implication unconstructive.⁷⁵
- 5.101 The second constraint was the difficult tendering procedures for government contracts. The process was found by SMEC to be ‘protracted and bureaucratic’. In most of the Gulf States SMEC has found that ‘there is a need to register with every individual government department or agency in order to tender for work’.⁷⁶
- 5.102 SMEC suggests the Australian government encourage ‘the Gulf Cooperation Council to embark on a program to harmonise business legislation and policies, technical standards and commercial practices to bring them into line with each other and international norms.’⁷⁷
- 5.103 The committee understands these difficulties and supports DFAT’s view that these problems are best addressed through encouraging economic reform and liberalisation in the countries concerned.⁷⁸ Only through understanding the economically inhibitive effects of these arrangements will these countries begin to address them.

Single desk export marketers

- 5.104 The state centred nature of business in the region also required an approach which differs from that of other countries and regions. AWB raised the issue, during the course of the visit, of the special utility of single desk marketers when dealing with the region.
- 5.105 Most bulk commodities exported to the region were bought by import monopolies. For example in Kuwait, Kuwaiti Flour Mills and Bakers

75 SMEC, *Submission No 16*, p 3.

76 SMEC, *Submission No 16*, p 3.

77 SMEC, *Submission No 16*, p 4.

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

(KFM), was the sole importer and miller for the whole of Kuwait. All bread consumed in Kuwait is made with Australian wheat. Thus from a Kuwaiti perspective, a single supplier of premium wheat from Australia is an ideal situation. One transaction or set of transactions supplies wheat for the country. If individual Australian wheat exporters were selling wheat to Kuwait the range and number of transactions on both sides would be considerable higher.

- 5.106 Although the KFM example is one which the committee heard most about, the use of single import quasi-government monopolies is common in the Gulf.⁷⁹ Accordingly the government should bear in mind the advantages and disadvantages of single desk exporters in considerations on the Gulf region.

Immigration and visas

- 5.107 During the course of the visit various parties made representations on the difficulties involved in getting Australian visas.⁸⁰ This response was common and usually followed the committee's questions about impediments to Gulf students studying in Australia. Appendix F summarises DIMIA staff in the Gulf States.

- 5.108 The committee heard other organisation make similar points. AACCI provided a demonstrative example:

...over the weekend, I have been talking to our embassy in Riyadh. We have got a delegation of 29 Saudi companies coming here with the Saudi chamber to buy Australian. They are not selling Saudi product, they are coming here to buy Australian product. Last night I got a message from the embassy saying: can you please issue a letter to DIMIA trying to get them to help these guys get their visas? It creates problems for us, in that we can get in there [into the Gulf States], no trouble at all.⁸¹

- 5.109 IDP also made the point that Australia's student visas were 'the most expensive' relative to its major competitor countries.⁸²

- 5.110 DIMIA made several points in response to these concerns.

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

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

81 AACCI, *Transcript 29 March 2004*, p 29.

82 IDP, *Transcript 7 April 2004*, p 8.

- 5.111 By way of background DIMIA explained Australian visa services are provided to the Gulf States by DIMIA offices in Dubai, UAE (covering Bahrain, Qatar, Saudi Arabia, Kuwait and Oman) and Tehran (Iran).⁸³
- 5.112 There are 21 DIMIA staff in the Gulf States, including two Australian based staff in Dubai and two in Tehran. The balance is made up of locally engaged staff.⁸⁴
- 5.113 In terms of resources DIMIA allocates to the region, the department points out that visas granted to Gulf nationals comprised only 1.58% of total student visas granted to overseas students.⁸⁵ Such a small proportion of visa demand obviously only justifies expenditure of a small proportion of DIMIA's resources.
- 5.114 Secondly with regard to the average ten day turn around for visa applications, DIMIA explained that seven days are taken up with security and other checks conducted by other Australian departments.⁸⁶ This constraint is entirely out of DIMIA's control.⁸⁷
- 5.115 And thirdly, DIMIA was working towards enlarging the electronic visa system (e-visa) it has recently initiated in the UAE. The e-visa system has been operating the UAE for between one and two years. It has more recently been started in Kuwait.⁸⁸
- 5.116 According to DFAT visa processing times have been substantially reduced in most cases as a result of these improvements. The pilot was extended indefinitely in the UAE and may be extended to other GCC countries in the future.⁸⁹
- 5.117 The committee also notes the implementation of the recommendations of the 2002 review of visa reforms introduced in 2001⁹⁰ and that the government introduced substantial improvements to existing visa processing procedures for nationals of GCC member states in 2002.
- 5.118 Bearing in mind these factors, the recent rapid growth in student visas to the region, albeit from a low base⁹¹ and the current window of

83 DIMIA, *Submission No 19*, p 3.

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

85 DIMIA, *Submission No 19*, p 3.

86 DIMIA, *Transcript 21 June 2004*, p 2.

87 DIMIA, *Transcript 21 June 2004*, p 2.

88 DIMIA, *Transcript 21 June 2004*, p 5.

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

90 DIMIA, *Submission No 19*, p 9.

91 DIMIA, *Submission No 19*, p 6.

opportunity open to Australia, the committee recommends the government consider strengthening DIMIA's representation in the region.

Recommendation 9⁹²

The committee recommends that DIMIA consider strengthening its representation across the Gulf region. This should ensure faster processing of visas for key economies in the region in light of the growing opportunities in the Gulf States.

- 5.119 The committee also urges the government to make every effort to ensure visa processing arrangements, electronic or other, are as speedy as possible within security and immigration integrity constraints.

State – Commonwealth trade promotion overlap

- 5.120 An issue which most federal systems probably face is that of overlap in state and federal efforts to promote trade. During the course of the inquiry the issue was raised on a number of occasions.
- 5.121 AACCI provided an interesting example of an encounter it had on this issue. When meeting with a regional chamber of commerce, the head of that body explained that they were 'getting fed up with the number of Australian delegations coming up here and they are all premiers or ministers. They make all sorts of promises. We wine them, we dine them, we put on functions for them and they go away and we never hear from them again'.⁹³
- 5.122 AACCI went on to explain that he had heard of an example where one Australian state had denigrated the credibility of another Australian state for export advantage.⁹⁴
- 5.123 As mentioned this is an ongoing problem in trade promotion. The committee is concerned that the range of trade promotion agencies Australia may place in a region may, on the whole, undermine Australia's trade promotion ability for the reasons given above.
- 5.124 The committee recognizes the complexity of this problem however. The committee would like to urge the government to be vigilant on

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

93 AACCI, *Transcript 29 March 2004*, p 29.

94 AACCI, *Transcript 29 March 2004*, p 29.

the issue and put effort into managing a united trade promotion front for Australia through the established processes of consultation.

Austrade regional structure

- 5.125 During the course of the visit the committee noted with interest that the executive general manager position for the Middle East had been relocated to Frankfurt approximately two years earlier.⁹⁵
- 5.126 SMEC noted in its submission this move 'had been noticed in the region and has been interpreted in some circles as reflecting Australia's geopolitical priorities'⁹⁶ suggesting that some in the Gulf thought Australia was less interested in the region than it used to be. It goes on to say that locating 'key executive[s] responsible for the Gulf Region in Europe is puzzling to most companies doing business in the Gulf.'⁹⁷
- 5.127 AACCI make a similar point. The declining resources dedicated to the region, including the move of the executive general manager position to Frankfurt, 'has placed more pressure on the people in the region and removed the Australian based focus on the region...[and AACCI believes]...the overall structure should be subjected to an early review.'⁹⁸
- 5.128 In explaining its critical view of the change undertaken some two years ago, SMEC explained that 'government imprimatur is so important and government status is strongly used by our competitors...maximum government effort should be directed to this region, rather than less'.⁹⁹
- 5.129 Austrade was aware of these concerns and provided the committee with a supplementary submission which explained the resource allocation rationale behind the structural change.
- 5.130 In it Austrade compares the old and new regional structure, and details the number of Australian and locally engaged staff within the Middle East. In Austrade's words:

'Austrade maintains a physical presence in 7 Middle East cities with a total of 39 staff distributed as follows: Amman

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

96 SMEC, *Submission No 16*, p 4.

97 SMEC, *Submission No 16*, p 4.

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

99 SMEC, *Transcript 21 June 2004*, p 24.

(3), Baghdad (2), Beirut (1), Cairo (4), Dubai (16), Riyadh (8), and Tehran (5)...[and]... it is proposed to increase staffing in this sub-region during 2004/05 by one Senior Trade Commissioner and two locally engaged business development managers.¹⁰⁰

- 5.131 The committee acknowledges the additional information provided by Austrade on this issue and was satisfied that the change had been given thorough consideration by Austrade.

Other Australian representation in the region

- 5.132 The scale and ambition of several countries in the region in terms of developing tourist industries is clear. Dubai is planning Dubailand (discussed in Chapter 2). It has 50 five star hotels currently under construction. Qatar is gearing up to challenge Dubai as the regional hub in tourism. It plans a theme park of similar proportions and will inevitably need to skill a workforce to staff it.
- 5.133 Inward tourism to Australia, especially the Gold Coast, is also growing. This is likely to grow further if managed well.
- 5.134 With these issues in mind the committee applauds the government's recent appointment of a representative of the ATC to the region, and would like the government to consider strengthening this representation further.
- 5.135 The committee also visited two investment authorities. These authorities manage the investment of a proportion of the government revenues from oil and elsewhere, with the intention of providing stable, long term returns to complement the more price sensitive returns on oil exports.
- 5.136 The two authorities the committee met with, in Abu Dhabi and Dubai, managed substantial investment funds. The committee believes that Austrade or Invest Australia should investigate the value of devoting more resources to attract such investment funds to Australia.

100 Austrade, *Submission No 21*, p 2.

Recommendation 10¹⁰¹

The committee recommends the government consider strengthening the resources of the Australian Tourist Commission and Invest Australia in the Gulf region, to raise their profile and capitalise on current opportunities.

General challenges in the region

Security

- 5.137 The Gulf region does face a few challenges to its prosperity and development which should be borne in mind when considering trading or investing in the region.
- 5.138 The ever-present challenge is the same as that for the rest of the world – the threat of transnational terrorism.
- 5.139 In terms of Australia's official travel advice, all countries visited except Saudi Arabia had the same general travel warning.¹⁰² Saudi Arabia was seen as a higher risk destination with the DFAT travel advice suggesting 'Australians should defer non-essential travel to Saudi Arabia'.¹⁰³

Population

- 5.140 As discussed elsewhere in the report, the youthful and growing populations in the region are a source of great potential for Australian business. The growth of population is also a potential risk in the medium to long term.

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

102 In view of continuing tensions in the Middle East and the ongoing risk of terrorist attacks against Western interests, Australians in Qatar should exercise a high degree of caution and maintain a high level of personal security awareness. Particular care should be exercised in commercial and public areas known to be frequented by foreigners.

103 <http://www.dfat.gov.au/zw/cgi/view/Advice/Saudi_Arabia> 7 May 2004.

- 5.141 With 50% of the population in the region under 25 years of age,¹⁰⁴ failure to nurture substantial growth in Gulf economies and jobs could result in social problems and instability in the future.
- 5.142 This challenge will clearly not be resolved quickly or easily but all the organisations and people the committee met with during the visit appreciated the nature of this challenge and were acting on it. These efforts were reflected in the government programs to liberalise their economies, 'localise' the private sector (encourage the involvement of nationals in the private sector) and diversify their economies away from oil and/or gas into complex manufactures, services and so on.

Oil and economic stability

- 5.143 Another major problem is that of hydrocarbon dependency in the Gulf state economies. Regardless of their efforts to date, all of the countries visited still depend heavily on their oil and/or gas exports. This generally means that years in which oil prices are up are boom years and years in which oil prices are down are slow years.
- 5.144 One paradox must also be borne in mind. When oil prices are down regional governments may also be more likely to liberalise their economies. The example of Saudi Arabian agriculture, as described in Chapter 4, is demonstrative. Rising oil prices have had the effect of lowering their imports of Australian produce because rising government revenues were used to produce more expensive domestic agriculture. Presumably if oil prices fall the opposite will occur.
- 5.145 Sustained poor oil prices or long term failure to diversify economies in the region would ultimately still threaten stability in the region.
- 5.146 As of the moment however, these issues do not pose a great threat. The developed world's demand for oil is consistently growing, and demand coming from the rapidly developing countries of China and India is likely to only grow.

Senator Alan Ferguson
Chairman
9 February 2005

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



Appendix A – List of submissions

| Submission No | Organisation/Individual |
|----------------------|---|
| 1 | Department of Education, Science and Training |
| 2 | Australian Arab Chamber of Commerce and Industry Inc. |
| 3 | Export Finance and Insurance Corporation |
| 4 | IDP Education Australia Limited |
| 5 | Bayside Personnel International |
| 6 | ICS (Part of the Adesse Group) |
| 7 | Mr Abdul Ayan |
| 8 | Austrade |
| 9 | Department of Foreign Affairs and Trade |
| 10 | Embassy of the Islamic Republic of Iran |
| 11 | Promesse Pty Limited |
| 12 | Embassy of the Islamic Republic of Iran - Supplementary |
| 13 | Austrade - Supplementary |
| 14 | Department of Agriculture, Fisheries and Forestry |
| 15 | ICS (Part of the Adesse Group) - Supplementary |
| 16 | SMEC International Pty Limited |
| 17 | Department of Education, Science and Training - |

| | |
|----|--|
| | Supplementary |
| 18 | University of Wollongong in Dubai |
| 19 | Department of Immigration and Multicultural and Indigenous Affairs |
| 20 | Mr Saeed Jamshidi Fard |
| 21 | Austrade – Supplementary #2 |
| 22 | Austrade – Supplementary #3 |
| 23 | Austrade – Supplementary #4 |
| 24 | ICS – Supplementary #2 |



Appendix B – List of hearings and witnesses

Canberra – Monday 29 March 2004

Austrade

Ms Marilyn Corrigan, Project Officer, International Liaison Unit

Mr Philip Eliason, Manager, International Liaison Unit

Mr Peter Forby, Senior Trade Commissioner, Riyadh

Ms Margaret Lyons, Manager, Corporate Services

Department of Education, Science and Training

Ms Bettina Cooke, Director, APEC North and South Asia Section,
International Cooperation Branch

Mr Jimmy Jamil, Assistant Director, APEC North and South Asia
Section, International Cooperation Branch

Mr William Thorn, Branch Manager, AEI International Cooperation

Australian Arab Chamber of Commerce and Industry

Mr Anthony Knight, Chief Executive Officer

Department of Foreign Affairs and Trade

Mr Peter Hooton, Director, Middle East Section

Mr Don Cuddihy, Executive Officer, Middle East Section

Ms Victoria Owen, Assistant Secretary, Middle East & Africa Branch

Miss Kristina Hickey, Desk Officer, Middle East Section

Sydney - Wednesday 7 April 2004

IDP Education Australia

Mr Denis Meares, Head, Corporation Planning Performance Branch

Export Finance and Insurance Corporation

Mr Roger Donnelly, Chief Economist

Mr Slater Smith, General Manager

Promesse Pty Limited

Mr Brian McDonald, Director

Melbourne - Wednesday 7 April 2004

Bayside Personnel

Mr Murray Erwin, Divisional Manager

ICS – Part of the Adesse Group

Mr Donald Moore, Principal

Mr Abdul Ayan

Canberra – Monday 21 June 2004

Department of Immigration and Multicultural and Indigenous Affairs

Ms Arja Keski-Nummi, Assistant Secretary, Temporary Entrant Branch

Mr John Rees, Director, Tourism Delivery Support Section

Mr Abul Rizvi, First Assistant Secretary, Migration and Temporary Entry Division

Austrade

Mr Martin Walsh, Manager Major Projects and Infrastructure

Ms Meredith Wilkes-Bowes, Corporate Manager, Government Industry and Policy

SMEC International Pty Ltd

Mr Roger Bayliss, Director

Mr Ross Hitt, Executive Director, General Manager International (West)

Department of Agriculture, Fisheries and Forestry

Mr David Ingham, Manager FAO & Americas Trade Policy Market access and Biosecurity

Ms Jenni Gordon, General Manager, Animal and Plant Programs

Mr Paul Morris, Executive Manager, Market access and Biosecurity



Appendix C – The Gulf Cooperation Council (GCC) Customs Union¹

Comprehensive GCC economic integration - including a customs union - was envisaged in the Unified Economic Agreement (UEA) which the GCC adopted on its formation in 1981. In accordance with a decision of the 22nd Session of the Supreme Council of the Gulf Cooperation Council (Oman, December 2001) the GCC Customs Union (GCCCU) was formally implemented on 1 January 2003. Many of the GCCCU's operational details are, however, yet to be finalised. The main existing features of the GCCCU are:

Tariffs: Most imports from non-GCC countries face a duty rate of five per cent, although some 417 tariff lines (mainly foodstuffs and industrial inputs) carry a zero tariff. As well, member states may each nominate a list of 'protected commodities' on which they charge duty of 12 or 20 per cent. Saudi Arabia has listed 839 protected commodities, the most of any GCC member. A consolidated list of protected commodities is to be introduced in 2006.

Rules of Origin: Prior to 1 January 2003, documentary proof of 40 per cent value-adding to an import in a GCC country was required before that product would be accepted as a GCC product. While a true customs union would not require rules of origin, the exceptions to the GCCCU common external tariff create a need for rules of origin. The GCCCU is understood to favour a liberal definition of national origin, according to which any processing of an imported product in a GCC member will qualify the product as a GCC

1 DFAT, *Submission No 9*, p 8.

product for rules of origin purposes. It remains to be seen, however, whether this liberal definition will be adopted.

Standards: The GCC has yet to agree on standards or a regional standards organisation.

Revenue Distribution: Member States have agreed that the country of final destination of an import from non-GCC countries should receive revenues from any duties on that import.

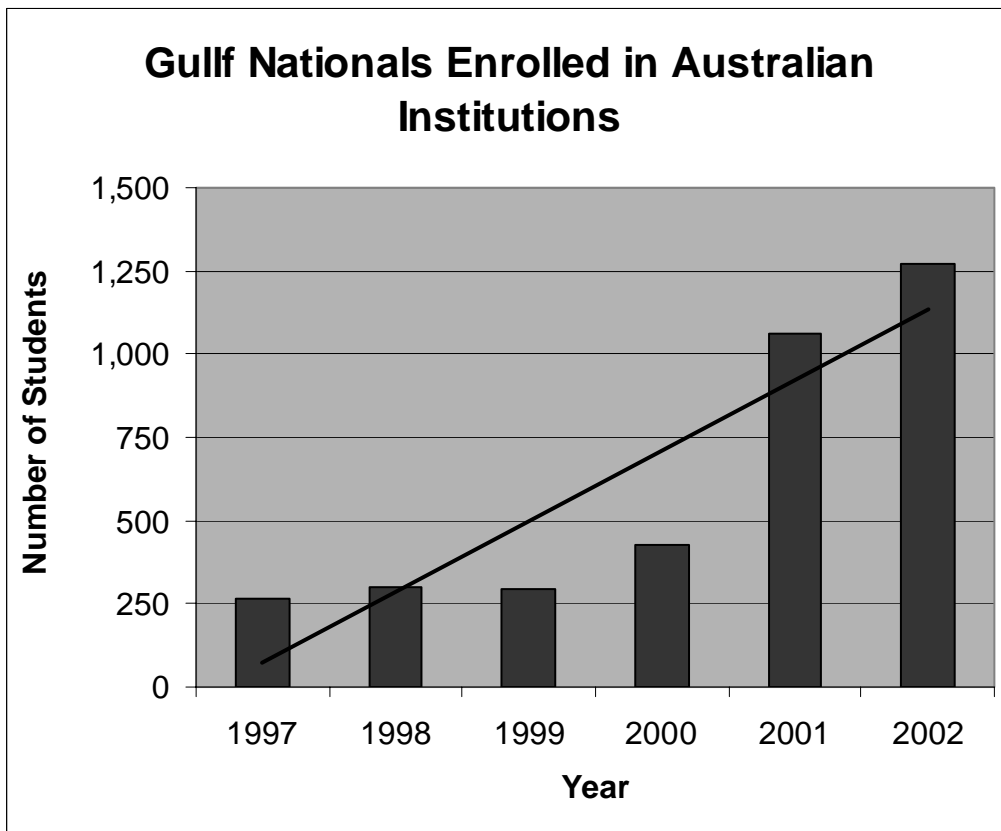
Services and Investment: Article 8 of the UEA provides for national treatment for GCC service providers and investors. The extent to which this Article has been implemented is not clear, although it is understood that GCC Member States extend national treatment to other GCC countries in selected sectors.

GCC Relations with other countries: The GCC is negotiating an FTA with the European Union. It hopes to conclude these negotiations later in 2004. The GCC is also negotiating FTAs with China and India, and conducts economic dialogues with Japan and the US.

In May 2003, President Bush announced a proposal to establish a United States-Middle East free trade area by 2013. Negotiations for a bilateral FTA between the United States and Bahrain – the first stage of this process - began in January 2004.



Appendix D – Gulf nationals in Australian educational institutions

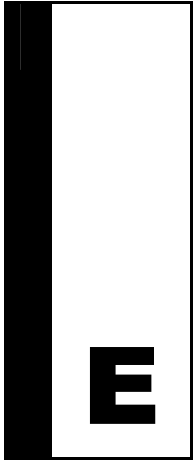


Source DEST, Submission No 1, p 8.

Table D.1 Middle East Enrolments 2002 and 2003

| Country | ELICOS | Higher Education | Other (Non-Award Courses, Enabling Courses) | Schools | VET | Grand Total |
|--------------------|------------|------------------|---|------------|------------|-------------|
| 2002 | | | | | | |
| Bahrain | 12 | 32 | 13 | 1 | 34 | 92 |
| Iran | 65 | 194 | 9 | 21 | 16 | 305 |
| Kuwait | 31 | 30 | 12 | 4 | 12 | 89 |
| Oman | 159 | 166 | 58 | 2 | 84 | 469 |
| Qatar | 76 | 3 | 7 | | 17 | 103 |
| Saudi Arabia | 64 | 42 | 2 | 7 | 13 | 128 |
| UAE | 103 | 98 | 43 | 4 | 33 | 281 |
| Grand Total | 510 | 565 | 144 | 39 | 209 | 1467 |
| 2003 | | | | | | |
| Bahrain | 22 | 64 | 18 | 1 | 55 | 160 |
| Iran | 125 | 346 | 7 | 65 | 17 | 560 |
| Kuwait | 20 | 58 | 11 | 2 | 15 | 106 |
| Oman | 205 | 283 | 70 | 14 | 118 | 690 |
| Qatar | 131 | 9 | 2 | | 82 | 224 |
| Saudi Arabia | 142 | 85 | 11 | 11 | 15 | 264 |
| UAE | 185 | 135 | 66 | 10 | 75 | 471 |
| Grand Total | 830 | 980 | 185 | 103 | 377 | 2475 |

Source DEST, Submission No 17, p 3.



Appendix E – Agricultural production in the Gulf States

Table E.1 Production of agricultural crops by Gulf States since 1985 (tonnes)

| Commodity/Country | 1985 | 1990 | 1995 | 2000 | 2003 |
|--------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Total Cereals | | | | | |
| Saudi Arabia | 2,187,821 | 4,136,772 | 2,668,863 | 2,131,464 | 2,353,000 |
| Bahrain | | | | | |
| Iran | 10,727,817 | 13,683,863 | 17,031,706 | 12,873,964 | 19,810,000 |
| Oman | 1,101 | 5,140 | 5,550 | 5,763 | 5,771 |
| Kuwait | 3,109 | 1,830 | 2,101 | 2,835 | 3,300 |
| Qatar | 1,539 | 3,135 | 4,256 | 6,015 | 5,810 |
| UAE | 1,300 | 2,877 | 972 | 364 | 200 |
| Total Gulf States | 12,922,687 | 17,833,617 | 19,713,448 | 15,020,405 | 22,178,081 |
| Total Fruit | | | | | |
| Saudi Arabia | 726,708 | 803,890 | 1,052,988 | 1,189,000 | 1,267,000 |
| Bahrain | 17,050 | 10,150 | 21,461 | 21,518 | 21,518 |
| Iran | 5,357,996 | 7,163,554 | 10,296,997 | 12,287,001 | 12,712,813 |
| Oman | 140,930 | 181,850 | 232,530 | 335,234 | 294,636 |
| Kuwait | 743 | 1,933 | 5,218 | 11,250 | 11,488 |
| Qatar | 7,681 | 7,402 | 13,642 | 17,542 | 17,990 |
| UAE | 85,758 | 180,438 | 276,817 | 796,548 | 797,280 |
| Total Gulf States | 6,336,866 | 8,349,217 | 11,899,653 | 14,658,093 | 15,122,725 |
| Total Vegetables | | | | | |
| Saudi Arabia | 1,541,806 | 2,201,169 | 2,317,230 | 1,546,401 | 1,842,000 |
| Bahrain | 8,043 | 9,809 | 12,311 | 11,568 | 10,369 |
| Iran | 8,171,215 | 9,839,983 | 7,874,656 | 11,498,627 | 11,777,000 |
| Oman | 175,000 | 155,000 | 168,400 | 175,528 | 183,673 |
| Kuwait | 77,266 | 102,579 | 97,555 | 174,075 | 180,492 |
| Qatar | 17,391 | 27,387 | 47,276 | 53,232 | 55,475 |
| UAE | 228,128 | 245,460 | 716,401 | 2,606,254 | 1,546,744 |
| Total Gulf States | 10,218,849 | 12,581,387 | 11,233,829 | 16,065,685 | 15,595,753 |

Source DAFF, Submission No14, p 5.



Appendix F – Australian based staff in the region¹

Table F.1 DIMIA staff in the Gulf region

| | A based | Locally engaged |
|--------|---------|-----------------|
| Dubai | 2 | 10 |
| Tehran | 2 | 7 |
| Riyadh | 0 | 0 |

Table F.2 Austrade staff in the Gulf region

| | A based | Locally engaged |
|--------|---------|-----------------|
| Dubai | 3 | 10 |
| Tehran | 1 | 4 |
| Riyadh | 1 | 7 |

- ⇒ Australian Embassy Abu Dhabi – No DIMIA staff. All visas are processed in Dubai for the whole Gulf region. The Embassy covers UAE and Qatar for Consular matters
- ⇒ Australian Consulate Dubai (Austrade) – covers UAE, Qatar, Oman and Yemen for Trade matters.
- ⇒ Australian Embassy Riyadh – covers Saudi Arabia, Bahrain, Kuwait, Oman, and Yemen for Consular matters
- ⇒ Austrade Riyadh – covers Saudi Arabia, Bahrain and Kuwait for Trade matters.

1 Information provided by Austrade