

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
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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.