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Building a Sound Trade and Investment Relationship

Australia's interests are diverse and our markets, trade relationships and above all our trade policy, must be similarly diverse.

Trade Outcomes and Objectives Statement 1997

Raising Awareness

- 4.1 The one issue that underlies the SWOT analysis is **awareness** or more correctly **lack of awareness**. In Australia there is a significant lack of awareness and knowledge about South America, including the nature and size of the markets there, the scope of the opportunities, the complementarities with Australia and the move by South American countries to be more competitive in the global economy. Unlike Asia there are rarely articles in the general press about South American countries unless there are headline issues which are invariably negative in nature such as kidnaps or financial crises.
- 4.2 On its visit to South America, the Trade Sub-Committee found that the single biggest issue was the awareness factor. Awareness is a two way street. Many of the officials in the countries that the Trade Sub-Committee visited had not thought of Australia as a possible contender in their markets, especially as a source of expertise in the area of service exports including the areas of infrastructure and agricultural development.

- 4.3 Just like Australia, South American governments and businesses are predisposed to look to the north. They look north focusing on the United States and more recently on the European Union for market opportunities.
- 4.4 A general observation on the part of the Committee members who travelled to South America was that there seemed to be more knowledge about Australia on the part of people in South America compared to the knowledge that Australians have about the region. The Sydney Olympics has provided a focus on Australia as has a number of sporting events with South American teams, such as rugby union and soccer.
- 4.5 WALABAI put it fairly bluntly that until very recently, South America has been largely ignored by successive Federal and State governments. 'It is still referred to by some politicians as a region of "revolutionary desperados", always "with the hand out for graft", and "not civilised".'²
- 4.6 Furthermore WALABAI points out:
- Until these prejudices are eliminated, and until politicians look at the region in a sensible and positive manner, the business sector will not be fully encouraged to tackle the market aggressively.³
- 4.7 There is no doubt that governments have a leading role to play in mobilising business to focus and take up opportunities in new markets. This role is not only about raising awareness, but as the President of the Australia-Chile Chamber of Commerce (ACCC), Dr Cassidy pointed out:
- Being able to raise awareness is one issue, but I can assure you awareness never really equates to increased trade. You have got to work out where you are going to put the rubber on the road. I have always been far more inclined to try and at least present a perspective that enabled people to get their mind around what the bigger issues were. In that, government is important⁴.
- 4.8 To illustrate the effectiveness of government in directing attention to a regional market over a sustained period, such as the Asian region, it is worth profiling the national industry body, the Australian Industry Group (AIG) and where its focus is. The Australian Industry Group, established on 1 July 1998 through the merger of the MTIA⁵ and the Australian Chamber of Manufactures, represents 11,500 companies in Australia with

2 WALABAI, Submission, p. 391. WALABAI – Western Australia Latin America Business Association Inc.

3 *ibid.*

4 ACCC, Transcript, 1 October 1999, p. 247.

5 Metal Trades Industry Association

\$A100 billion in turnover, \$A25 billion in exports and employing 1 million Australians.⁶

- 4.9 The primary focus of AIG's trade activities has traditionally been on the Asian region, with limited activity taking place in the South American market.⁷ This focus, the AIG says, has reflected both the relative importance of the Asian region during the 1980s and 1990s as a source of export growth, and the fact the South American markets have not been well represented in Australia's top 50 export destinations.
- 4.10 The Committee is concerned that, with the breadth of the Group's interests, the opportunities in South America are going by the wayside for Australia. The Group represents a range of important industry sectors from manufacturing through to services and construction, covering such sectors as engineering, information technology, food processing, packaging, automotive, aviation, chemicals, telecommunications, energy, textiles, clothing and footwear, and manufacturing and related service industries. There is huge potential in South America for these sectors and it is up to Australian business to build its market share in South America and capitalise on affordable entry costs and capture opportunities.
- 4.11 The reason for South America currently being a small market for Australia is best illustrated by the comments of Nu-Lec Pty Ltd in evidence to the Committee:
- ... there has been a significant focus at government level in the Asian region. A government level focus in all sorts of areas encourages people to go to Asia and trade in Asia. Most of our government trade missions and things are focused on the Asian region. I quite often get invited to go on trade missions and very rarely do I ever see one to South America. I think government can definitely take a role here and start to encourage people to turn their attention in that direction because I think there is definitely a market there.⁸
- 4.12 It is clear that the debate can become a circular one and therefore it is incumbent on government to take the lead and sustain impetus over a period of time to get business to look at and 'gather up' the opportunities in the South American region.
- 4.13 The Committee was very mindful that in making its recommendations the net effect would be the impetus that government could provide to increase

6 AIG, Submission, p. 45.

7 *ibid.*

8 Nu-Lec, Transcript, 24 February 2000, p. 521.

Australia's trade and investment flows with the countries of South America. The recommendations that follow in this report have the capacity to provide a significant net gain to Australia and help build a seamless relationship with the region.

- 4.14 In its submission to the inquiry the Australia-Latin America Business Council (ALABC) provided the following warning which the Committee hopes will be heeded by the Government:

This Inquiry is undoubtedly a welcome initiative and will hopefully serve to identify the action that needs to be taken if Australian business is to benefit from the opportunities available to it in South America. However, there is a real danger that the Inquiry's report and recommendations will suffer a similar fate to the recommendations contained in the 1992 Report of the Senate Standing Committee on Foreign Affairs, Defence and Trade on Australia and Latin America.⁹

Initiatives to Raise Awareness and Strengthen Trade and Investment

- 4.15 The raising of awareness is not only a requirement between Australia and the countries of South America but one that requires much focus within Australia to generate business interest.
- 4.16 There are a number of business forums focusing on South America and the Committee received evidence from quite a few. The Australia-Latin America Business Council is the most prominent and has a regional focus. The Foreign Affairs and Trade portfolio (DFAT and Austrade) has given more emphasis to working with its business allies and this has been spelt out in its Latin America Action Agenda:

Given the substantially shared business network, both agencies project a consistent and coordinated image of the portfolio to business contacts. Ongoing attention should be given to promoting the interests of key allies, most notably the Australia Latin America Business Council, through jointly sharing information and offering support for specific business promotion activities.¹⁰

9 ALABC, Submission, pp. 35-36.

10 DFAT, Exhibit No 44.

- 4.17 The Committee commends the portfolio in its efforts to provide and promote a more coordinated approach to the region through key allies.
- 4.18 However in terms of providing a long term focus on South America and advancing Australia's relationship with the region, at an economic, social and political level, the Australian Government needs to establish a body that has the capacity to deliver initiatives that will build the relationship. Such a body would meet the need to develop non-official links and partnerships between Australia and South America. No amount of rhetoric and desire will provide results unless some initiatives are put in place and the Government takes the leadership role. It is important that the Government establish a mechanism with funding to promote initiatives, provide leadership and display commitment to developing the relationship through tangible achievements.
- 4.19 The establishment of an Australia-South America Foundation would provide the scope, like the Australia-India Council and the Australia-Japan Foundation, to broaden the relationship, promote a positive image of Australia in the region and support a range of projects (such as a young executive exchange program) in Australia and South America.
- 4.20 The Committee sees the Australia-South America Foundation initiating and supporting activities, in partnership with other funding agencies, that promote substantial and enduring collaboration between Australia and the countries of South America, and that serve Australia's long term interests in South America.

Recommendation 5

The Committee recommends that the Australian Government establish an Australia-South America Foundation.

Recommendation 6

The Committee recommends that the Australia-South America Foundation be serviced by a secretariat located in the Department of Foreign Affairs and Trade.

- 4.21 As part of the present push within the Foreign Affairs and Trade portfolio to improve further information flows and cooperation between portfolio partners with respect to business activities in South America, the

Committee sees the promotion of the Foundation's activities in South America by our diplomatic posts as extremely important.

Recommendation 7

The Committee recommends that the Australian diplomatic missions in Argentina, Brazil, Chile and Venezuela and the consulates in São Paulo, Brazil and Lima, Peru, promote the activities of the Australia-South America Foundation in South America.

- 4.22 On a less formal basis it is important for stakeholders with an interest in South America to come together to discuss, inform and advise on opportunities, activities, initiatives and developments in the region. As mentioned there are a number of business forums with a specific country interest such as the Australia-Peru Chamber of Commerce and Industry, as well as ALABC. In line with the focus on better cooperation and information sharing, the Committee sees significant merit in the establishment of an Australia-South America Working Group.
- 4.23 The Group would comprise government agencies, both federal and state, business forums, education deliverers to the market, and other business representatives, and representatives from the Australia-South America Foundation. The Group would meet twice a year in Canberra with the administrative work managed by the Americas Branch in DFAT in cooperation with Austrade. Furthermore with the established links that DFAT has with the South American diplomatic missions in Canberra there is scope for greater two-way flow of information between government, business and diplomatic missions.

Recommendation 8

The Committee recommends that the Department of Foreign Affairs and Trade, in cooperation with Austrade, form a South America Working Group to enable greater cooperation and information exchange between governments, both federal and state, business and business forums on the opportunities, activities, initiatives and developments in South America.

The Importance of Personal Contact

- 4.24 To promote the best about Australia there is no better medium than personal contact. The Chairman of ALABC was particularly critical of the failure of the Government to ensure there is a coordinated and committed approach to raising awareness of South American markets. As ALABC pointed out at the time of writing their submission, that with the exception of the Hon Tim Fischer, MP, very few Ministers had made a visible contribution to raising the awareness of the South American markets.
- 4.25 Similar concern was expressed by a number of South American ambassadors about the level of visits and for them, personal contact at the highest level is very important and provides very positive signals. The Chilean Ambassador made the point to the Committee that it would be a very important gesture for the Australian Prime Minister to visit Chile. No Australian Prime Minister has visited the country. Two Chilean Presidents have visited Australia namely President Patricio Aylwin in 1993 and President Frei in 1994.
- 4.26 Australia does need to address this issue thereby sending positive signals to the region and providing impetus to Australia's efforts to expand its trade and investment relationship with the economies of South America.
- 4.27 Professor Charles Mott, from La Trobe University and a former Australian Ambassador to Brazil made the point strongly that Australia needed to make quite an effort to make itself better known in the region and to:

... place a positive emphasis on Southern Hemisphere partnerships across the Pacific Ocean. This is the sort of proposition that Latin Americans respond warmly to and it would be to our benefit.

The second point that Professor Mott made is that:

... North Americans and Europeans have put, are putting and will put tremendous effort into South America. When Clinton and Chretien visit, they come with plane loads of ministers, secretaries and business people, literally hundreds. There are strings of European delegations passing through Latin America all the time. Latin heads of state visit European capitals constantly and they reciprocate by taking their own ministers and business people with them. Contact is close and frequent, it has been for literally centuries, and there is a big dividend in trade from this sort of thing.¹¹

11 Mott, Transcript, 17 November 1999, p. 369.

- 4.28 Clearly Australia's competitors work the region extremely well. They are very adept at putting together high-powered business delegations led by a significant political figure. And what is even more important is that they do not do it as a one off. They work at it consistently. These business delegations continually aim to promote the capability of their businesses at the highest level with the result that they are able to capitalise on opportunities. Australia is not very good at taking this approach to win business. The personal contact approach does require a long-term strategy to promote Australian capability. Moreover it does require a commitment by the Federal Government to take the lead in promoting trade and investment nationally. Individual states have employed such an approach successfully and Western Australia does it consistently well with its companies reaping the rewards.
- 4.29 The Committee recognises that the Prime Minister's agenda is very full and there are time constraints on making overseas visits. However the benefits of having the Prime Minister involved at a personal level in the Government's push to increase Australia's exports and investments in South America would provide a multiplier effect for Australian businesses.

Recommendation 9

The Committee recommends that the Prime Minister visit the South American region.

Recommendation 10

The Committee recommends that the visit of the Prime Minister to South America be followed closely by the Minister for Trade visiting the region accompanied by Australian business representatives.

- 4.30 The impact of a Prime Ministerial and other ministerial visits to South America needs to be supported by government agencies building personal contacts. DFAT and Austrade, being directly in the market place are able to build up their personal contacts and to work those contacts. What does concern the Committee is that other government agencies may not be developing personal contacts or responding to contacts provided through DFAT and Austrade.

- 4.31 BNDES, the National Bank for Social and Economic Development in Brazil was most concerned that it lacked knowledge about Australia, was unaware of the level of capability available in Australia and had no links with Australian financial institutions. The Committee is concerned that Australia's official export credit agency, EFIC, appears not to have made itself known to such an important organisation as BNDES, responsible for carrying out specific finance projects for the infrastructure, IT & T and oil and gas sectors following the Brazilian Government's major privatisation program.
- 4.32 Personal contact is not the sole purview of DFAT and Austrade. Other government agencies with activities in South America, no matter how small, need to show a commitment to developing and maintaining personal contacts in the region as part of their area of expertise and responsibility.

Importance of Exchanges

- 4.33 The Trade Sub-Committee during its visit to South America quickly came to the conclusion that a simple but important initiative to increase awareness, provide understanding and develop long-term links with the countries of South America is *exchanges*.
- 4.34 Exchange programs have served Australia well in the past. One such program that built solid regional links, raised the profile of Australia, and provided a benefit to the recipient countries was the Colombo Plan. Australia has no exchange programs in place with South American countries. Exchanges have occurred at the personnel level in individual companies. For instance Nu-Lec Pty Ltd, through its distributors, offers incentives for its engineers to come to Australia to study and gain work experience in the company. The advantages for Nu-Lec are that the engineers gain their masters degree and:
- ... they learn more about our products. They become knowledgeable about our products and are grateful to us so they go back and promote our products and services in their markets.¹²
- 4.35 An exchange of young executives is seen as an excellent way of creating awareness and understanding between Australia and the South American countries and providing future South American business leaders with an exposure to Australia and what it can offer. Such an exchange is not seen as being a one way street, but young executives from Australia would benefit from visiting South America.

12 Nu-Lec, Transcript, 24 February 2000, p. 515.

- 4.36 In discussions with FIESP¹³ the issue of increasing awareness was a major point. The Federation that represents all industry sectors in the State of São Paulo - and is the most influential of its kind in Brazil and plays an important role in lobbying the Brazilian Government on industry policy - thought the idea of executive exchanges was extremely good. Moreover in discussions with other business groups and government officials in South America, the concept of an exchange of young executives between Australia and South America was seen as invaluable.
- 4.37 The Secretary of the Foreign Affairs Ministry in Argentina saw mutual benefits in an exchange program with industry to give young executives the opportunity to travel and work in Australia and vice versa. Bringing young people together is very important for future relations.

Recommendation 11

The Committee recommends that the Australian Government, in partnership with industry, establish an exchange program for young executives between Australia and the countries of South America.

- 4.38 The breadth of exchanges should not be limited to young executives. An interesting concept that was discussed with Foreign Ministry officials in Ecuador was the utilisation of the skills and expertise of retired people. For a country like Ecuador, where there is the need to develop the skills base of its people, the access to people who have skills and the transfer of that skill knowledge becomes a priority. Australia has many people who have retired from the workforce and Ecuador expressed an interest in being able to capture such 'lost' skills. The Committee sees considerable scope for Australia to assist in the transfer of skills.

Recommendation 12

The Committee recommends that, as an initiative of the Australia-South America Foundation, the Australian Government investigate the development of a program to provide the less developed countries of South America with the opportunity to capture the expertise and skills of people who have retired from the Australian workforce.

13 The Federation of the Industries of São Paulo.

Importance of Air Links and Reciprocal Air Rights

- 4.39 The importance of comprehensive air links between Australia and South America was an issue raised in every country the Trade Sub-Committee visited and at most meetings with government and business identities.
- 4.40 The vexed problem of air services has been a factor in developing two-way trade for more than twenty years. While it has always been acknowledged that air services were vital to developing healthy two-way trade, airlines had been reluctant to begin services between the two continents. The reasons for this reluctance was because of a perceived low passenger volume, technical difficulties in operating a long haul route over a southern polar route, and the physical limitations of aircraft types, especially during periods of high winds.
- 4.41 Aerolineas Argentinas began a twice-weekly service in 1994 with two services per week via Auckland. The service required a technical stop especially in winter. The stop had to be made in Rio Gallegos (southern Argentina) for fuel to battle the westerlies on the flight to Australia. This made services very marginal.
- 4.42 Following the Senate Foreign Affairs, Defence and Trade's inquiry into Australia's air links with Latin America in 1996 and a code sharing arrangement between Qantas and Lan Chile, Australia commenced direct service operations in November 1998, with Qantas utilising 747-400 aircraft on the Sydney-Buenos Aires route.
- 4.43 The Buenos Aires-Sydney route is now serviced twice weekly by Qantas and thrice weekly by Aerolineas Argentinas utilising A340 aircraft.
- 4.44 Difficulties in the economies of South America saw a slow growth in traffic, but the recovery added to a greater interest in two-way tourist traffic. There has been quite substantial growth to a point where the airlines are monitoring passenger figures with the aim of increasing the number of services, both on a semi-charter basis during peak periods and in terms of regular services.
- 4.45 While Buenos Aires is the hub of Australian traffic, Chile, Brazil, Peru and Colombia all expressed a desire to see direct air links established. With Buenos Aires being the hub, South Americans do not see it as being the most desirable way to get to Australia, although most witnesses acknowledged that this was acceptable while traffic built up.
- 4.46 In the case of Brazil, it is hoped that perhaps the Qantas service could be extended to either Rio de Janeiro or São Paulo if an air services agreement

could be established. Brazilians like to travel and the advantages for Australia to penetrate the Brazilian market are very substantial.

- 4.47 South America is a mature aviation market with heavy penetration by US carriers. Consequently a range of discount fares are available to US destinations - often around the US\$500 mark. Qantas and Aerolineas Argentinas are offering discounted return fares as low as A\$1200 in off-peak periods between Buenos Aires and Sydney. However the add-on fare component to Buenos Aires from other South American destinations makes the route expensive for tourists and businessmen alike.

Tourism

- 4.48 Tourism is the catalyst to increasing trade and investment. Open up the air routes, encourage tourism, and trade and investment will follow.
- 4.49 In South America, television programs, pre-publicity for the Olympic Games, Qantas promotions and some promotions by the Australian Tourist Commission (ATC), have seen an increase in interest in Australia as a tourist destination.
- 4.50 South Americans are great international travellers with large numbers travelling annually to the US, Europe and to a lesser extent Africa. Brazil is a market with enormous tourist potential for Australia.
- 4.51 The ATC made a very pertinent point in evidence to the Committee:

We are the new world Johnnies-come-lately, but we have to make sure that we do not provide too many barriers for them to access the destination. There are increasing trends throughout the world for consumers to make decisions closer and closer to departure. One of the factors which can militate against a destination is if they cannot get access to visas quickly; it will cause them to make alternative choices.¹⁴
- 4.52 The ATC says that Latin America accounts for 0.7 per cent of the arrivals into Australia so it is still a very small market. However the market needs to be assessed on the basis of yield and it is a very good yielding market. In the twelve months ending June 1999, the South American market increased by 19.5 per cent. It is anticipated that the market over the next five years will be delivering growth of between 15 and 20 per cent.
- 4.53 All promotional activities for South America are managed through the ATC's regional office based in Los Angeles. The ATC does not have an

14 ATC, Transcript, 3 September 1999, p. 109.

office in South America. It does have public relations representatives based in Buenos Aires, Argentina, and São Paulo, Brazil, but servicing of airlines and travel agents is minimal.

- 4.54 Much of the servicing of the potential market has been done by Qantas who are well established in Argentina and now have a representative in Brazil, based within the offices of Alliance member and shareholder, British Airways. Qantas also has a presence in Chile.
- 4.55 There is very little promotion of Australia as a tourist destination in the Andean countries of Venezuela, Colombia and Ecuador. There is certainly an interest in Australia as a destination, with Colombia seemingly being the market with greatest potential.
- 4.56 The ATC's budget in South America is only \$500,000. The Committee sees the need for the ATC to make a bigger commitment to the market. The ATC says it will move in when there is a critical mass but this then becomes a chicken and egg situation and it is most unsatisfactory to rely on travel agents to promote Australia when they know very little about the country. The passenger market to Tahiti from Brazil is greater than to Australia. Canada has invested heavily in tourist promotion and is now the 2nd biggest market after the US for Brazil.

Recommendation 13

The Committee recommends that the Australian Tourist Commission substantially increase its efforts in South America to capitalise on the tourism potential.

- 4.57 Because of airline alliances, more and more Australians are beginning to visit South American countries. This is particularly so in Argentina and Brazil, although a developing dive market is using Ecuador as a destination, particularly the Galapagos Islands.
- 4.58 The Australian tourist industry is acknowledged as having the opportunity to assist with the future development of the South American industry.
- 4.59 Hotel management was identified as an area of potential, but great interest was expressed in South America for assistance in developing eco-tourism. This was particularly true in Brazil, Venezuela, Colombia and Ecuador, where interest was expressed in what Australia had achieved in the development of eco-tourism and in Australia's TAFE and hotel management institution's provision of tourism training. In particular,

James Cook University in Townsville raised interest with its specialised courses in tropical eco-tourism.

- 4.60 Considerable potential does exist for the development of two-way tourist traffic. Its development will depend on the future expansion of existing airline services and the development of reciprocal air rights especially with Brazil and Chile while in the longer-term services to Peru and Colombia also offer potential.

Visas

- 4.61 The availability of visas is the one issue that transcended all aspects of the inquiry, whether it was with business, business forums, diplomatic representatives, educators and other government agencies such as DFAT and Austrade. The visa policy that DIMA¹⁵ implements in South America is a thorn in the side of Australia's relationship with the region. At a time when the Government has identified South America as an important emerging market for Australia, DIMA's policies are a severe brake on the development of a stronger relationship with the region.

- 4.62 There are a number of facets to the problem with visas including the charge DIMA imposes for issuing a visa. The impact of this policy decision by DIMA was put in a forthright manner by the Brazilian Ambassador:

We had a bilateral agreement in the 1960s which exempted Australians and Brazilians from paying for visas. Just a month after I arrived here, you ignored this agreement and introduced a policy for Brazilians to pay for visas to come to Australia. We waited for a month, thinking that perhaps there was some mix-up among departments, but we were told, 'No, we are introducing the ETA – the Electronic Travel Authority – system and we have to pay, so we decided to charge Brazilian citizens for issuing them visas.' So we had no choice then, and we reciprocated. ... It is an impediment to a good and longstanding relationship.¹⁶

- 4.63 The Tourism Task Force (TTF) was particularly critical of DIMA's poorly designed and implemented policies and said that without significant reform in this area, Australia must remain a secondary player in South American trade and investment. The Trade Sub-Committee's visit to South America reinforced the validity of the TTF's statement not only in respect of visitor and business visas but also in the case of student visas.
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15 Department of Immigration and Multicultural Affairs.

16 Brazilian Ambassador, Transcript, 22 October 2000, p. 346.

- 4.64 TTF points out that South Americans pay a non-refundable charge of \$60 to apply to visit Australia when other nationalities with ETA¹⁷ access are not charged. DIMA maintains that there can be no refund when an application is not successful as the charge represents the cost of processing the application.
- 4.65 The ETA is available in 31 countries and DIMA says in its submission that 'Due to the small size of the visitor market out of South America, the Electronic Travel Authority (ETA) has not been extended to any countries in South America.'¹⁸ Furthermore DIMA in evidence said they moved rapidly to introduce the ETA, a highly facilitative measure, to 31 countries in three years, covering some 80 to 90 per cent of visitors to Australia. The remaining proportion of visitor countries, they said, have overstay and non-return rates that are of some concern.
- 4.66 The Committee is concerned about the grounds used by DIMA to justify the non-introduction of ETAs in South America, such as the small size of the visitor market. ETA eligible locations include Andorra, Iceland, Liechtenstein, Monaco and the Vatican City. Since the inception of the ETA to August 1999, the number of ETAs issued in these locations are 32; 456; 1; nil and nil respectively. If size of the visitor market is an important criterion for the introduction of the ETA then clearly this selection criterion is not applied to all countries.
- 4.67 On the issue of overstay and non-return rates for South America DIMA says that the rates are high when compared with the global average, thus influencing the manner in which DIMA manages its visa processing in the region. By using a global average as the benchmark the figures are skewed for South American countries that have small visitor figures compared to countries like Japan, the US and UK where the number of ETAs issued since inception to August 1999 are 1,750, 374; 704; 394 and 857,850 respectively. Furthermore in discussing non-return rates, DIMA outlined what is meant by non-return:

That essentially represents persons who indicated to our post that they intended to come to Australia for a very short period and, at the completion of the short period – usually less than three months – would be going home, but upon arrival they sought to extend stay for whatever reason and by whatever means and remained here beyond that period. That does not necessarily mean that person became illegal but that he or she was still here despite the

17 Electronic Travel Authority.

18 DIMA, Submission, p. 172.

intentions that they had indicated to us in the original visa applications.¹⁹

And:

Essentially, Australia's system allows persons, where there have been genuine changes of circumstances after arrival, to apply to remain. The concern arises where visitors from some countries are experiencing changes of circumstances at a significantly higher rate than citizens of other countries where that feedback throws light on, or perhaps suggests something about, what they originally told us when they applied for the visa.²⁰

- 4.68 What does interest the Committee is that DIMA was unable to provide any analysis as to why a particular group from South America sought to extend their stay in Australia. For instance Uruguayans have a high non-return rate measured against the global average. However DIMA has done no work as to why this would be the case and the Committee put it to them that one reason could be that the Uruguayan community is the second largest South American community in Australia. Adding to this is the expense involved in travelling to Australia and it would not be unreasonable to expect people to seek to extend their stay in Australia to stay longer with family and friends and maximise the benefits of a visit. However by seeking extensions to stay, nationalities like the Uruguayans, with some 700 incoming tourists per annum, immediately become a non-return statistic and the negative impact of the statistic then applies to that nationality.
- 4.69 Moreover the Committee finds it interesting that 80 to 90 per cent of visitors to Australia travel on an ETA. In terms of DIMA's cost recovery policy and its willingness to forego an agreement with Brazil to help pay for implementation of the ETA scheme, the countries outside the ETA network are therefore valuable customers for DIMA. The Committee cannot help but wonder whether DIMA's stance on the ETA being introduced in countries like Argentina, Brazil and Chile is influenced by loss of revenue.
- 4.70 DIMA mentioned to the Committee in August 1999 that it was looking at the possibility, through a review, of agency arrangements in particular with Argentina. Argentina in 1998 abolished the visa for Australian nationals on a unilateral basis. It was clear from the further evidence that DIMA gave in May 2000, that there has been little progress on agency

19 DIMA, Transcript, 8 May 2000, p. 572.

20 *ibid.*

arrangements. What is disturbing is that some two years after Argentina abolished visa requirements for Australian nationals, Australia has not facilitated entry requirements for Argentine nationals especially now that the Sydney-Buenos Aires air route has been opened up.

- 4.71 The Committee sees no valid reason for DIMA to hold back now on introducing the ETA into Argentina, Brazil and Chile. To continue to do so will compromise Australia's efforts in the region and allow our competitors to gain more business. Our close neighbour New Zealand has a 90-day visa free arrangement with four countries in South America and it places them at a competitive advantage in the tourism market.

Recommendation 14

The Committee recommends that the Department of Immigration and Multicultural Affairs introduce the Electronic Travel Authority into Argentina, Brazil and Chile, followed by the other South American countries.

- 4.72 Student visas are an area of particular difficulty. Nu-Lec Pty Ltd brings engineers to Australia to study and gain work experience in their company. Visas are very difficult to get. Typically they are student visas with a work component. Nu-Lec wants to set up the engineer:

... so that they are contributing to our business quite significantly. Quite often their masters degrees are studied by thesis. We actually want them at the factory all the time and they do a thesis topic that is associated with our products and our business. That is very hard to get across to visa organisations because most of these visas limit the student working hours to 20 hours a week. They are coming here and their reward is a masters degree. The reward for us is that they learn more about our products.²¹

- 4.73 In a climate of promotion of Australia's business capability and the building of long term links with South America, DIMA's immigration policy requirements are regressive and do not assist Australian business:

Whenever you are doing business it has got to be a win-win situation, and what we are doing is creating a win-win situation. They are getting a formal qualification from an Australian university. Our universities are winning. They are winning because they go home with an Australian masters degree, and we

21 Nu-Lec, Transcript, 24 February 2000, p. 515.

are winning because we get their Spanish skills and their Portuguese skills and they know an enormous amount about our product by working at the factory. So we are creating a win-win situation but our current visa restrictions are making it difficult for us to achieve that.²²

- 4.74 It is vital that this issue, along with the Committee's recommendation for the introduction of a young executive exchange program, is properly addressed by DIMA.

Recommendation 15

The Committee recommends that the Department of Immigration and Multicultural Affairs introduce a visa category that allows persons to be sponsored by Australian business to work not only in the company in Australia but to undertake formal study at the same time.

- 4.75 The Committee is critical of the approach taken by DIMA in the issuing of student visas in South America. Education is a sector that is showing strong growth in South America for Australia. The Chairman of the Trade Sub-Committee, the Hon Geoff Prosser, MP, told DIMA following the Sub-Committee's return from South America that:

In the committee's trip to South America you did not come off well at all. There was criticism from a number of people that we met with concerning the difficulties in trying to get visas and visas processed. In particular there were a number of problems in regard to the distance and time delay and the cost in bagging up and sending them down in separate lots to Santiago for whatever reason. We had those problems raised with us in Bogotá particularly. Their advice was that it made it very difficult for them to compete.²³

- 4.76 It quickly became evident, that in spite of appearing before the Committee in August 1999, DIMA in Canberra had not made itself familiar with the difficulties that were being encountered by student visa applicants. DIMA's requirement that medicals and application details be sent separately by DHL from countries like Venezuela and Colombia to Santiago makes the cost of visa application, around US\$500, very expensive. Combined with the time it takes to process the application, a

22 *ibid.*

23 DIMA, Transcript, 8 May 2000, p. 567.

minimum of two weeks up to two to three months, makes Australia less competitive with other countries like Canada in the education market.

- 4.77 Moreover the Committee was told that in one instance, student visa applications from Colombia had been lodged with Santiago for processing seeking entry for the beginning of the 2000 education year. Apparently the post had reduced staff on duty over the Christmas period, the applications were not processed by the time the education year began, and therefore the applications had to be withdrawn.
- 4.78 Given the student visa difficulties that have been raised with the Committee, the Committee asked DIMA at the public hearing on 8 May 2000 to provide a time line on the processing of student visas. The information was to include the costs to the applicant in each stage of the process, including DHL costs and the costs involved with the three or four documents that are required, plus the actual visa cost. DIMA's answer to this Question on Notice did not provide a time line but the usual limited information that DIMA provides based on averages. Moreover the Committee sought information on the findings arising from the visit to South America by DIMA's Washington-based regional director – *four points were provided on visit outcomes with no detail or elaboration.*
- 4.79 The Committee was less than impressed with the evidence, both written and oral from DIMA. The information is more interesting for what it does not provide than what it does. This is not surprising as it is symptomatic of the culture in DIMA and the uncompromising approach it takes in its role in administering the *Migration Act 1958* with what appears to be little regard for the Government's wider foreign affairs and trade agenda.

Recommendation 16

The Committee recommends that the Department of Immigration and Multicultural Affairs revise its visa processing requirements in South America to streamline the process and reduce the compliance costs to applicants.

Double Taxation Agreements

- 4.80 For Australian businesses the taxation regimes of South American countries can pose significant problems for doing business in the region. Double taxation treaties promote trade and investment in three ways:

- They increase certainty in the application of taxation rules;
- They limit source country taxation on interest, dividends and royalties; and
- They limit the tax on enterprises that trade with the other country, without establishing a base in the country.²⁴

4.81 In evidence Nu-Lec Pty Ltd informed the Committee that if a business can take up local assembly then there are significant tax reductions associated with that. The question then needs to be asked is if a company has a local assembly plant and they are making a profit then what are the taxes associated with doing that? In expanding the point, Nu-Lec said that:

The company tax rate is currently 34 per cent, which does not necessarily make it unattractive to set up local assembly plants there, but there is no tax treaty between Australia and Brazil or between Australia and Argentina. ... If we developed tax treaties between those countries, it would make it more attractive for Australian industry to set up there and repatriate profits.²⁵

- 4.82 Australia and Argentina have now signed a double taxation agreement (DTA) that came into force on 30 December 1999. The Australian Taxation Office has indicated that negotiations for a DTA with Chile are a high priority given Australia's substantial level of investment there.
- 4.83 The issue of double taxation agreements was raised with the Trade Sub-Committee in Rio de Janeiro by BHP. BHP has been in Brazil for 25 years, and on the issue of taxation has a reciprocal arrangement that if tax is paid in Brazil then it is not paid in Australia, in effect a DTA. Brazil fortunately is a listed country where this reciprocal arrangement can occur. But as BHP rightly points out this does not discount the need for a DTA.
- 4.84 The Foreign Ministry of Ecuador wishes to see an agreement on reciprocal promotion and protection of investments, an IPPA,²⁶ put in place with Australia, and a draft proposal was passed to the Trade Sub-Committee when it met with ministry officials in Ecuador. Ecuador has a number of IPPAs in place with EU countries.
- 4.85 The Committee sees the negotiation of DTAs as a very important part of the Government's agenda to improve trade and investment with the region. Business will not take up opportunities unless there is some guarantee that profits can be repatriated to Australia and it is not in Australia's interest to see profits held off shore. The Committee
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24 DFAT, Submission, p. 331.

25 Nu-Lec, Transcript, 24 February 2000, p. 515.

26 IPPA – Investment Promotion and Protection Agreement.

recognises that there are long lead times in the negotiation of agreements but it sees the necessity to put in place a strategy to deal with the issue in relation to the South American countries and not to put it down the DTA negotiation list.

Recommendation 17

The Committee recommends that the Australian Government reassess priorities for the negotiation of double taxation agreements and move to negotiate double taxation agreements with more South American countries.

Membership of the Inter-American Development Bank

- 4.86 The Inter-American Development Bank (IDB) is an international financial institution created in 1959 to help accelerate the economic and social development of its member countries in Latin America and the Caribbean. The Bank's headquarters are in Washington DC and its cumulative lending and technical cooperation amounted to more than US\$95 billion by the end of 1998.
- 4.87 The IDB Group includes the Inter-American Investment Corporation and the Multilateral Investment Fund, which promote private sector development in the region.²⁷
- 4.88 The Bank's functions are:
- To promote the investment of public and private capital in the region;
 - To use its own capital and to mobilise funds for high-priority economic and social projects;
 - To encourage private investment contributing to economic development and to supplement private investment whenever necessary;
 - To provide technical cooperation for preparing, financing and carrying out development plans.²⁸
- 4.89 The Bank is owned by its 46 member countries with twenty eight of these countries (the regional members) in the Western Hemisphere and the remaining eighteen (the non-regional members) in Europe, Asia and the Middle East. Australia is not a member of the Bank.

27 IDB, Basic Facts'99, <http://www.iadb.org>

28 *ibid.*

- 4.90 The financing of social and economic development in Latin America and the Caribbean brings with it a vast array of business opportunities for suppliers of goods and services from each of IDB's 46 member countries.²⁹ In 1999 alone, there were some 6,000 contracts for civil works construction, the supply of goods and equipment and the provision of consulting services. Some US\$7.8 billion was disbursed to contractors as a consequence of the Bank's lending program in 1999.³⁰
- 4.91 Australia's non-membership of the Bank does disadvantage Australian businesses in South America. Nu-Lec notes that the IDB provides significant funding for projects in South America and:
- At this time Australian companies are prohibited from tendering because the Inter American Development Bank limits the source country of manufacture of any goods tendered to the countries that are members of the Inter American Development Bank. As our only competitors globally are the US and UK based manufacturers, we are restricted from tendering but all our competitors can tender these projects.³¹
- 4.92 Nu-Lec has made representations through the Australian Industry Group to the Federal Government to consider Australia becoming a member of the Inter-American Development Bank.
- 4.93 The Ambassador for Uruguay claims that Australian membership of IDB is very important. He told the Committee that:
- The IDB provides finances totalling many billions of dollars yearly in the region and for infrastructure and other projects. It is quite an important tool for penetration in the market. Australia has been left behind and missed some opportunities because of the fact that it is not a member.³²
- 4.94 Furthermore Austrade has received complaints from Australian companies that they have missed out on an opportunity because Australia is not a member of the IDB. Australia's Senior Trade Commissioner in South America maintains that membership of IDB would be a good option in the long term as it will give Australia a greater level of credibility within the region and serve as a platform to leverage Australia's other assets through the region.³³
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29 *ibid.*

30 *ibid.*

31 Nu-Lec, Submission, p. 626.

32 Uruguayan Ambassador, Transcript, 13 August 1999, p. 58.

33 Austrade, Transcript, 22 October 1999, p. 286.

Recommendation 18

The Committee recommends that the Australian Government give consideration to Australia becoming a member of the Inter-American Development Bank.

Aid

- 4.95 AusAID is responsible for the management of the official Australian Government overseas aid program. It is active in Papua New Guinea, South Asia, East Asia, the South Pacific and Africa and the Middle East. AusAID is **not** playing an active role in South America.
- 4.96 Health, education, infrastructure, rural development and governance are the five priority sectors for Australia's aid program.
- 4.97 Under its humanitarian and emergency aid program AusAID has recently provided small amounts of financial assistance to Peru and Venezuela:
- In 1999 AusAID donated \$20,000 to assist in the de-mining of the Peruvian-Ecuador border.
 - Following the severe flooding in Venezuela in December 1999 that caused massive landslides along the coastal region, AusAID, contributed \$100,000 for the provision of medicines, clothing and bedding.³⁴
- 4.98 The former Australian Ambassador to Venezuela, Mr Roger Frankel pointed out that:
- Our deep involvement with Asia is of relatively recent date, and it is highly unlikely that it would have taken off two or so decades ago, without the leadership and support of the Australian Government, in the shape of Head of Government visits, trade delegations led by senior ministers, direct and indirect Government support for Australian companies moving into the Asian market, AusAid funding for major development projects and other similar initiatives.³⁵
- 4.99 Furthermore unless there is:
- A greater investment of political will, improved trade promotion resources, broader Australian representation in the region, regular

34 DFAT, Venezuela Fact Sheet.

35 Frankel, Submission, p. 657.

and frequent high level Ministerial visits leading trade delegations, and a sizeable increase in our development assistance effort ... we will never be able to achieve the kind of “lift-off” which is almost a necessary precondition for Australian companies to feel comfortable in a new market.³⁶

- 4.100 Australian Volunteers International (AVI) has a Latin America Country Program that began operating in 1988. It has worked in eight countries – Nicaragua, El Salvador, Guatemala, Grenada, Mexico, Ecuador, Colombia and Cuba – with 92 per cent of its 106 placements (for the period 1988-2000) focusing on Nicaragua, El Salvador, Guatemala and Mexico:

Disappointingly for Australian Volunteers International, in May 1997 the “Simons Report” recommended that AusAID make no further funds available for volunteer placements in Latin America. As a result Australian government funding was withdrawn from the program. Existing placements were not renewed and the presence of volunteers in the region dropped substantially.³⁷

- 4.101 During the four-year period from 1994-97, a total of 68 placements commenced which represented some 68 per cent of the total program placements. This period, according to AVI, represented the greatest support from AusAID for program development in the region.³⁸ As AVI notes:

A major component of technical assistance provided within the Latin American program has been in the area of Governance (40%). This sector incorporates work in human rights, rehabilitation assistance to combatants and community reconstruction. Both rural development (23%) and education (25%) were also key sectors in which the program focused. Providing technical assistance to rural areas involved in the re-establishment of agricultural productivity was a frequent request from partner organisations.³⁹

- 4.102 AVI is attempting to continue the Latin America Country Program by seeking alternative funding sources. Currently there are two placements in Ecuador with the Centro de Investigacion de los Bosques Tropicales (CIBT). CIBT is a foundation whose objectives are scientific and technical research for the protection, restoration and management of natural forests recognised by the Ministry of Agriculture and Livestock. There is another
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36 *ibid.*

37 AVI, Submission, p. 667.

38 *ibid.* p. 664.

39 *ibid.* p. 665.

placement in Colombia where the program officer is involved in community development work with internally displaced people.

- 4.103 Australia has no official aid presence in South America. Other countries such as the US and Canada have substantial aid programs that assist in advancing their national interests in developing countries in the region. In Australia the focus of aid and its provision has been the subject of considerable debate for over fifteen years.
- 4.104 The JSCFADT in its October 1997 report, *Sharpening the Focus: Report on a Seminar on the Simons Committee Report*⁴⁰ reported that according to the Simons Committee:
- ...the first and most fundamental change that we recommend is for the aid program to focus on a single and unambiguous objective: to assist developing countries to reduce poverty through sustainable economic and social development. ... At present, the managers of the aid program struggle to satisfy multiple objectives driven by a combination of humanitarian, foreign policy and commercial interests. The intrusion of short-term commercial and foreign policy imperatives has hampered AusAid's capability to be an effective development agency.⁴¹
- 4.105 The JSCFADT pointed out that the Minister for Foreign Affairs, in an address at an earlier seminar on 12 June 1997 had noted that 'The fundamental starting point for Australia's overseas aid program is that it should be effective in reducing poverty. There is no single approach to poverty reduction and effective aid must encompass a variety of approaches – both working directly on the problem of poverty and helping to foster the economic growth which will ensure each developing country is better able to tackle the problem itself.'⁴²
- 4.106 At the JSCFADT's July 1997 seminar, Professor Cliff Walsh argued that what the Review Committee was trying to do was to:
- ... peel away some of the layers of confusion that have beset the program. By having the so-called triple mandate in which foreign policy, trade policy and developmental issues were argued to be, if

40 Report of the Joint Standing Committee on Foreign Affairs, Defence and Trade, *Sharpening the Focus: Report on a Seminar on the Simons Committee Report* - 11 July 1997, Canberra, The Parliament of the Commonwealth of Australia, October 1997.

41 Simons, P, et al. *One Clear Objective: poverty reduction through sustainable development. Overview and Recommendations*, p. 2.

42 Downer, MP, Hon A, *The Role of Aid in Development: Adjusting to Realities*, Address given to a public seminar on the role of overseas aid in the late 1990s on 12 June 1997 at Becker House, Canberra. See JSCFADT report, p. 2.

not of equal importance, at least all weighed in determining the direction of the program, our judgement was and remains that it was very much a source of confusion. It was potentially a cause of ... a lower standard of excellence in the delivery of aid as directed at poverty alleviation as a result of that confusion. So we are very keen to rip away those layers and to say that we focus on poverty alleviation, essentially through economic and broader community development, as the fundamental objective.⁴³

- 4.107 The JSCFADT was of the view that the Simons Report **does not say** that there is no place in the aid program for foreign policy and trade objectives. However, as Professor Walsh argued at the seminar:

The aid program is being asked to bear the burden of a huge number of different goals ... [but] there are some things which are clearly a global agenda ... [and are not] strictly associated with the aid program ... Let us be very clear about the distinction and make sure the only burdens which the aid program is asked to bear are those that are associated with that.⁴⁴

- 4.108 In conclusion the JSCFADT in its report:

... supports the concept that the prime motivation for a development assistance program is humanitarian. The Committee is concerned, however, that too narrow a definition of poverty may be adopted. Development assistance encompasses a range of activities designed to improve the standard of living of people in developing countries, whether through infrastructure projects, educational activities, assistance to micro enterprises as well as immediate assistance to those suffering from hunger and homelessness. The Committee agrees that assistance should be through sustainable development activities. The Committee also acknowledges that other policy objectives *may* be met through the aid program, without detracting from its fundamental purpose.⁴⁵

- 4.109 Australian aid in any of AusAID's five priority sectors in South America would be highly valued and would provide evidence of a tangible commitment to the worth of Australia-South America relations.
- 4.110 By way of example, there is considerable scope for Australia to provide support to South American chambers of commerce and industry to participate in the development of small to medium scale enterprises.
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43 JSCFADT report, pp. 2-3.

44 *ibid.* p. 3.

45 *ibid.*

Australia provides such support to ASEAN chambers of commerce and industry.⁴⁶

- 4.111 Furthermore Professor Charles Mott suggested that the Government, through AusAID or DETYA could fund a small number of education scholarships for people from South America.
- 4.112 The Committee is of the view that AusAID should provide annual funding to South American developing countries. At the very least there should be a budget allocation for development projects in cooperation with the World Bank and the Inter-American Development Bank.

Recommendation 19

The Committee recommends that AusAID provide a budget allocation for development projects in South America in cooperation with the World Bank and the Inter-American Development Bank.

Sport

- 4.113 Sporting links provide a medium to continue building Australia's relationship with the region. The promotion of the relationship on a sporting basis needs to be developed. The Australia-South America Foundation will be able to initiate and support exchanges that demonstrate Australia's excellence in sport and provide the opportunity for South Americans to learn more about Australia. Furthermore the Foundation will be able to encourage sporting activities that generate economic benefits for Australia and the countries of South America.
- 4.114 A focus on Australia as a sporting nation has not only happened with the build up to the Sydney Olympics. Australia and South American countries have had sporting 'duels' over the years on the rugby field, in tennis, on the polo field, in swimming and so the list goes on. Countries love their sporting heroes and it is an avenue that can be further developed. Recently Argentina and Australia played against each other in an international rugby competition in Australia that drew much media attention.
- 4.115 Sports involving horses offer a rich avenue to develop strong trade linkages in both stock and services and through joint ventures. Australia

46 See Australian Agency for International Development, AusAID, *Annual Report 1998-1999*, Commonwealth of Australia, 1999, p. 57.

and Argentina have had strong links over the years through the game of polo and there is an international trade in polo ponies. Kerry Packer has substantial polo interests, both in Australia and Argentina, and sponsors his international polo team, *Ellerstina*, comprising high-goal Argentine players. Argentina is recognised world wide as producing some of the finest players in the game. While in Argentina, members of the Trade Sub-Committee visited the headquarters of polo and held discussions with the Director of the Polo Association of Argentina. In discussions interest was focused on Australia's technological expertise in areas such as embryo transfer and general breeding practices.

- 4.116 Australia's thoroughbred racing industry is now a global player. Conservatively, racing alone returns some \$15 billion to the Australian economy. Racing in South America is well developed and there are strong linkages with the American thoroughbred scene not only with South American horses racing successfully in the US, but also there is a trade in stallions to stand at stud. Argentina, Chile, Peru, and Brazil, just as Australia does, bring horses from the Northern Hemisphere to cover mares in the Southern Hemisphere covering season (ie spring to early summer). What is even more significant is that there are South American bred horses that have competed successfully on the international stage and are now being shipped around the world to cover mares. Australia now has a very successful South American bred stallion on its shuttle run.
- 4.117 While in Argentina members of the Trade Sub-Committee met with the Argentine Thoroughbred Breeders' Association, visited Haras de la Pomme, one of the leading thoroughbred studs, and met with the Executive Director of the Jockey Club and President of the Argentine Stud Book. Discussions covered the operations of the breeding and racing industry and its future development in what is now a global market.
- 4.118 Australia has a world class equine research and development program that is quickly gaining international recognition. The program is a partnership between industry and government and managed through the Rural Industries Research and Development Corporation (RIRDC). The Argentine horse industry consulted RIRDC with the aim to establish an R & D program along the lines of the Australian program and there will be on going liaison between RIRDC and the horse industry in Argentina.
- 4.119 There are other areas in the horse industry where linkages can be developed. Australia is to the forefront on betting systems and this expertise can be exported and joint ventured with. In terms of racing Australia is attracting young people through big promotions and there is the opportunity to use this expertise in Argentina as well as the betting and technical systems. The Australian company Strathayr, that puts in

state of the art racetracks is an important company for Argentina given the condition and maintenance requirements of the racetracks in Buenos Aires.