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JOINT STANDING COMMITTEE ON FOREIGN AFFAIRS, DEFENCE AND TRADE

(Trade Subcommittee)

Reference: Australia's trade and investment relationship with South America

FRIDAY, 13 AUGUST 1999

CANBERRA

BY AUTHORITY OF THE PARLIAMENT

JOINT STANDING COMMITTEE ON FOREIGN AFFAIRS, DEFENCE AND TRADE
Trade Subcommittee

Friday, 13 August 1999

Members: Senator Ferguson *(Chair)*, Senators Bourne, Brownhill, Calvert, Chapman, Cook, Gibbs, Harradine, O'Brien, Payne, Quirke and Schacht and Fran Bailey, Mr Baird, Mr Brereton, Mr Gareth Evans, Mr L. Ferguson, Mr Hawker, Mr Hollis, Mr Jull, Mrs De-Anne Kelly, Mr Lieberman, Mr Martin, Mrs Moylan, Mr Nugent, Mr O'Keefe, Mr Price, Mr Prosser, Mr Pyne, Mr Snowdon, Dr Southcott and Mr Andrew Thomson

Subcommittee members: Mr Prosser *(Chair)*, Mr O'Keefe *(Deputy Chair)*, Senators Brownhill, Chapman, Cook, Ferguson and O'Brien and Fran Bailey, Mr Baird, Mr Hollis, Mrs De-Anne Kelly, Mrs Moylan and Mr Andrew Thomson

Senators and members in attendance: Senators Ferguson and O'Brien and Mr Hollis, Mr O'Keefe and Mr Prosser

Terms of reference for the inquiry:

To examine and report on Australia's expanding trade and investment relationship with the economies of South America, in particular:

. the nature of Australia's existing trade and investment relationships with the region;

. likely future trends in these relationships, including:

. the possible impact of financial instability, particularly in Brazil, on Australia's trade and investment interests

. likely sources of future business opportunities for Australian companies;

. the extent to which services such as transportation, banking and legal systems impact on further expansion of trade and investment linkages;

. the role of Government, particularly DFAT, Austrade and EFIC, in identifying and assisting Australian companies to capture opportunities in South America as they emerge.

WITNESSES

Committee met at 9.03 a.m.

CHAIR—Ladies and gentlemen, I declare open this first public hearing of the trade subcommittee of the Joint Standing Committee on Foreign Affairs, Defence and Trade, inquiring into Australia's trade and investment relationship with South America. The present inquiry is relevant and timely. It provides a valuable opportunity to assess how the Australian-South American trade relationship has developed since the economic significance of the countries of South America was profiled in the 1992 Senate committee report and in the 1997 DFAT report: *The Future of Australia's Trade and Investment Relations with South America*.

Privatisation is an expanding trend in the region. In some cases it has been radical, particularly in Chile, Peru and Argentina. Most South American governments have shown a commitment to creating stable, regulatory environments, aimed at attracting private capital. These changes offer major business opportunities for Australia.

The interplay of global factors such as El Nino, depressed commodity prices, and the fallout from the Asian and the Brazilian financial crises, have impacted on the expansion of our trade and investment linkages with the region. The subcommittee is keen to explore these factors as well as structural and economic management problems, and the difficulties South American countries find in doing business with Australia.

To date, the trade subcommittee has received some 26 public and confidential submissions to the inquiry. It will be taking evidence from a range of witnesses including the South American diplomatic missions; the Department of Foreign Affairs and Trade; Austrade; other government departments and agencies, both at the federal and state level; chambers of commerce; and a cross-section of companies with an interest in South America.

[9.07 a.m.]

COBBAN, Mr Murray, First Assistant Secretary, Americas and Europe Division, Department of Foreign Affairs and Trade

McKINNON, Mr Allan James, Assistant Secretary, Agriculture Branch, Trade Negotiations Division, Department of Foreign Affairs and Trade

MINAHAN, Ms Sharyn, Director, Canada, Latin America and Caribbean Section, Americas Branch, Americas and Europe Division, Department of Foreign Affairs and Trade

RENNERT, Mr Peter, Executive Officer, Canada, Latin America and Caribbean Section, Americas Branch, Americas and Europe Division, Department of Foreign Affairs and Trade

SHANNON, Mr Peter, Assistant Secretary, Americas Branch, Americas and Europe Division, Department of Foreign Affairs and Trade

CHAIR—On behalf of the trade subcommittee I welcome representatives from the Department of Foreign Affairs and Trade. I must advise you that the proceedings here are legal proceedings of the parliament and warrant the same respect which proceedings in the respective houses of parliament demand. Although the subcommittee does not require you to give evidence on oath, you should be aware that this does not alter the importance of the occasion. The deliberate misleading of the subcommittee may be regarded as a contempt of parliament.

The subcommittee prefers that all evidence is given in public but should you at any stage wish to give any evidence in private, you may ask to do so and the subcommittee will give consideration to your request. The subcommittee has a submission from the Department of Foreign Affairs and Trade, submission No. 22. Do you wish to make any statement in relation to this submission, or would you care to make some introductory remarks before we proceed to questions?

Mr Cobban—Thank you, Mr Chairman. I have with me colleagues from the division, particularly from the Latin-American area, and also Mr Allan McKinnon, who can take questions later if there are any on Cairns Group-WTO issues.

Thank you for the chance to appear before the committee. We greatly welcome the parliament's interest in this area. It is, we believe, an area which has received increasing attention from the government and from our portfolio ministers, both past and present.

Mr Chairman, if it is acceptable to the committee we would propose to have a brief set of remarks by myself and then a couple of short presentations—trying to keep it to 30 or 40 minutes maximum for the total—on Australia's trade and investment relations as we see them, some comments on the situation in a number of the specific markets, some comments on the challenges which we see Australia facing in the region, and then we would be happy to answer, to the best of our ability, any questions that the committee might have of us. Is that acceptable to you?

CHAIR—Please.

Mr Cobban—The South America market is a modest one—we need to keep a sense of reality about that—but it has a very important role to play for Australia in our objective of diversification of trade. That is true both in the sense of the direction of our trade and its composition. There has been a recognition of the importance which South America can play in that context by the Australian private sector. If you look at the response not only to the downturn in other markets following the crisis in the East Asia region, but also, even before that, you have seen a ramping up of interest in South America in the Australian private sector.

That has been reflected in the quite considerable growth in the level of merchandise exports which we have achieved to South America. It has gone from about $200 million in the mid 1980s to $900 million in 1998-99. While there is a danger in doing this, if you take that as a compound market that would put it up there with some of our major established markets—South Africa, France, the Netherlands—or our major regional markets. It is about the same size as our bilateral trade with Thailand, Canada and the Philippines. Obviously it is broken down amongst all those countries, but it is a not inconsiderable market area for us. In terms of the composition of our trade, traditionally our exports have been focused in the minerals and resources sector, but over the last decade we have seen a very promising expansion, particularly in the manufactures area. Manufactures now account for 40 per cent of our trade with the region.

You would not want to put too much emphasis on it but South America is one of the areas in which Australia runs a very healthy trade surplus. We have imports from the region of around $550 million, so we are running about $350 million in surplus. It is also an extremely important and growing market for us in services exports. That has had an even more dramatic growth, as it has in many other markets, going from around $40 million at the beginning of the decade to $250 million at the present. Again, we have seen a change in the pattern within that overall figure mirroring the trade interest. We started out with a lot of that services investment in the mining sector and some in banking and financing related largely to mining. What we are seeing now is considerable growth in new areas—education, superannuation, health, telecommunications, the entertainment area. So we have a considerable broadening of investment and we expect that to continue to expand as the processes of deregulation, to which you referred, continue. Overall, the investment is officially estimated for the entire region at $A3.6 billion, in mid-1998.

That expansion of Australian commercial presence in South America has, as you noted, coincided with major changes in economic policy and political structures. A region which was characterised by political instability has come to be largely one of democratic governments. Obviously, a number of those are still struggling through a transition period and there are considerable efforts still to be made in a number of countries within the region, but the trend is very promising. That has been accompanied by general efforts towards trade liberalisation, deregulation, privatisation and a reduced role of government.

There are a range of problems in South America at the moment—it is not all rosy. Going back over time, there was the Mexican crisis several years ago. There have also recently been a series of smaller crises within South America. None of those have been as bad as people thought they might be. There was a very serious concern that South America would catch the flu from the Asian crisis and plummet. It certainly suffered setbacks quite significantly in a number of the markets, but overall has performed reasonably strongly. There have also been—and there has been evidence of this in the newspapers in recent days—frictions between a number of the countries, and particularly between the two largest economies, that of Brazil and of Argentina. My colleagues are going to talk about that a little bit more.

We in DFAT see our role as helping to further the expansion of the growing relationship and to encourage a greater diversification amongst Australian companies interested in getting into the market. We have been very encouraged by that increase in interest. There has been a genuine upsurge in activity generated by the private sector itself. A larger number of companies have joined the various business councils, and the business councils, either on a bilateral or a regional basis, are in our view working better and more productively. We want to help to overcome a perception which we believe is out there—and we believe the committee's work will help in this—that South America is highly protected, that it is unstable, that it is distant and that it is just culturally too difficult. The evidence suggests that those are false perceptions and we want to do what we can to offset them.

One of the areas we have been working on particularly in the last year has been the development of an architecture, a framework, within which to pursue some of these goals. We have put a lot of effort into trying to develop the relationship between CER—the Australia-New Zealand economic relationship—and Mercosur through a dialogue process that I think has gone about as far as we can push it right at the moment, but we have done some valuable work there. We have negotiated a number of investment protection and promotion agreements, double taxation agreements and a range of sectoral MOUs and protocols to free up the flow of goods and services, encourage investment, and enable people to get together and pursue the trade and investment objectives. We have also been keen to encourage South American governments and agencies in the pursuit of economic reform. Where possible and appropriate, we have provided assistance to them in that. As I indicated earlier, we also work very closely with them in the WTO, in APEC and in the Cairns Group. We have generally shared perceptions about the broad parameters of the way ahead for the international trading system.

I will conclude by saying that we also do not want to take these trade and commercial things in isolation. We are constantly trying to maintain our efforts in that area within the parameters of our broader relationship with the individual countries and the region. We have a very good relationship with them in a range of areas—the environment, international security—in the various international multilateral forums. We place a great deal of value on the strength of those relationships as well. I will stop there and hand over to my colleagues, but I am quite happy to take questions now if somebody wants to raise any.

CHAIR—Thank you. We will hear the other statements first.

Ms Minahan—I am going to make some brief comments about doing business with the region as a whole, before another colleague talks about individual countries. As a preliminary comment, I would like to point out that obviously the committee's terms of reference refer to South America and therefore our submission and the comments that we will make this morning also focus on South America—and by that we mean the 12 countries south of Panama; but, given the importance of Mexico, which is a significant player in the larger region of Latin America—and by that we mean all the mainland countries south of the United States—occasionally our comments will also include Mexico or Latin America.

What can we say about doing business with the region? The first thing is to point out that we are talking about a very large collective market. There are close to 340 million people in South America and some 500 million people in Latin America. Furthermore, it is estimated that there are about 13 million households in South America that can be categorised as middle class and as having a purchasing power of more than $US20,000 a year.

These markets are now much more open to trade and investment and there is a growing consumer demand. We believe that in terms of market potential, South America is a region that Australia really cannot afford to ignore. Similarly, the changes in economic policy that have already been referred to have led to increasing privatisation of infrastructure and services, to improving conditions for foreign investors and to a drive for international competitiveness. All this, we believe, adds up to expanding opportunities for foreign investment.

Of course, South America is not one market and, as Mr Cobban said, it would be a mistake to see it that way. It is actually a great variety of markets both within the region and even in some cases within individual countries. If you take Brazil, for example, a country larger than Australia and with a population of 160 million people, exporters who feel that is too large a bite to take in one go need only look at the Sao Paulo market which is in itself the population of Australia.

We do not suggest that resources should be put into developing all of these markets at once. The economic conditions in some countries really do not justify great attention by us at the moment, but others have large sophisticated markets with enormous potential for Australia.

Also, the opportunities are extremely varied. As indicated, large Australian investment, particularly in the mining sector, has opened the way for other companies, particularly SMEs, to move in with other products and with services. But it goes beyond that. Exporters and investors in port facilities or energy supplies, other infrastructure, IT&T, agribusiness, industrial catering, a whole range of services and an increasing range of manufactured goods have all found profitable markets in South America.

As Mr Cobban said, we are aware that this is not all plain sailing. There is a lack of information on both sides. This is compounded by stereotypical and often outdated images. This does not incite business people to explore the opportunities. There are also some tariff and non-tariff barriers that remain. Distance, cost and the frequency of transport links are perceived to be a barrier. We think that perhaps this is not as serious a barrier as some members of the Australian business community might think. For example, in terms of flights, there are currently three services a week to Santiago de Chile and return, and currently four services a week from Sydney to Buenos Aires and return.

In terms of shipping, there is a monthly direct service. The timing for that varies between about 28 and 48 days according to which port. If you are at the beginning obviously it is 28 days. If you go right round to the other side to Brazil it is much longer. There are also a large range of transhipment services, some of which can even end up being quicker than a direct service, depending on the port you are going to. But, in general, the length of transhipment services vary between about 40 and 48 days. Obviously, this can be a problem for time sensitive exports.

As has been noted, despite the generally positive economic growth and management in the region over the last decade, the contagion from the financial crises in Asia, Russia and Brazil, combined with the effects of the low commodity prices and El Nino, high deficits and high debt levels in some of these countries, have lately increased the nervousness about risk levels in the region. That has to be recognised.

Another potential problem that is often identified, including by some of the other submissions to this inquiry, is the web of preferential bilateral and regional trading agreements in the region and the fact that there are plans to extend such arrangements to other regions. It is true that the expansion of these preferential trade agreements could significantly affect Australia's competitiveness in the region, although it is highly possible also that the developments in the WTO and the outcome of a new round of global negotiations could mitigate any negative effects of further preferential trade agreements in the area.

Schematically, there are regional trade agreements, the major ones of which are Mercosur which includes Argentina, Brazil, Paraguay and Uruguay and then there is the Andean community which includes Venezuela, Colombia, Ecuador, Peru and Bolivia. Those two groups of countries do aim to establish a free trade zone, but do not have a deadline for that at the moment. Negotiations in fact are proceeding very slowly.

There is also a complex of bilateral arrangements. Chile and Mexico in particular are pursuing a series of bilateral arrangements and Chile is quite far advanced in establishing those with nearly all the countries of Latin America. There are negotiations under way for interregional trade agreements. For example, the free trade area of the Americas, EU and Mercosur and the EU Chile have recently announced agreement to begin negotiations towards a comprehensive free trade agreement. There are also bilateral arrangements being explored between Chile and Korea and between Mexico and Japan. The department is very much aware of those and we are monitoring them.

Turning to some of the more positive aspects of doing business with the region, it is fair to say that the business environment is generally a positive factor for the Australian business community in the sense that the business environment in South America is not that different culturally to Australia. Of course there are some differences. Language is perceived as a potential barrier but increasing numbers of people in South America speak or at least understand English and of course interpreting services are readily available. Business people notice also that personal contacts are perhaps more important in the South American context than they can be in Australia. It is very important to have good personal contacts to open doors and to find the right local partner or the right local representative. In some cases the use of personal contacts can be perceived as straying into the area of what might be considered unethical behaviour in Australia. The sense of corporate morality is not exactly the same in Australia and South America.

Perhaps a little more contentious is that there are cases of bribery in South America. It would be naive to pretend they do not exist but our discussions with the business people indicate that this is not a barrier to doing business effectively in the region. In certain sectors where bribery is common—and it is in certain countries only; it is by no means throughout South America—business people have indicated to us that, if it is known that the Australian company does not pay bribes, their business goes ahead anyway. It may go ahead a little bit more slowly in cases but it does not appear to be a barrier to doing business in the region.

Another problem that some people encounter is that the administrative requirements can sometimes be a bit more onerous than they are in Australia. But having said that, I have also had business people who are working very successfully in South America say that they do not find dealing with the governments generally any more difficult than dealing with the government in Australia.

Other positives about doing business in the region that have been identified are that the staff are generally good. They are very willing to learn and to adapt to international best practice and they respond quite well to the more progressive management systems that Australian companies often bring. As Mr Cobban and the chairman noted, there is much greater political stability in the region which is obviously good for investment and business. Similarly the rules and regulations about doing business in the region are increasingly predictable and in some cases Australian firms are helping governments establish international best practice with rules and regulations.

The very similarities in some of our economic profiles offer opportunities. While in Australia it is generally considered that the similarities may mean that they are competitors, they in fact do offer opportunities. For example, in the mining sector and in agribusiness our expertise means that we can sell our services there.

Generally Australia enjoys a positive image in the region. We do not have a very high profile but what profile we do have is positive and that is a very valuable base on which to build. Similarly, I think Australia’s leadership in certain areas of international trade policy also helps our entree into the region.

To summarise, for potential exporters and investors, there are certain risks and certain differences of which they have to be aware. They have to do their homework the same as they do anywhere, but for us the evidence suggests that there is a very wide range of opportunities for Australian industry in the region and that it deserves more attention and more effort on the part of the Australian business community to explore those opportunities. Thank you.

Mr Rennert—Mr Chairman, I will be making a short PowerPoint presentation on South America on a number of economies. If you could just bear with us for a moment we will set up the equipment.

Mr O'KEEFE—You have broken new ground this morning, Peter. I have never heard of a PowerPoint presentation and will be interested to see what it is.

Mr Rennert—I hope we do not disappoint. The purpose of a PowerPoint presentation this morning is to give you a little snapshot of South America. We are focusing on seven countries because we think that, out of the 12 countries and one territory, these give you a fairly good view of what is happening in the region. They cover the latest economic developments and also some important issues for Australia.

PowerPoint slides were then shown—

Mr Rennert—This is the title side, slide 1. I will be reading out the number of the slide for the purposes of *Hansard* during the presentation.

Slide 2. To understand the region we have to understand the regional context and, like many emerging markets, South America has faced some economic problems, particularly late last year and moving into 1999. But to see that more correctly we have to see a decade of solid growth. In fact, the average growth rates for the region in the 1990s have been between three and 3½ per cent, and when you factor in the difficulties that the region faced during the Tequila Crisis earlier in the decade, that is quite a strong growth rate. And in fact, as recently as 1997, economic growth in the region was 5.4 per cent, and I think that is a fairly impressive figure.

But in late 1998 and 1999 South America began to face some difficulties. The first one was the continuing instability in Asia, and that has impacted on these markets, and in conjunction with the Russian meltdown the contagion spread to South America. In fact the Brazilian market suffered significant and sustained pressure in late 1998, and by early 1999 Brazil could no longer hold its floating-pegged, currency rate and had to float the real. In a very short time the real plunged and continued its plunge until early March. Since then it has made a steady recovery.

Another issue affecting the region has been commodity prices. The global economic downturn has had an impact on the commodities that South America relies on for its economic prosperity. The result of that has obviously been downturns in economic activity.

The third factor affecting a number of countries has been the El Nino Southern Oscillation effect. That has happened in a number of countries. Chile and Peru in particular have been hit by droughts and that has impacted on their agricultural harvests. The problem in Chile has been multiplied by the fact that they are also dependent on hydro-electric power, so there have been some power shortages there. In Argentina and Ecuador, by comparison, they have suffered some terrible floods which have damaged infrastructure and had an impact on their harvests.

As we move into the second half of 1999, the UN Economic Commission for Latin America and the Caribbean now believes that the region is starting to move into a recovery phase. While we still have to be cautious, I think there are now some prospects and some agreement that there will be a move to economic growth in the year 2000 for the region.

Slide 3. We are looking at Argentina. As with many of the economies in the region this year, Argentina is going to suffer contraction of around 3½ per cent. Argentina has been caught up in the regional economic downturn, and in particular its close relationship with Brazil has been a big factor in a slowing of the economy there. To put Argentina in some perspective, it enjoys the highest income and GDP per capita of any of the Latin or South American economies. Currently that stands at $US8,300 per year per capita GDP for Argentina. One of the issues that has fallen out from the economic difficulties that Argentina is suffering is the growing trade tensions with Brazil, which we may refer to at more length during questions. The tensions that have been created have started to spill over into the broader relationship and into the workings of Mercosur. Later in the year with presidential elections those issues are likely to come up again, although our prognosis for Mercosur still is that it is a strong regional arrangement. While market analysts remain cautious about Argentina's prospects, I think again we are looking at the prospect of a return to growth in 2000.

Slide 4. Australia has a significant amount and a very diverse range of investment in Argentina. In fact, Australia is the ninth largest foreign direct investor in that country. Our investments cover a range of areas including mining, foodstuffs, entertainment, agriculture and port infrastructure. In fact, Australia's most significant investment in the region is a $1 billion investment in the Bajo de la Alumbera copper and gold deposit. Argentina offers substantial opportunities for Australian business, and one of the most important is the decision to privatise and overhaul the infrastructure. Already substantial efforts have been undertaken and there will be more opportunities in the ongoing program of privatisation. This should yield substantial opportunities for Australian exporters in these key areas. There is an awful lot of money being spent. At the moment the infrastructure in Argentina is being privatised but there is still a substantial amount to go.

There are not many barriers in Argentina but perhaps the most substantial are some tariff peaks in some key areas such as beef and dairy produce in line with the Mercosur tariffs. A little bit of good news for our investments in Argentina is that, when Minister Vaile travels there at the end of the month, we expect that he will be able to sign a double taxation agreement with the Argentinean government which will create greater certainty for Australian investors in that country.

Slide 5. Brazil has been caught up in economic turmoil, as I have already outlined. The dire predictions, however, at the beginning of the year which put Brazil's economy collapsing, perhaps contracting as much as six per cent, have not come to fruition. In fact, Brazil seems to have weathered the financial instability, thus far, reasonably well. It is now suggested that the growth figure or the contraction in the economy this year will be between minus one and minus five per cent. However, there remains a need for caution and there is still a lot of work in terms of the basic economic structure of Brazil and reform that is needed. The government reform agenda will be at the foremost in the minds of the international financial markets and market analysts.

Other issues such as debt repayment will be particularly important. Growth forecasts for 2000 for Brazil are actually quite rosy now, and they are talking about five per cent but, again, I note the caution there. Again trade tensions with Argentina are set to dominate some of the political issues in Brazil over the year.

Turning to slide 6, Brazil is the largest economy in Latin America and the eighth largest economy in the world. It accounts for 54 per cent of South America's GDP. As Sharyn pointed out, it has a diverse range of markets and it offers a broad range of opportunities to Australian businesses. One notable area is the very large upper and middle class in Brazil that has a very significant disposable income, and there is already a number of Australian exporters who are targeting that upper end of the market.

As well as Argentina, Brazil has a very significant program of privatisation and modernising of its economy. There is a continuing wave. Perhaps the most significant one for Australia has been in the telecommunications sector. From a very small base only four or five years ago when Australia was exporting around $200,000 of telecommunications parts to Brazil, the figure has now jumped to $17 million. There are also services opportunities. One of the companies that made a submission to the trade subcommittee, Milcom, is one of those companies that is leading the way as far as enterprise in the region is concerned. Australia has a broad range of investments in Brazil including mining, IT services and equipment, as well as entertainment.

There are some notable barriers in Brazil, such as the tariff peaks, similar to Argentina, and issues like the shipping freight tax, which has been an ongoing bilateral issue between us for some time. In recent times we have had some very good successes in Brazil. They include Australian wheat and carpet grass exports. Just yesterday we forwarded a letter to the Brazilians advising them that there would be some carpet grass exports arriving in Brazil shortly.

Slide 7 concerns Chile. After a decade of strong growth, Chile's growth prediction for the 1990s is actually quite flat, but it has been one of the big movers in South American economies over the past decade. One of the problems facing Chile is the declining economic demand in Asia. Chile is one of the countries that has a more significant relationship with Asia.

It has also, to a lesser extent, been embroiled in regional difficulties, and importantly, as I outlined previously, the El Nino drought effect has had a significant impact. But probably the most important problem has been low copper prices. Copper in Chile accounts for 40 per cent of all exports. The Frei administration has announced a package of measures to try and induce some growth in the economy and the central bank has also cut interest rates. However, we think the Chilean economy has very sound fundamentals and should overcome these difficulties.

One of the notable things about the Chilean economy is its linkages with other economies. Chile has been a leader in establishing preferential arrangements. Chile has free or preferential access to much of Latin America and Canada, and has further interest in the US, EU and Korean markets.

I will move now to slide 8. The extensive program of infrastructure upgrading in Chile is an opportunity for Australian companies to invest. Santiago de Chile, the capital, has the largest concentration of Australian companies in South America. Increasingly, we can expect to see Australian companies looking to Chile as a potential base for their interests in the region.

Australia's interests include mining, entertainment and agriculture. Of particular note is that Australian winemaking companies are now involved in two agribusiness ventures in the wine industry with Chilean joint venture partners. There are no significant barriers to trade in Chile. In fact, Chile has one of the most open trading regimes in the world. Their flat tariff structure, currently at 10 per cent and continuing to be reduced, creates a very positive environment, and they have few barriers to investment.

Senator FERGUSON—What is involved in our interest in entertainment?

Mr Rennert—In Chile it is cinema complexes for Hoyts.

Slide 9 deals with Peru. The Peruvian economy appears to be recovering after some of the problems that it has faced. The government actually forecast that this year economic growth would be between 4½ and 5½ per cent. We think this may prove to be optimistic but it is a very healthy figure, nonetheless.

Australian companies have invested $US450 million in Peru. That puts us in the top five of investors in that country. The cornerstone of Australian investment in Peru is, of course, mining. BHP's Tintaya copper mine is the largest investment with $332 million invested in the purchase and upgrade of the facilities at the mine. As the mining industry expands in Peru we think there will be additional opportunities for investment, and the provision of services and equipment. To service the growing demand, Austrade recently opened a Consulate General in Lima.

Slide 10 concerns Venezuela. The Venezuelan economy slipped into deep recession this year. In the first quarter, year-on-year, the economy declined 9.8 per cent. Over the year it is forecast to contract about minus two to minus five per cent. The main factor affecting Venezuela's economy has been low oil prices. Oil accounts for a quarter of GDP, 80 per cent of export earnings, and half of government revenues. The recent upward trend in oil prices should see the prospects for Venezuela improve. The most significant investment we have in Venezuela is the BHP joint venture with Svensa in a hot briquetted iron plant. The investment is worth, in total, about $US780 million.

There are also some good news stories in Venezuela. Those include—while the numbers are modest—strong growth in education exports. I note in some of the other submissions to the inquiry that education is one of the areas where there are significant opportunities for Australia in the region. Secondly, there has been a decision by a major food distributor to distribute Australian wines. Lastly, the inaugural voyage of an Australian fast ferry took place in August.

Mr O'KEEFE—Which ferry company was that?

Mr Rennert—It was Austral. Despite good prospects in the mining, natural gas and petrochemical industries, uncertainty over investment laws in Venezuela is likely to delay some investments coming on line.

Slide 11 deals with Colombia. Colombia is facing the worst recession in over 50 years. In the last quarter of 1998 and the first quarter of this year, Colombia's economy contracted between four and five per cent, year-on-year. That has been mostly due to a fall in demand and low prices for its commodities. This is a genuine economic downturn but the situation has been exacerbated by the difficult security situation in Colombia which continues to worsen.

Australia still has interests in that part of the world and has a number of mines and mine facilities. As well as that, Australia has interests in IT support for the mining industry through a company called Mincom. If and when the security situation begins to improve we think there are some opportunities in Colombia, including in agribusiness, education and further investment in the mining sector. Apart from security, the major impediment in Colombia is the intellectual property rights regime.

Slide 12 deals with Mexico. While not technically part of South America, Mexico is one of the big three Latin economies. Its close political linkages with the region and the network of RTAs that it has with South America makes it worthy of mention. Unlike many of the economies that we have already looked at, Mexico is forecast to grow by about 2½ per cent this year. This has been aided mostly by a very strong US economy. Mexico needs to be seen as a functioning part of the North American market.

One of the good news stories in Mexico is the very strong growth of Australian exports. Year to date, Australian exports are already up eight per cent. In fact, one of the best news stories that we have out of Mexico is a trial shipment of thermal coal to Mexico which arrived in June.

I will summarise the points on slide 13. There is no doubt there are some challenges ahead for South American countries. Economically they have faced a very difficult year, and market analysts do remain cautious about their prospects. However, I think there is general agreement that they are moving into a recovery cycle, and that should take hold in the third and fourth quarters of this year, and there are strong prospects of a return to growth in the year 2000.

While our trade and investment in South America is generally modest, there are some substantial interests, which I have outlined, and growing interest in the region. Australian companies have clearly made their mark in the mining sector. There are a number of pioneering and small and medium sized enterprises as well as large Australian companies getting interested in that market and forging the way for others. We think there are significant opportunities available to Australia in the new millennium. Thank you.

Mr Shannon—I will conclude the presentation. I will begin by highlighting what we saw to be some key points in the other submissions that have been put forward. Our overall impression was that the submissions felt the region would be of increasing importance to Australia. A number of them noted that we are already making a mark in the education field.

Another common theme was that it was important to build on the strengths that we have in the mining and mining services sector. We had the impression, too, that the submissions felt that air and sea links were not a major impediment, which was an interesting observation. Likewise, the submissions seemed to suggest that barriers to trade were diminishing for the most part in South America, but another theme was that the proliferation of RTAs, preferential trade agreements and free trade agreements was an issue that the government needs to address so far as the impact on Australian exports is concerned.

The submissions suggested there were mixed perceptions about the role of government in facilitating trade in the region. Some were positive about their interaction with government agencies and others felt agencies could refocus their efforts better. By and large, the overriding theme was that South America is an important place where Australia can and should be doing business.

I will talk about the role of DFAT in the context of what we see to be the challenges ahead. The first challenge is to raise the awareness of business about the region. That is still a problem, as we see it. The second is to search for opportunities to diversify trade and investment by taking advantage of our diplomatic network and the trade frameworks that the previous speakers have talked about. The third challenge, for business and for government agencies dedicated to helping them, is to work towards a more open trading and investment environment. The Department of Foreign Affairs and Trade is a key agency in representing officially the views of the government and of businesses to foreign governments in South America. It also has a role in building a better understanding of South American markets and highlighting the opportunities of those markets in Australia. In that context we work closely with our portfolio partners, Austrade in particular and EFIC, to pursue those objectives.

We operate four embassies in South America, plus a mission in Mexico City. There are two Austrade managed consulate-generals—in Lima and San Paulo—and a number of honorary consuls in cities in the countries where we do not have resident accreditation. We have about nine DFAT staff in the region who work on policy and trade related matters. As a general estimate, around two-thirds of the time of our heads of mission in those four embassies plus Mexico and in the Austrade missions is spent in trade related work. In many cases that proportion is much larger.

In Canberra in the department we have about 5.5 staff who work on Latin American issues. We use a variety of means to raise the profile in Australia of South America as a trade and investment destination. We produced a publication in 1997 which you may be aware of—*The future of Australia's trade and investment relations with South America*—and later this year we propose to publish a business oriented booklet on doing business in the region. Our submission sets out the approach that we will take in that booklet. The release of the booklet will be accompanied by a series of complementary seminars and a substantial upgrading of the Americas page on the DFAT Internet web site.

We propose in October to take advantage of the presence of several of our heads of mission who will be visiting Australia at that time to participate in a number of business seminars and mining conferences, the most important of which will be the AIMEX conferences that are taking place in October. In addition, we are working closely with

Austrade in developing an integrated medium-term strategy to develop trade and investment opportunities. I am sure our colleagues from Austrade will be talking further about that.

Another objective of DFAT is to sustain and enhance our business, academic and government agency networks, both in Australia and South America. Our submission sets out the key business networks. The market development task force activity, which I am sure the subcommittee is aware of, provides the framework in which we do most of our networking with business. I mentioned that an important objective for the department is to increase our profile in the region. Members of the committee will be very aware of the typical activity which our embassies perform—negotiation of agreements, servicing government to government, business commissions, market access and trade facilitation activity, and matters like that.

We also strive to encourage senior South American decision makers to visit Australia. I am pleased to say that in the near future we are expecting visits by the foreign ministers of Mexico and Peru. It is likely that the foreign minister from Peru will be leading a high-level business delegation, we hope in October to coincide with the public affairs activities which I mentioned earlier.

As I noted before, we estimate that over two-thirds of the work of our missions in the region is dedicated to trade and investment work. Other speakers have talked about our activities at the multilateral and regional level. The Cairns Group in particular is a focus in Latin America: Argentina, Chile, Brazil, Colombia, Paraguay and Uruguay are members of the Cairns Group. Our trade minister, Mr Vaile, will be participating in a ministerial meeting of that group in Buenos Aires on 28 and 29 August and we hope that at that time he will be signing a double taxation agreement with Argentina.

To conclude the DFAT presentation, I submit four propositions. The first is that South America offers good prospects for diversifying Australian trade and investment. Second, there are important challenges, and we do not want to diminish those challenges and risks, but the long-term outlook is promising and the business environment is comparable to or better than other emerging markets. Third, DFAT will continue to work closely with other government agencies in the pursuit of the government’s market development objectives. Fourth, advancing those objectives will require a concerted effort involving the stimulation of Australian business interest, a proactive and innovative approach by the business community and leadership from senior business people already in the South American market, and a similar approach by the government and its agencies.

Finally, it goes without saying that your committee’s inquiry and your eventual report will be an important element of that concerted effort. Thank you very much.

CHAIR—Has any member of the committee got any questions they wish to ask.

Mr HOLLIS—I know that we have got posts in Argentina, Chile and Mexico. Where are the other embassies?

Mr Shannon—In Brasilia in Brazil, Buenos Aires in Argentina and Caracas in Venezuela.

Mr HOLLIS—We closed Lima down but now we have reopened it?

Mr Shannon—That is correct—as an Austrade managed Consulate-General.

CHAIR—I will ask you, Allan, later on to speak about the Cairns Group too.

Mr O'KEEFE—In your opening remarks you mentioned that you have been doing some work on something with the South American countries along the lines of the CER arrangement with New Zealand. Can you just flesh out a bit of the rationale or logic behind that for us?

Mr Cobban—Yes. What I was referring to is what we call the CER-Mercosur dialogue. We have had a belief over a number of years that the process of economic integration and regional trade agreements within South America provided both opportunities for us and some challenges. Therefore, it was desirable that we get ourselves engaged in that process. The Mercosur group of countries have been relatively aggressive in pursuing a number of relationships with other economic groupings in the world, not least with the Europeans. We have been holding a regular series of meetings at officials level, and one ministerial meeting with Mercosur, to explore areas where we could cooperate.

Like CER itself, it seems to us that one of the starting points for this has to be the trade facilitation element of the relationship; in other words, removing the barriers to trade at the level most directly impacting on companies now. We have put to the Mercosur group a number of submissions on areas in which we might do future work. We have found that it is going to be a difficult exercise but it is one to which we remain committed. The real problem is at the other end. Our experience in CER particularly over the last 10 years, but going back even further than that, has made the Australia-New Zealand part of that relatively comfortable with the concept of moving through from trade facilitation to trade liberalisation and to other exercises.

At the Latin-American end, as you have heard this morning, there is quite a disparity within the economies and within their trade regimes, particularly the levels of liberalisation. You have Chile at one end of the spectrum and you have got some quite restrictive regimes at the other. Then you have the tensions between the very large economies and the smaller economies and so on and a very limited resource base within the bureaucracies of those countries handling the issues of Mercosur itself and its development. The people who tend to do Mercosur are the same people who do the Cairns Group and the WTO and who are doing the bilateral negotiations with other countries. Their own levels of rhetoric, if I could say that, are higher than their actual capacity to deliver internally. Their ability to deal with external partners has also had to be prioritised. For them, logically, we are not as significant as either getting a trade agreement going with the Europeans, pursuing the consequences of the free trade area of the Americas, for example, or some of their other problems. But it is a fruitful area for future work.

We have had some success in advancing these technical issues. We have engaged them on customs clearance procedures and at that sort of facilitation level, but I think, realistically, it is going to be a long grind before we get the full benefits, but we are in there and we are recognised by them as a country, in partnership with New Zealand, which is interested in exploring these relationships. I think we felt that it was critical that we got ourselves into that register.

Mr O'KEEFE—On that theme, Chairman, can I just ask another question that ties in with this and follow this on? Peter, in your presentation you mentioned the proliferation of regional trade agreements and bilaterals. You mentioned that we need to get an approach in our own minds about the best way for Australia to deal with this, and we will come back to GATT and the Cairns Group because it does all tie in, as we understand. Are you suggesting that there is some merit in us expanding or attempting to expand a range of bilaterals with each of these countries individually and almost product by product or trying to encourage them to break down the bilateral and enter more a multilateral regional CER type arrangement? Which approach is in our best interests?

Mr Shannon—I will just comment briefly on the implications of those preferential trade agreements and I will pass to Peter Rennert who is more knowledgeable about these matters in the detail. The submissions as we read them, and our own views too, suggest that we need to monitor closely those agreements. Not many of them have come to fruition yet, I should add. We are talking about NAFTA in the North Americas, which connects Mexico, and we are talking about Mercosur and a number of smaller bilateral deals which Chile and some others have done. But there are a number in prospect. We expect that the activity on those will be suspended while the next round of multilateral negotiations takes place. How those that are under consideration may evolve will depend very much on the outcome of the multilateral round.

Our view, as I understand it, has always been that we prefer a multilateral global result which does not lead to discrimination against Australian exports in a smaller preferential trading arrangement. To indicate the work that we are doing at the moment, we are well advanced on a study of the trade impact of NAFTA, for example, on Australian trade. We would hope in the not too distant future to do a similar effort on Mercosur. But I will pass to Peter Rennert who is more familiar with the detail.

Mr Rennert—I note that in some of the submissions there is actually a reference to the issue of RTAs and whether Australia should be involved in RTAs. But I start by noting that there is no formal discussion of this issue and no proposals before Australia at the moment.

However, having said that, the issue has come up recently and the Prime Minister issued a joint communique with the New Zealand Prime Minister, Jenny Shipley. The communique basically talked about free trade arrangements in terms of extension of the benefits of CER, but in short it said that Australia and New Zealand are willing to consider proposals for free trade arrangements which deliver faster and deeper liberalisation than the multilateral process. Having said that, we always have to keep this in the context that we believe that Australia's primary interest is in a new multilateral round and the broad benefits that that would deliver.

The other thing—and Murray touched on it in his previous answer—is that, clearly, Australia is not a priority for these economies, so whether we have a disposition towards them or not is not necessarily a major question at this stage. We are keeping in there with issues like CER-Mercosur. We are keeping the dialogue processes open. **Mr Cobban**—

Just to add one point on our experience with watching the evolution of these regional trade agreements and their external linkages, which is another element of the equation, they have started out with very ambitious objectives and fulsome declarations about what they are going to do. If you take the one with the EU, that very quickly snagged on exactly the same sorts of problems that we have had with the European Union over considerable periods of time—primarily the interests of the Latin-American countries and their agriculture. You now have a declaration which says that all sectors will be incorporated in this agreement, but the reality is that it is not going anywhere. As Peter just said, it is going to have to wait now to see what happens with the WTO round.

In the case of a number of the relationships that have attempted to be pursued with the Americans, they have run up against the same snag—the concern that we have about United States participation, that is, an absence of a free trade negotiating authority. There are a lot of issues out there but it is really hard to see short-term concrete progress, particularly on the large scale that one would envisage when you hear language like an EU-Mercosur free trade agreement covering all products.

Mr Rennert—Could I just add one more footnote to that? Of course, we already are involved in the APEC process with Chile and Peru, as well as Mexico in broader Latin America.

CHAIR—Thanks for that.

Senator FERGUSON—I notice in your submission you talk about challenges that are facing exporters and investors. I am just wondering, in the light of evidence you have given here, and it is pretty comprehensive, whether you could rank what we might perceive to be the impediments in trade with South America. For instance, Chile, where there are no trade barriers to speak of, ranks about 45th in our trade, yet there are other countries which have much higher impediments which rank higher than Chile as far as trade is concerned. Is it the perception of distance? Does that rate highly? Is it the competitiveness of other exporters? The United States is probably closer than we are. Can you rank the impediments? We have to somehow get around the impediments if we are going to significantly increase our trade with South America, and we need to identify them in order of priority.

Mr Cobban—My colleagues might like to comment on that, but ranking them would be quite difficult. One of the things—

Senator FERGUSON—I would not hold you to the ranking, but I just want to get some idea of—

Mr Cobban—I am very nervous about these things.

Senator FERGUSON—What are the more significant impediments, is a better way of putting it.

Mr Cobban—Sure. But on your point about where you see the size of trade, there are so many other factors involved in that. There is a huge difference in the size of the economies in the region. The fact is that we have started most of our economic linkages through the mining sector so you automatically have distortions related to scale. You have heard of the size of those mining projects. If you look at some of those countries, you have a total investment of $450 million and $332 million of that is in one mining project alone. So just put that in the back of your mind as well.

The other thing I would like to say before my colleagues talk about some of the details is that we have this market development task force process in which we are trying to identify the barriers that Australian companies face and we are trying to work out what we can realistically tackle in relatively short time frames. Some of these barriers are going to be a long ride, but we are doing what you are driving at, I think, in a slightly different way. We are happy to provide to the committee some stuff on that.

Ms Minahan—I think it is true that the barriers vary according to the country, but I think probably the top barrier that would be relevant to the whole region is a lack of information. It is a lack of information about the opportunities that are there and it is a lack of information about how the systems work in those countries.

There are two aspects to that, as I said, and the one about information is something that we here can do a lot about, but when it comes to learning about how to do business in those regions or in those countries, that is where it is important for them to make local contacts and have somebody that can help them through the labyrinth of how to set up an office or how to find your markets there. That is probably true for any region in the world, that you need those local contacts, but I think that is probably the single biggest barrier.

But if you are getting down to more tangible things, it will vary. For example, as I indicated, transport may not be a significant barrier to export into Chile, but it might be a bigger barrier to Brazil if you have a time sensitive product. Similarly with market access barriers. As we have indicated, again in Chile, there are no substantial or real market access barriers that we are aware of, but we do have a lot more work sometimes in achieving the access for our products, for example in Brazil, which is going through the process at the moment of renovating a lot of its market access requirements, particularly for food and plant and animal products. So it varies enormously, and it is a bit hard to say, ‘This is the hierarchy of barriers according to country.’

Mr Cobban—I think you would have to say, though, within the Mercosur group, that is one of the problems of broader integration within South America, that the very high levels of the tariff and the apparent flexibility with which they employ the tariff—as we have seen over recent weeks, both externally and internally within Mercosur—that the threat of short-term, very high peaks of tariff usage is a major problem which we have got on our agenda.

CHAIR—In your presentation earlier you discussed the perception of Australian businesses towards South America, and I would probably concur with that view that I guess, for a lot of Australians, it still rates as Indiana Jones-type territory. What plans or what policies are you pursuing to change that perception, given the potential importance of the market?

Mr Cobban—Yes. It is something with which we have been grappling and, as I indicated, one of the things we have been trying to do is to work much more closely with the various business councils that have been set up. In fact I think all of those have had fairly dramatic growth in their membership over the last couple of years, partly triggered by the Asian crisis, but also just a considerable number of smaller new exporters looking for different markets.

CHAIR—I think, if there was a positive out of the Asian crisis, it made Australian businesses look elsewhere, and they proved to themselves that they are actually very good when they had to look elsewhere and one would hope that they will never fall back from that.

Mr Cobban—Peter, you might talk about the program.

Mr Shannon—As I mentioned, we are very conscious of this need to disseminate information as best we can as a department. We are looking at this publication which will be business oriented, on how to do business in Latin America, to get across some of the messages we have been talking about today. That will be launched with, we expect, some business seminars in Sydney and Melbourne and elsewhere. In addition, we are upgrading our Americas page on the DFAT web site which will, we hope, be a composite exposition of most of the material we have put forward here today.

In addition, encouraging visitors out to Australia is an important part of this exercise, and we have been successful in having the foreign minister of Peru plan to come. We regard Peru as an important target market. Austrade has recently opened up a consulate in Lima. The Peruvian foreign minister will be accompanied by a big business delegation. We hope that will be in October when, as I mentioned, we are planning to stage these seminars and take advantage of the big AIMEX, the mining seminars that are taking place in a number of cities at that time as well. That is what we have in the immediate future.

In the medium term, we are working closely with Austrade on a medium-term strategy in which we expect to see DFAT, our posts in the region and the Austrade missions working in a comprehensive and integrated way to, for example, take advantage of our heads of mission who come here for consultations and have them speak directly to heads of Australian companies that we think would be interested in particular market sectors in the region.

CHAIR—You mentioned your web page. What sort of hit rate are you achieving?

Mr Shannon—I cannot tell you off-hand. The actual DFAT site does particularly well, but I cannot tell you how many people are hitting the Americas page.

Mr Cobban—Can I mention a couple of other things that we have done, some of which will continue. One of those is to support the activities of the various South American embassies here. A number of them have held seminars to introduce themselves, as it were, to the Australian business community, and we have supported that by providing speakers and helping them get out their invitation lists to the proper people. As with the web page, we have been trying to make the information that our missions in South America collect more accessible to the private sector. An ongoing problem for DFAT in terms of the volume of the information that we get from our overseas representatives is: how do you get that out to the people who potentially could benefit from it since so much of it comes through the classified cable system?

We have been working quite closely with the business councils to declassify or to provide in electronic form as much of that information as we can so that it is directly accessible by the councils concerned for incorporation straight into their newsletters or whatever. As we move through the changes in DFAT's communications system, that is becoming easier. In theory—we are still exploring this—we will be able to move to situations where companies will be able to access some of this stuff direct, but at the moment we are channelling it through the business councils.

CHAIR—Given the size of the missions of both the EU and the Americans and the limited size of our missions there, realistically, what opportunities are we going to have to penetrate those markets in the face of the sort of competition that we have got?

Mr Cobban—I do not think that differential is any higher necessarily than it is anywhere else. The competition that we face in, for example, Indonesia from the Germans, who have a huge commercial presence there, is very extensive. The competition that we face in China from the Americans, the Japanese and others is huge.

CHAIR—Yes, but the Americans have a closer relationship.

Mr Cobban—They have closer relationships with parts of South America. Perhaps Sharyn could talk about that. Some of South America has a much closer relationship with the European Union than they do with the United States. But what we are looking at are areas in which Australia has either world-class expertise or products. That has certainly been the case in the mining sector. We are extremely competitive and, though not in a dominant position, we are in an enormously significant position in most of the mining areas in South America. In the entertainment area that you mentioned before—the question of Hoyts—Sharyn may have the figure but I think they are now the largest provider, builder, operator of cinema complexes in South America. There are a number of these.

Ms Minahan—Mr Chairman, while your question is understandable and probably reflects the views of a lot of Australian business people who see the monoliths of the EU and North American companies as just squeezing them out, the fact is that a lot of Australian companies, even outside the mining sphere, are successful in finding their niche, presenting their high quality product well and being successful. I will give you some examples.

There is a company that is in Chile, I think, that is doing extremely well selling pool cleaning equipment. Sheridan sheets are being sold in the region. Another company, against a lot of competition from, I believe, American and European competitors, won a consultancy contract for hospital reform in the major teaching hospital in Buenos Aires. There is another Australian company—I do not think this is absolutely finalised but I think it is on the point of being announced—that has won a World Bank contract in Brazil to do with surveying road surfaces. This was against very stiff competition from an American company. Our embassy was involved. They are examples of why, if the Australian company has a good product and gets the right advice about how to approach the market, there is no reason it cannot be successful if it goes about it the right way. It is often in these niche areas where we have a particular expertise that we can be successful. What you have identified is one of the problems that we have to combat: people being defeated before they start, people thinking, ‘It’s all too hard, I can’t do it,’ when actually they can do it.

Mr Cobban—Mr Chairman, coming back to one element in your comment, on the amount of resources, the posts that we have in Latin America are about the size, I would suggest, of the majority of posts that we have in our global system. If you take out the very large posts that we have, like Washington, Jakarta and Tokyo, then you get down to posts the majority of which are roughly the size of or maybe slightly larger than the ones we have in South America. We are monitoring this resources question very carefully, and we have just gone through another iteration of looking at our global resources, but our colleagues in Austrade will probably talk to you separately on the amount of extra resources they have put into this region. So, overall, we are certainly sustaining our representation in a DFAT sense and watching that very carefully, and Austrade, our portfolio partners, have actually increased theirs, and we have increased the amount of resources here in Canberra that we are dedicating to the region.

Senator FERGUSON—You talked about potential trade, but the potential trade often depends on the awareness of people, particularly at this end. I am quite sure that in Asia over the past 20 years a lot of the awareness has come about by the hundreds of thousands of people who actually visited Asia and picked up on what was possible, partly because of its proximity but partly because it was an emerging market. What is happening in relation to South America with tourism and the numbers of Australians who are going there? There is nothing like first-hand information, or a bit of visual contact with what you can actually do, to increase the awareness and increase the take-up of the potential.

CHAIR—It overcomes the Indiana Jones perception I mentioned.

Senator FERGUSON—It does. I understand tourism has increased, but to what sort of levels?

CHAIR—Both ways.

Ms Minahan—We do not have exact figures. I am sure some of the other agencies that will be appearing before you can give an exact figure. Qantas representatives in South America said recently their flights are having profitable load levels. I am not absolutely certain but I think it is around the high 60 per cent capacity filled level. They have got two flights a week—

Senator FERGUSON—And Lan Chile?

Ms Minahan—to Buenos Aires. Aerolineas Argentinas also have them—I am talking about that route. They went very well when the Qantas flights started. I think there was a bit of a dip around March but the levels have come up again. So, despite the economic problems in Latin America, the tourists are still coming out of there and we still have Australians going there.

Senator FERGUSON—There is still a fair bit of tourism coming from South America to Australia?

Ms Minahan—Yes.

Senator FERGUSON—It is still a pretty expensive fare route, isn't it?

Ms Minahan—Again, I cannot quote exactly but I think an economy fare is around the $2,000 mark.

Senator FERGUSON—I thought it was more.

Mr Rennert—You can get economy fares from about $1,600.

Ms Minahan—I have seen them at special times advertised for about $1,600, so it is comparable with flying to Europe.

Senator FERGUSON—I had a niece that studied in Brazil 10 or 12 years ago, and it was actually the most expensive fare that a student could get in those days.

Ms Minahan—I am talking about going to Buenos Aires. To go on to Brazil obviously you have to pay more.

Mr Cobban—As to that Qantas inaugural flight—in fact it was one of the things I was going to mention in that previous list—the number of business people that they managed to pack onto that plane was in fact quite significant. Obviously they did it for their own commercial interest, but the spin-off from that exposure of a fairly significant business group that they took on that plane—I think probably a third of the aeroplane, so around 100 people—and the series of meetings that were held with that group were quite helpful in introducing some new players to it. It also had this demonstration effect. We are getting the word out that these companies other than the BHPs and MIMs and so on are having success over there. People really are surprised by the Hoyts experience.

Ms Minahan—Village Roadshow is another one. It has just opened a big complex in Buenos Aires, in the sort of Double Bay of Buenos Aires.

Mr Cobban—AGL have opened two offices.

Ms Minahan—AGL is in Chile and they are looking at other opportunities elsewhere.

CHAIR—How is that WIN investment going in Colombia?

Ms Minahan—It was announced publicly. They were considering trying to sell their stake in the television channel there. I understand that they have not. It is Prime, not WIN.

CHAIR—It is Prime, is it? I thought it was WIN.

Ms Minahan—My understanding is they have not actually sold at the moment. They are still there. Some of the internal economic issues in Argentina meant that perhaps they were not making the money on it because of lower advertising levels. It was not because of difficulties in doing business in Argentina; it was purely commercial. That is my understanding.

Mr HOLLIS—I noticed, Mr Cobban, you said that we were going to have a couple of visits in October from the Peruvian and Mexican foreign ministers. The department runs a Special Visits Program through which they often bring out leading journalists and other people. Has there been anyone in recent years under the Special Visits Program brought out from South America?

CHAIR—If I can add to that: it is a big success.

Mr Cobban—Just to make one technical point, there are in fact two programs there: there is a media visits program and then there is the special visits program. They run in parallel and they have different criteria. Yes, we have had people under them.

Ms Minahan—We had a very well-known TV journalist from Argentina come out only a couple of months ago, and he is doing a series of four programs on Australia. He was looking at Australia, comparing similarities and differences in our development, our political systems, our economies, et cetera. Very recently we had out the person who would be the equivalent of the head of the Chilean NNF. Last year we also had out under that special visits program the Chilean who was just recently named the foreign minister of Chile. They are the most recent visits that have occurred under the Special Visits Program.

Mr HOLLIS—With the television program that the Argentineans are making, for instance, do we get a copy of that?

Ms Minahan—I understand that they will make available a copy of it. It happened very recently. I do not think the programs have actually been made yet. But we did ask for a copy and our post indicated we will get it. So we will pursue that.

Mr O'KEEFE—I am one of the original Cairns groupers, I suppose you would call me—hanging around the fringes at the time. I have two questions that relate to the way it has evolved since 1988, I think it was. When the cohort was pulled together, it was seen that it was a way to get the Canadians, the New Zealanders and some of our more natural partners into the cart, and then it happened to be, 'We will bring along these South American countries with us if we can.' The conventional wisdom was that they do exactly the same things as us so there is no potential for cross-trade within the group; it is all a lobby group in the WTO round.

I always had the view—and I think, Sharyn, you have confirmed a bit of this in your presentation this morning—that the similarities between a number of the operations did lead to both the chance to do things across those borders with each other and, secondly, the chance for a few of those companies to form partnerships and focus on other markets in the world. I have always seen the Cairns Group as more than just a trade negotiating block, but virtually a CER-type opportunity for Australia. I am wondering whether (a) they are still in the cart for the next WTO round in a fairly solid way, and, (b) do you guys see the continuing relationship that emerges through those kinds of negotiations opening up any chances for strategic partnerships together in other parts of world commerce?

Mr McKinnon—For the record, I am the Assistant Secretary of the Agriculture Branch in the Trade Negotiations Division, and I am also agriculture market access facilitator. The perceptions of the way that it was pulled together are largely consistent with my own. Before the Uruguay Round there were a couple of lobby groups on beef, grains and sugar, separately trying to get some improvements in trading conditions for those commodities without much success. The Cairns Group effectively brought together those groups. So the Latins were not so much an add-on but a pretty integral part as having a big interest in the broadacre agriculture of the meats and the grains. So they are a natural part.

Perhaps less obvious a part, apart from their sugar interests, were the ASEAN members of the group. For almost 15 years now, the group has been a very effective lobby on agriculture trade liberalisation within the multilateral context, first the GATT and subsequently the WTO. To come to the present day, are they still all on the cart? We have lost Hungary which has now got its focus on European accession and they have seen their interests elsewhere. To offset that, we have actually increased our membership with the addition of South Africa and latterly Paraguay.

It has a very, very strong Latin-American focus, and that focus is probably set to get stronger. As my colleague mentioned, not only is Minister Vaile to be involved in the Cairns Group meeting in Buenos Aires at the end of the month but Australia chairs this group. In addition to the existing 15 members, including six members from Latin America, we have three Cairns Group membership aspirants—Guatemala, Costa Rica and Bolivia—who will be attending at ministerial level as observers. So it is set, if anything, to take on more of a Latin-American flavour. We would welcome that.

The group is all on the cart. We have been cooperating strongly since the end of the Uruguay Round in each of the ministerial meetings of the WTO that have been held between the successive rounds of negotiation, but also on an ad hoc basis. Say, for example, that a package of European agricultural reform or US agricultural reform is announced; the Cairns Group has generally, through an agreed Cairns Group statement—which would have been signed by Mr Fischer latterly—made representations to the European Commission and to Washington, to the administration there, to give our view of how inadequate their reform efforts have been.

So we have been active, and now we are revving ourselves up to an extra level of activity as we head towards the Seattle ministerial meeting of the WTO in November where we are going to try to get a mandate for agriculture which is strong enough to get us some real gains on agricultural trade rules.

As to the other element of your question about what you see as the Cairns Group being an addition to a lobbying force on agricultural policy, I do not think it is right to go so far as to characterise it as actually having a CER status. There is actually no element of common tariff or negotiations there. It is right in a very real sense that the Cairns Group has added to the ballast of our relationship with each of these countries. Mr Cobban mentioned, for example, that a problem that is sometimes faced in Latin America is sudden, sharp spikes of tariff. It is used as a method of protection.

Because of our long, deep and close association with the agricultural policy makers in those countries—not just through capitals, not just at ministerial level but at official level and through Geneva and the WTO context—we are readily able to go directly to people whom we know very well and say, ‘This is not a good move. We are a Cairns Group friend. This is going to affect us negatively in this way.’ There has been a real addition and improvement to the tenor of the bilateral trade policy relationship arising from the multilateral cooperation which has helped us to address some of our trade problems. That is in terms of presenting trade problems that have arisen or perhaps trying to ameliorate the effects of them.

As for building cooperation, you would be aware with your interest in the Cairns Group that for the first time at Sydney we held, in conjunction with the ministerial meeting, a meeting of farm leaders. That was organised by the National Farmers Federation. We had farm leaders that you could think of as NFF counterparts from each of the Cairns Group countries, representing tens of millions of farmers. That cooperation is building. The farmers have cooperative ventures in mind and some already existing. It springs from that, but I would still say that the policy pushing and the WTO flavour of it is perhaps the strongest element by far.

Mr Cobban—I think Allan is right. We have gained a lot of spin-off benefits without directly tackling the sort of issue that your second element contained, partly because I think officially tackling that would create frictions that we would be best to avoid. An example of the sort of spin-off that the Cairns Group has got for us in the broader relationship occurred when Mr Fischer was in Chile last time. He got 45 minutes or nearly an hour with the President on the same day that the President was grappling with the arrest of Senator Pinochet.

I was absolutely convinced that, first, we probably would not have got the call in the first place and, second, we certainly would not have got that sort of time if that relationship had not been known. That has happened in a large number of these business cases where, because of the problem I mentioned much earlier of the relatively small size of the bureaucracies—particularly the trade bureaucracies—in these countries, the same people who do the Cairns Group, the WTO and the bilaterals are the people that we have to go and see on market access issues. The benefits that we have got out of that spin-off have been very high for our companies.

Mr O’KEEFE—It may be that our committee in this particular piece of work may be able to help in certain situations—for example, the orange juice concentrate and the huge barney we had over imported Brazilian concentrate. Another example is Canada and pork. It may well be that there are some legs now to explore the relationship between the different companies in the countries to see if there are not other parts of the world market that we might do together, with orange juice concentrate for example, rather than create problems by going into each other’s market. I just think there is a bit of an opportunity to explore those views. I understand you have got to be pretty sensitive about how it affects the overall goals of the Cairns Group. I just think we might have opportunities that have been opened up now that we could better explore.

Ms Minahan—An example of what you are talking about is specifically in the citrus industry. Brazil has indicated an interest, fairly informally at this stage, in the possibility of working with Australia, in Australia, in the citrus industry.

Mr McKinnon—I think like you that there are benefits to be gained by cooperation. It is an interesting point that sometimes people look at the Cairns Group and see that there are a lot of our big competitors in agricultural terms and wonder whether the cooperation is a very natural thing. Cast your mind back to some of the earlier presentations made here about how the Latin-American economies have been affected by the downturn in commodity prices. With many of those commodities, such as oil and some of the metals, there has been a strong supplier response to the low prices and in a natural way markets have seemed to have started to clear themselves.

The exception in commodity terms is agricultural commodities where we do not get that supply response because of the subsidy arrangements in major producing countries. Even though we and, say, Argentina, are very tough competitors in a range of grains and we and Brazil as you mentioned in orange juice concentrate—we well know about the competitive problems that that has caused our own industry—and in horticulture with Chile, the fact is that our shared interest in trying to address some of the problems affecting the commodities and the horticultural products where we do compete directly is very strong. It is a group that has got a very strong reason for its being, in addition to all those other benefits that can flow from cooperation and familiarity.

Mr O'KEEFE—I have always thought too that, if the EU and the US see the Cairns Group countries beginning to do more trade with each other and beginning to act more as a cooperative trading bloc—a terrible term to use, I understand—it is also going to put some ginger into the negotiations, so I am not shy about trying to explore those things.

Mr McKinnon—I think there is a very real example of that in the Uruguay Round where a couple of times momentum seemed to be lacking and it was actually the prospect of APEC delivering real trade reform that gave that some impetus, so that is a real phenomenon. I think you are right in that direction.

I would make one point that there are really only two forces pushing for agricultural liberalisation in the World Trade Organisation. There are over 130 members, but there are only the 15-member Cairns Group and the United States. The United States is our best of friends in agricultural trade policy terms but, as you know, with their big subsidy programs they cause us a lot of problems, so it is a bit of a love-hate relationship on agricultural trade. Certainly, the United States is a key element of a Cairns Group approach to the next WTO negotiations. If we do not have the United States pushing strongly on agriculture with us, then that will limit our chances of getting a result.

I am pleased to be able to say that, at the meeting in Buenos Aires at the end of this month that Minister Vaile is chairing, United States Secretary of Agriculture Glickman is attending and playing a significant role in all of the program—reflecting, I think, the importance the Americans attach to the Cairns Group as the mirror image of the way we regard them as an important part of the process.

Mr O'KEEFE—Thank you for granting me that indulgence, Chairman.

CHAIR—In regard to Chile and Peru who are members of APEC, what opportunities do you see for Australia being involved with an RTA in that area?

Mr Cobban—The Chileans have been at the forefront of proposals for various forms of RTAs. We have been prepared to look at it. I think a bilateral RTA involving us with the Chileans would have very limited gains for us mainly because the Chileans can afford to get into this game because they have to give virtually nothing away where they are coming from. Their main problem is, in fact, attempting RTAs within South America where, for example, Mercosur's common tariff is probably at least double—

Ms Minahan—Three to 20 per cent.

Mr Cobban—Yes, so it is about double, roughly, the average tariff of Chile, so they would have to go back upwards, which nobody wants them to do, or the others come down, so they have got real problems. I do not think we are too keen on the concept of trade agreements unless they have some really significant attributes that do not cut across our efforts in either APEC or the WTO.

So, in response to some of these initial suggestions on various regional trade agreements, we said that we would be prepared to look at anything that resulted in a faster freeing up of trade, but that we would want to see a balance of countries involved in it, and that it would have to address the serious and significant product areas for us. We have done a lot of work over many years on looking at various free trade agreements. It is an extremely complex issue. In a great many of the cases, getting a positive result for Australia requires the other partner giving far more than they are prepared to do.

Mr Shannon—Perhaps I could remind the committee that our reference point on this issue is the press statement that was issued in the context of the joint Prime Ministerial task force on Australia-New Zealand bilateral economic relations and the joint Prime Ministerial communique which came out very recently. In that context it was said:

> New Zealand and Australia are willing to consider free trade arrangements with other significant individual economies or regional groupings where they would deliver faster and deeper liberalisation than the multilateral process with the objective of gaining better market access for our exporters, faster economic growth and stronger employment growth. Such arrangements would need to reflect the principles underpinning CER, including WTO consistency.

That is our reference point.

Mr McKinnon—There is one other element to that. It is a fact that as you have a round of negotiations in the WTO context approaching—and that is not completely agreed yet, but there is a growing sense that it will be agreed—then there is a shadow that anticipates that you will go to a country and say, 'We would like to negotiate with you on a range of things,' and they will say, 'We have got these WTO negotiations coming up. First of all, we find it difficult to allocate the resources to that. Second of all, we worry about changing our external tariff, our trading arrangements, in anticipation of a WTO negotiation which may force us to do things on top of that.' There is always that problem.

Allied to that, ministers in our case would also be considering where we would be wanting to face our negotiating resources. Would it be Chile or Peru, or the negotiations which are starting, effectively, in three or four months in a WTO context? So it is a real consideration.

Mr O'KEEFE—I would certainly be highly supportive of that kind of statement of approach for the reasons I was outlining before. I was in Brussels about 18 months ago when the Cairns Group senior bureaucrats were having their first look at the preparation for 2000. I just happened to be there so I was interested in attending the meeting.

It was very clear that what the Europeans were going to put on the table and what the Americans were going to put on the table was nowhere near as advanced as we would have liked. It has been hard yards, and there was a resolution then that everybody stay in the cart. I felt that the direction that the government was taking in promoting perhaps some bilateral arrangements to hurry the show up a bit makes sense. That statement, to me anyway, makes sense as a strategic way to go into this next round. I think we need to be encouraging that, Mr Chairman. That is a personal view. It is not a party policy view at the moment, but it makes sense to me anyway.

CHAIR—Does any other member of the committee have any matter they wish to raise? Murray, do you have any closing comments?

Mr Cobban—No, Mr Chairman. I would just like to again thank you for the opportunity to make the presentation to you. I have to say that the announcement of the committee's terms of reference was very useful for us in energising our own work and giving us a focal point, which resulted in the submission that we put to you. We think we can use that and then work with whatever results your committee comes out with to help this process of encouraging companies to get into this market. So, thank you.

CHAIR—Murray, thanks for your attendance here today. If there is any additional material you wish to provide, please do so and give it to the secretariat. You will, of course, be sent a copy of the transcript. Thank you very much for attending. Is it the wish of the trade subcommittee that copies of the 13 slides from the Department of Foreign Affairs and Trade be incorporated in the transcript of evidence? There being no objection, it is so ordered.

The document read as follows—

[11.04 a.m.]

POSSO-SERRANO, His Excellency Mr Abelardo, Ambassador, Embassy of Ecuador

MENDEZ-RUEDA, Mr Miguel, Counsellor, Embassy of Ecuador

CHAIR—On behalf of the committee, I welcome His Excellency Mr Posso-Serrano, Ambassador from the Republic of Ecuador, and Mr Mendez-Rueda. I must advise you that the proceedings here today are legal proceedings of the parliament and warrant the same respect which proceedings in the respective houses of parliament demand. Although the subcommittee does not require you to give evidence on oath, you should be aware that this does not alter the importance of this occasion. The subcommittee prefers that all evidence is given in public, but should you at any stage wish to give any evidence in private, you may ask to do so and the subcommittee will give consideration to your request. The subcommittee has a submission from the Embassy of Ecuador, which is submission No. 8. If you wish, you may make any statement in relation to the submission. Would you care to make some introductory remarks?

Ambassador Posso-Serrano—Yes. We presented a submission to the committee, and I would like to refer to that submission and to answer any questions that you may have in regard to it. Everybody has the paper, so it would probably be best to explain the objective of that document. We wish to explain to the committee the purpose of the government of Ecuador in being here in Australia. I do not know if this is the proper procedure of the committee.

CHAIR—It is correct. Please continue.

Ambassador Posso-Serrano—Thank you very much. At the outset I would like to put emphasis on the fact that the government of Ecuador is now represented in Australia. We opened our embassy one year ago, and six months ago I came here as the first Ambassador of Ecuador in Australia. We want to show our interest in this region and, particularly, in Australia. We know that we have economic problems with respect to keeping the embassy open here but, in any case, we have made the effort to open the embassy and to keep it open on this continent because we have a tremendous interest in raising our country's profile, both within Australia and within the Asia-Pacific region. We feel that Australia is a very important country, which will help us to project our profile.

We believe that showing interest in a country is a two-way street. We are showing one way: we have opened the embassy to show that we wish to have a very long and a very strong relationship with Australia. But we feel that Australia has to show interest in our continent and our Latin-American countries; more precisely, they should show some kind of interest in our country—Ecuador. There is now an embassy open in Caracas for the Andean region, which attends to the interests of Australia in Venezuela, Colombia and Ecuador.

In a similar manner, two years ago we opened an embassy in Japan to attend to our business with Australia. It was very difficult for us to come to Australia from Tokyo, as it probably is for your ambassador in Caracas to attend to the situation in Ecuador. The distances are very great. The Latin-American countries are very similar in many ways, but certainly we feel that Australia has to show that it is interested in its relationship with Ecuador. If it is not possible to open an embassy in Quito, perhaps it could open a consulate or a commercial office in our principal port in Guayaquil or in Quito. So we have to have some kind of reciprocity in this matter.

As Ecuadorians here in Australia, we are in the process of getting knowledge and investigating in order to identify the potential areas of interest that we may share. The idea is to establish and to strengthen our relationship, but we know that we are very new in Australia. We have to learn a little more and we have to get to know people like you: the people that work in the parliament and the ministries and the departments. We have to learn the best way to introduce ourselves to Australia. We have started to make efforts to identify the problem areas of cooperation between our countries. I have put in the submission that I sent to you that we have a tremendous interest in matters relating to trade and cooperation. We have started to work on this and we are now gaining initial knowledge in this area.

We feel it would be very interesting for us to establish a better way to trade between Ecuador and Australia, but we believe that some kind of misunderstanding exists in Australia about the realities of the Ecuadorian products. These misunderstandings may sound ridiculous in such a place as this but, in the minds of the people, they continue to exist. Let me give you the example of bananas. We were the first of any country in the world to export bananas. Did you know that? We were not the first producers, but we were the first exporters. Many years ago, somebody said that there was a kind of spider that lived inside the bananas. That is impossible. There is no zoological species of spiders that lives inside bananas. But there is this misunderstanding that it is not possible to import the bananas because they may have a particular type of spider in them, which actually does not currently exist anywhere in the world.

On other occasions they talked about some kind of sickness that we have to control through the fumigation of our fruit. They said that the chemicals that we use to fumigate our bananas could be very dangerous for the health of people who eat the bananas. This is particularly in regard to the black sigatoka. We have scientific proof that this is not true. Certainly, we take all possible measures to protect our fruit from the black sigatoka, but there has never been a tremendous sickness in Ecuador. Ecuador probably became the first exporter of bananas due to the sigatoka disease in Central America. So for us, the sigatoka is actually a positive thing in that it affects our competitors, not us. The sigatoka is controlled. Nothing is wrong with our control of the sigatoka: the chemicals that we use are not of concern.

There are many other things that contribute to this kind of misunderstanding, this lack of knowledge, of these matters. We would be very interested in a visit from the people of Australia, particularly the quarantine service and the scientific people, regarding the control of diseases and so on in order to maintain the health of the products. It would probably be a good idea for them to go to Ecuador to ask for all the scientific proof that we have to show that we are certainly not a dangerous country and to establish a good trade relationship with Ecuador.

On a similar note, we are also considering the possibility of establishing a relationship with the wine industry. We have a very good environment for the production of grapes, but we do not have the technology that has been developed in Australia to produce wine. We are certainly doing our best to show the people of your country that we can establish joint ventures or other forms of cooperation with the private sector of Australia in order to make it possible to receive the benefits of the technical skills that Australians have in the wine industry.

There is also the matter of flowers and the possibility that we could establish that market here. We now produce the best quality roses anywhere in the world. We have received a qualification that is probably the best qualification in the world. That is not just my chauvinistic opinion as an Ecuadorian—it is certainly true. The market in Australia could be very interesting for Ecuadorian producers. We are looking at the possibility of having a type of certification to show that we can prevent diseases in cut flowers. We probably also need better links with the quarantine service to show that there is no danger with our cut flowers and that the cut flowers cannot reproduce. One of the things that they pointed out in Australia was that often you can produce plants through cut flowers, but this is not possible.

In any case, we feel that flowers provide a very open opportunity to start. We feel that within our products, and all the products we mentioned in our letter, the improvement of the market in Australia, the consumer drive for Australia, could be better served with our products because we are offering very good quality products.

We feel that in other situations we have established some kind of better relationship to cooperate between ourselves. We notice that in Australia you do not have experience of the presidential regime, to give an example. We have been living with a presidential regime for 200 years. Probably there is the lack of knowledge in Australia regarding our ways of dealing with the President. It is not always easy to deal with a president! In any case, if you visit you will have the opportunity to know the way that we are dealing with this problem. It could be interesting also for Australia.

We know that our country is a very small one. We are now suffering some economic problems, but with more time we will be in a better situation. We understand that. We are not saying that our experience in all fields could be very interesting for Australia, but we certainly believe that there probably exists many, many fields that could be of common interest and that it could be of interest to Australia to know the way that we are dealing with some kinds of things.

The way we are treating minorities is very interesting. We have an Indian community that is 30 per cent of our population. I think that the organisation of the Indian community in Ecuador, the minorities in Ecuador, is probably the best in South America right now. They have a very good relationship in a national way and they offer their representatives for the parliament.

Their candidates, without any support from the political parties, are voted in by the people to go to the parliament. The members of the Indian communities in Ecuador go to the parliament to report for all nationalities, not just for their sector. I think it is another way to do things and probably it could be of some kind of interest if you have a problem with your Aboriginal indigenous people. Probably our experience, our way of doing things, could be of interest.

I put that as an example because in the matter of trade, that is the proper matter of this committee. Probably we also need help, support, to receive the benefit of international cooperation of Australia in some kind of activities that we are developing with success in Ecuador—and I put again the example of cut flowers. We feel that in the matter of investments by some people, with the help of your committee or the people of Australia, or the government of Australia, we can establish very good businesses with common benefits in the matter of mining, for example. We are now able to offer very good possibilities to investors and probably the enterprises of Australia could be interested in that matter.

Another thing, to finalise, is tourism. Tourism is very well known in Ecuador. We have developed the industry in a very good way. We have Galapagos as part of us. You know that. Galapagos is a very important tourist attraction for people from all over the world. We succeeded in keeping Galapagos as a national park over many years. We have some kind of interest to show that to the people of Australia. We receive tourists from Australia in Ecuador.

Also, we have some problems with the ways that we have to link between Australia and Ecuador. We have to fly through the south of the continent and we have no delineated line to be together. We are part of the Pacific Basin too, but certainly there must be some kind of reality in regard to the appropriate approach of our countries in the matter of tourists, in the matter of mining, in the matter of cooperation. With these last words, I would be open to answer any questions that you have on this matter.

CHAIR—Mr Ambassador, thank you for that presentation. I would like to ask the first question. You mentioned the severe economic downturn and economic crisis that your country has been through. How do you think that has impacted on the decisions of, say, Australian companies to invest or be involved in joint ventures in Ecuador?

Ambassador Posso-Serrano—You are absolutely right. Certainly, we have economic problems now but we are starting to solve those problems. Fifteen days ago we received a mission from the International Monetary Fund and the World Bank. We received all the offers to reopen credit lines for Ecuador.

Also, we have changed our administrative procedures in the matter of economic affairs. We are now on the way to having another organisation to deal with economic and foreign trade matters, a very strong ministry, that has to deal with the treasury, production, promotion, and also with economic matters. Also, we are succeeding in reforming the tax system in Ecuador. We kept some kind of little tax for the movement of capital. We feel that in a month or a month and a half, maximum, we will have a very good way to improve our economy. We are certain of that.

We have received the approval of the International Monetary Fund, the Inter-American Bank of Development, and also from the Andean community for promotion and production in the Andean region. We feel that now we have done everything that foreign governments have recommended to us. The international organisation of credit has recommended us. We have put an effort into all those issues. We feel that everything will be ready.

Certainly, we can offer a better way for economic joint ventures and other investment from Australia in Ecuador. We feel that our first approach is to show that we have very interesting products and we are a very interesting place for the investment of Australian capital. We feel that the lack of safety for matters of policy could be related to the new business and you could be assured that in a month and a half, everything will be ready.

CHAIR—Thank you.

Senator FERGUSON—I notice from the information that has been supplied to us that nearly 40 per cent of your exports go to the United States. Could you tell us what those exports comprise. What are the major commodities that you sell to the United States?

Ambassador Posso-Serrano—Certainly, the United States is our principal partner, so it is impossible to forget that North America is there. We call ourselves America also. We have had a tremendous relationship with the United States for many years, but certainly we have successes, which are just as important, in other regions of the world. We have a very good relationship with the European Union. Our principle bank is the Deutsche Bank. And the ABN Amro bank is the most important international bank in Ecuador—not a North American bank but a Dutch bank.

We have a very good relationship with Germany. It is probably our best partner in Western Europe. We also have good experience of commerce with the Eastern European countries and we are the second partner for the Czech Republic in trade. We are the second or third partner—I am not sure—with Poland in trade. We have a good relationship with China. We are now selling cut flowers to China. Nobody felt that it was possible but it certainly is possible. We also have good relations with Japan, which is probably the fourth or fifth partner in economic importance for Ecuador.

Certainly, you may adjust statistics. Probably the United States becomes very important if you just see the statistics but it is not absolutely true as a tendency. The tendency of Ecuador is to open our markets with northern countries. We have a tremendous interest in the Asia-Pacific countries. We have opened up our embassy here not just to be here in Australia but to use Canberra and Australia as a bridge to project ourselves into New Zealand first—New Zealand for us is very important—and then the other countries in the region: Indonesia, Malaysia, Papua New Guinea and other little countries in the north. We feel that Australia has tremendous experience in that matter and can help us to project ourselves in a better way.

Senator FERGUSON—What do you export into the United States? You are talking about flowers to China. What do you actually export to the United States that provides 40 per cent of your total exports?

Ambassador Posso-Serrano—The United States is the principal partner in our banana market. We send sheep to the United States. The second market into the United States is flowers and we have other products. We have hats and textiles. We sell oil to the United States; oil is also very important. We have fine goods, seafood, handicrafts—there is a very good market for Ecuadorian handicrafts in the United States—coffee, cocoa and sugar.

Senator FERGUSON—Do most of your exports go by sea? You obviously have better air transport connections with North America.

Ambassador Posso-Serrano—We use sea transport for oil and other products, but we use air transport a lot. With flowers for Europe we use air transport. With Japan and Korea for flowers we use air transport. But with oil it is very difficult because of the cost. It is better to use ships for that. For commodities, we mostly use sea transport.

Senator FERGUSON—Is there any tourism between Australia and Ecuador at present?

Ambassador Posso-Serrano—I do not have the precise statistics about the number of Australians but certainly in the South American and Pacific region, Galapagos is very well known and is a kind of hook to take the people to visit other countries. We have the possibility to work together with the Peruvians and Colombians. The Peruvians offer Machu Picchu, which is very interesting. But probably the best known place to attract tourists is Galapagos, and it is one of the provinces of Ecuador so we have some kind of privilege in that matter of tourists. We receive many Australians. The tourism on Galapagos is very particular. You have to be very careful. People have to have a professional tourist guide. The environment is very fragile. We want to keep Galapagos in the way that you want to keep Australia—clean and free of any diseases.

We know that the fragility of the environment is certainly a very dangerous thing, and we have the finance to deal with that. So that is a very particular tourist thing for Galapagos. Probably it is a little expensive but, in any case, the common income of Australia is enough to go there, so we receive Australians in the tourist process. But they have to go through Santiago de Chile or to Buenos Aires and travel from the south of South America to the north part where we are—which is like going from Darwin to Sydney, more or less. It would be even more, I think—our continent is a little bigger. So probably we have to find a way to organise better contacts between ourselves.

Mr O'KEEFE—I might just touch on two points raised in your submission, Excellency. First of all, the key point that I believe you were making is that Ecuador has taken the step of opening the mission in Australia and you would like to see some reciprocation from Australia. You have put the case very directly and strongly, and I appreciate that. I think we ourselves are discovering that there is not enough awareness in Australia of the opportunity for work with South American countries like this, so I think you should go about the task of presenting the case the way you have this morning because you will get a good response. And don't be shy about doing it.

Secondly, you raised some questions about our quarantine barriers. We have been very sensitive about this because we are an island, and it is a very important issue for us in agricultural trade. I think it is true to say we have been under challenge in the WTO about our science assessment of imported products, and I think we are now pretty fair about this. I believe that if your banana producers or your rose producers or any other agricultural producers genuinely want to open a market in Australia, you will get fair treatment from our quarantine people, but you need to pave the way for them.

We are trying to demonstrate to the world the counter argument, and we are trying to break down barriers. So I think those points you make are good points. You have taken the step as a country of presenting your case here by opening the mission, and advocating it very strongly as you have this morning, and I think you will get a good response if you go about the business that way.

Ambassador Posso-Serrano—Yes, you are absolutely right. I probably put an emphasis on it because I have some problems expressing myself in English. Probably that is it. But, in any case, I am saying that countries have to show some kind of interest to keep some kind of relationship—and, certainly, I feel that Australia showed some kind of interest in Latin America, and they have started to look in a better way to have a better relationship with Latin America as a continent and with my country individually.

But probably you have to reciprocate the efforts. As a very little country, a very poor country with some kind of problems, we made the effort to open the embassy here, and it is very expensive. They always used to say that we are the diplomats and we used to be very expensive to keep. It could be certain that for an Australian to live in Ecuador and to pay for their public salaries and everything, that could certainly be a way to say that Australia has noted a way to open all the embassies that they have in different countries. Certainly, that is true. But we feel that we need to have some kind of better approach. Probably you have to look again for the possibilities that we have to open consulates in our northern commercial representations—commissions, as we used to call them in our countries—to pay more attention to the Andean groups.

Probably the first impression you have of Andean groups is that we are more or less little towns in a very small area. But this is not true. We are a very important market for Australia. Australia needs to be in the process of integrating with our Andean region. We offer a market of 50 million people, and I think it is a very interesting market for trade purposes.

On the matter of quarantine, you are absolutely right. We know that we have to accomplish everything. It is not our purpose to breach the protective rules that you have to have to protect the very particular and rare environment of Australia. We know that—we have the Galapagos Islands—and it is a matter that I have talked about. We feel that we can organise some kind of better cooperation by starting to tell the people of the quarantine service to go to Ecuador and look at the things we are doing there. It is probably the lack of knowledge of our ability to do things that could be an obstacle. Maybe this is a way to say, ‘The people are doing well,’ because we feel that we are doing well.

Mr O’KEEFE—What I wanted to reassure you about was that our people working in this field are, I believe, quite open-minded. In fact, they come under criticism from our agricultural producers for being too open-minded in trying to facilitate and recognise expertise overseas and for accepting evidence from overseas. So I think you should not see that as a barrier. If your science is good—and you are saying that your science is good—then our science will respond to that.

Ambassador Posso-Serrano—Yes, we are waiting for that. We hope that will happen because we are open to showing you that we are doing things properly.

CHAIR—Ambassador, I note that Ecuador indicated that it would offer security in guarantees in regard to Australian investment in your country, particularly in the area of joint ventures. Are there any joint ventures in the pipeline that you are aware of?

Ambassador Posso-Serrano—Not with Australia, but with other countries, yes. With Australia no, but we are ready to make some kind of agreement to protect investment. We are ready for that. We have the same procedures with the United States, the European Union, Japan, China, Korea and many other countries in this area. I think with Australia we have not made an agreement but we can propose, at your request, an agreement to protect the investments of Australia in Ecuador. We are ready for that. We know that is a requirement and we are open to doing that. We feel that is good for us because we offer another warranty. So we are open for that at any time.

CHAIR—A second matter is that trade between the two countries is scant. You note that as well. In your view, what are the reasons for that? In regard to goods, what are the shipping and air transport links like between the two countries?

Ambassador Posso-Serrano—Distance is one of the problems. I think we have only two ways to go. It is very difficult to answer your question. I do not know precisely the reason why we do not have a very good trade relationship. We have to open that. With the presence of the embassy here, we hope that trade will be improved between the countries because we are ready to show all the products that we have. In past times, probably nobody knew that we could offer some very good products for Australian purposes. It is probably because of the lack of knowledge between the countries and the difficulties in communication that our trade relationship has not been very good. With the new systems of communication—computers and all those things—we are probably in a better way to help that.

I hope that things could be better in the future, but certainly the reasons that we have right now to take further steps in terms of trade are certainly very difficult for me to say. I do not know exactly. I repeat for you that it is probably the lack of knowledge of the offers and demands of our countries. Probably, if there was better knowledge about mining resources in Ecuador that could be a way to interest Australian investors to go to Ecuador. So it is the problem of us being very far away—mentally far away, because we are geographically more or less neighbours, with the Pacific in the middle.

But in many ways we started to establish some kind of priorities in the past, and the priorities were the United States and the European Union or the countries that we have a long relationship with. Also, with Australia, we have not had more links and more relations in the past. That is our fault, and we want to improve that. That is why we are here. That is why we are open to receive the missions and the commercial traders and everything in Ecuador. We want to show you that we have the opportunities.

Senator O'BRIEN—Thank you for your submission this morning. You made some comments about the possibility of seeking joint ventures with Australian companies to establish wine production in your country. Has your government done any work on the feasibility of establishing an industry in your country, given climatic conditions which would be, I think, significantly different from those in Australia?

Ambassador Posso-Serrano—Certainly we used to have some kind of experience in the matter of the grapes, but our weather is too good to have the grapes for wine, in my opinion. I am a lawyer, so I am not an expert in the matter of wine. I used to drink wine, but no more than that. I feel that we have the possibility to have two productions per year with our weather. We do not have four seasons; we just have the dry season and the rainy season in our country. We are precisely in the middle of the world, so we have a tremendous amount of light. The light is very good for the flowers—that is why we have the best flowers. It is not a matter of our technology. I think God is very nice to us.

In the matter of grapes, we used to produce a very big table grape that is good to eat but not to produce wine with the traditional systems that they normally have in Europe. But you have the skills in Australia to produce a good wine with grapes that did not used to be dedicated to the production of wine. I know the kind of grapes, and probably we feel that with our production two times per year and the effort to accomplish it with the Australian technology, the effort could pay off because we offer two productions per year. That is certainly an advantage.

We are looking for the times, and we received some kind of technical data regarding the composition of the soils for the rainy seasons and the dry seasons. In Ecuador we have many regions situated on the coastline and in the mountains that are very dry and that could be very good for the wine industry because they produce a not so big grape. We are in the process of investigating the matter, but I feel that that could be a very good business.

Senator O'BRIEN—Given your close trading relationship with the United States and the fact that they have a not insignificant wine industry, is there any interest from the United States—

Ambassador Posso-Serrano—They have the production of Californian wine. I feel that the industry of the United States wine is very particular, and they have another taste to their wine. It is a more fruity wine. They have put some kind of wine with the appearance of the taste of grapes but it is not precisely wine, so for ourselves, in my personal opinion, Australia could be more interesting for the way that you develop your wine industry and because your wine is certainly wine in the proper sense of the word. In my opinion, the United States wine is closer to a juice, not a wine.

Senator O'BRIEN—They are fighting words to the American wine industry.

Ambassador Posso-Serrano—Yes, for the majority, certainly. I am sorry to say that I am not an expert, but if your opinion is regarding the majority of the product, most of the American wine is not wine.

Senator O'BRIEN—I think we better leave it there. Thank you.

CHAIR—As there are no further questions, I thank you, Ambassador, for your attendance here today.

Ambassador Posso-Serrano—Thank you very much.

CHAIR—If there is any additional material that you wish to supply to the committee, you could send it to the secretary. Thank you very much for your attendance.

Ambassador Posso-Serrano—Thank you very much for this opportunity. I appreciate very much being here. I note that you have shown the interest that I am saying we have to have. I appreciate that very much. I thank you and I thank all the members of the committee for the kindness in receiving me and giving attention to my words and my emphasis. I am sorry if I am not so clever in many other things, and I am sorry about the wine also—the American wine is very good!

CHAIR—Thank you very much.

[11.48 a.m.]

SADER, His Excellency Mr Pablo, Ambassador, Embassy of Uruguay

CHAIR—I welcome Ambassador Sader. I must advise that proceedings here today are legal proceedings of the parliament and warrant the same respect which proceedings in the respective houses of parliament demand. Although the subcommittee does not require you to give evidence on oath, you should be aware that this does not alter the importance of the occasion.

The subcommittee prefers that all evidence is given in public, but should you wish at any stage to give evidence in private you may ask to do so and the subcommittee will give consideration to that request. I ask you now to give a short opening statement to the subcommittee and we will then proceed to questions.

Ambassador Sader—Thank you very much, Mr Chairman. First of all, I am extremely pleased and honoured to testify today before this subcommittee. This is a very important inquiry. Allow me to commend you and the subcommittee on this initiative of reviewing the state of Australia's trade and investment relationship with South America. I think this is the second time that the Australian parliament has embarked on this kind of exercise. This involves a great deal of foresight. I will occasionally refer to the standing committee's June 1992 report and make some comparisons, when applicable, between present realities and those of the time of that groundbreaking report.

Things have evolved significantly and positively since then. There is no doubt in my mind that South America is the continent of the future and, in many ways, it is the continent of the present too. The links Australia has with it have been increasing over the last few years and I would like to think that the trend will continue in the future. I am also pleased to note the quality of the written submissions by governmental departments and agencies, and associations and individuals as well as private sector firms. These submissions show a great deal of intelligent thinking and real interest in the region. I believe we can be assured that this inquiry will contribute to this rising but—as many submissions point out—still insufficient awareness of our continent in Australia, and vice versa.

I will try not to elaborate in abstract. I will not insist, either, on many figures—I think you already have figures in the many submissions that have been presented to the subcommittee, which will save me a great deal of effort. I will focus instead on facts and concrete aspects of the bilateral trade and investment relationship with Uruguay. I will put emphasis on nuts-and-bolts types of issues—as that ad for an American talk show says, 'Real cases, real people.' I am hopeful that this will show that, in spite of appearances, trade and investment links between Uruguay and Australia are quite significant—small, but quite significant—and, most of all, that the prospects are very good and are real. We can make them grow exponentially if we do the right things. I will try to be as brief as I can in order to allow sufficient time for questions. I will also provide the subcommittee with an expanded version of my words as a submission. I talk there about Uruguay, its assets and its insertion in the region.

Bilateral relations between Uruguay and Australia are excellent. To sum up, we have an excellent, longstanding political relationship cemented in, among other things, the following facts. There is a large Uruguayan community living in Australia—between 16,000 and 20,000 people, living mainly in Sydney and Melbourne but some scattered all over the rest of Australia. It is a community which has integrated very well into Australian society. As I like to say, it is a human bridge between two distant countries, and their contribution cannot be overestimated. They are meaningful economic actors in the relationship.

We also have optimal cooperation on trade policy. Trade liberalisation, in particular agricultural trade liberalisation, is a vital topic for both economies. Agricultural trade liberalisation is a top priority for trade policies for both countries and is an area in which we have cooperated extremely actively and well in the framework of the Cairns Group. We have always faced, and still face in the lead-up to the Millennium Round, an uphill battle to level up the playing field for our efficient and unsubsidised agricultural producers and processors. We have always valued Australia's leadership and contribution in the Cairns Group. We also cooperate in an excellent fashion in all Southern Hemisphere groupings and dialogue mechanisms. We are like-minded countries in all international fora.

There is also the perception that we are competitors—which is partially true. We produce many similar agricultural commodities and we are competitors in some markets. On the other hand, this perception is a mistake. Being producers of the same commodities gives us a great number of synergies and makes us complementary in many ways. The fact that we are prize takers in a dwindling commodities market creates a link of solidarity, which is pretty obvious and is working.

The wool industry is a good case in point. We are both producers: Uruguay is the third largest world exporter of wool and the second largest in wool apparel after Australia. We are the only remaining associated member of the former IWS, currently the Woolmark company. We have been suffering a loss of ground in the global fibre market. Only producers and top makers have a direct interest in the fibre. From then on in the textile pipeline, manufacturers can deal with other fibres indistinctly. It is in our interests to cooperate in that particular regard, and I am pleased to note that our industries are quite in touch through many mechanisms: IWTO, Woolmark, et cetera.

Unfortunately all this cooperation by no means translates into figures of trade and investment. The fact is that our bilateral trade is quite modest. However, there are a few hidden facts and there is an interesting potential that I would like to refer to later in some detail. Likewise, Australian investment in Uruguay is small, hardly visible and not very well known—but it exists. I am convinced that, and I will try to demonstrate why, there is a promising future in this regard.

Australia's perception of Uruguay is dominated by the concept of size. Often people say, 'Three million people—case closed.' But size is a relative concept. I am sure you know this very well because you are a market of 19 million people, so you are also a small market by world standards. You certainly know that market size is misleading and hides many interesting things. Synergy and quality should be the dominating concepts in our mutual approach. There are plenty of synergies to build on. In upgrading the level of our representation to the rank of full ambassador, my country has committed itself to these two concepts.

I will refer to what my colleague from Ecuador said in his presentation a few minutes ago. The South American countries have nine resident embassies in Canberra; Australia has only four in South America. Uruguay has had a resident embassy since the late 1950s. As I said, we have recently upgraded the level of our representation to full ambassadorship, and we did so because we believe that there is great potential in the relationship. Of course, I am a diplomat, so do forgive me if I think that diplomats are useful for the development of relationships—I am pretty biased here!

The Australian ambassadors and diplomats resident in Buenos Aires have done an outstanding job. They have been very professional and mindful of the bilateral relationship with Uruguay, to which they have contributed greatly. Having said that, I am convinced that it is not the same as having a constant presence in the field. Uruguay is a longstanding and good international partner to Australia and a key country in the Mercosur process, but it also provides a significant degree of opportunity for Australian business and therefore deserves a resident Australian embassy. It does not have to be a very costly exercise or a very big embassy. Here in Canberra we have a one-man Embassy. I would say it is quite a good experience.

I will say a few facts about Uruguay and then I will go straight to the bilateral trade and investment relationship. Uruguay has a small population, three million people, with a GDP of over $US21 billion, which makes us the highest GDP country per capita in Latin America after Argentina. It is an open economy. Our GDP has grown by 3.8 per cent over the last 13 years, with only two recessions. Unfortunately, one is the current one. At the same time we have had very low population growth, 0.6 per cent, so the GDP growth per capita is 3.1 per cent, which makes it a very good rate even by world standards. In spite of the current recession environment, we are pretty confident that these figures will be kept up in the future.

Another point I want to stress is social indicators. Uruguay has probably the best social indicators in South America in terms of infant mortality, life expectancy of 75 years, a doctor for every 275 inhabitants, a 97 per cent literacy rate. There is very even income distribution. We have the same curve of income distribution as Denmark. We rate as one of the countries of high human development in the UNDP annual ratings.

Telecommunications is very well developed. We are one of six countries in the world having its network entirely digitalised. We have a very good Internet penetration index of seven per cent, the highest in Latin America.

Briefly, Mr Chairman, Uruguay is a middle income economy that displays the best social indicators in South America. This very important fact is reflected in the political stability of the country, which has a longstanding democratic tradition with no political or social violence. We, for the first time in our history, have a coalition government which has been important in generating opportunities for a wave of reforms in many structural aspects of our economy and social structure.

The country has very liberal bank legislation which has made us the regional financial centre for a long time. We started economic liberalisation in 1974 at a very gradual pace, but uninterrupted, which I believe has granted us the title of world champions of gradualism, but it has worked.

Uruguay is in Mercosur, which is the fourth largest economic block. It is a market of over 200 million inhabitants, a huge territorial area, and GDP is 75 per cent of the South America's GDP. For decades, Uruguay and the countries of the region defined their development strategy in the model of input substitutions. Consequently, we fell into deep stagnation which lasted close to 40 years.

However, we started opening our economy in the 1970s and the major revolutionary change was accession to Mercosur, which increases not only the volume of interregional trade from around $2 billion in 1990, to close to $20 billion in 1997. If the trend keeps up it will represent over $80 billion by the year 2005. Of course, if we take this year's figure it is a different story, but you probably would like to know a bit further about the current situation. I will be happy to respond to questions later on.

Now I will jump to the bilateral trade in goods and services. As I said, I will try not to focus on the current modest levels of bilateral exchange of goods which are known to everybody, but I will mention a few hidden factors and depict some promising fields that are too often overlooked, both in goods and services.

I think we have to face it that Uruguay and Australia are never going to be major trading partners, for numerous reasons. We have similar agricultural production and exports and there is the size of respective markets, the distance, et cetera. But there are some interesting niches that can make our bilateral trade significant.

It is interesting to note, however, that if you compare the figures at the beginning of this decade that bilateral trade has multiplied by five. Although we came from almost nothing to a bit more than nothing, it is a good trend. Total trade does not reach $A20 million both ways. Another interesting fact is that there is quite a vast array of products involved in the trade. I would say in both directions there are over 60 or 70 products, with low volumes, but with scope to build them up easily.

I mentioned what was one of the hidden aspects of the relation, and this is the catamarans. Los Cipreses-Buquebus is a Uruguayan firm which has been one of the best, if not the best, customers of the Tasmanian based Incat factory. If you go to the submission in the section dealing with EFIC you will see that Uruguay comes second in terms of the amount of credits insured by EFIC with Latin America. This is because of the catamaran business, which has been a source of very good operations, many times unseen, because of the fact that the company is a truly multinational company. Although predominantly based in the River Plate, it has gone global over the last few years. Some of the catamarans they buy go on to Spain, which increases trade figures with Spain but does not do anything for our trade figures.

In terms of promising fields I must mention agricultural goods and machinery, including veterinary products and genetic products. When reading the Austrade submission I noticed that it elaborated on the potential for Australian exports to Argentina in that area but, mutatis mutandis, that applies to Uruguay perfectly.

Be aware that Uruguay is not a small market by any means in the agricultural area. Uruguay has more cattle than Queensland, which is your top beef producing state. It has 30 per cent more sheep than South Australia and almost as many sheep as New South Wales. We produce as much rice as the whole of Australia. We have as much dairy cattle as New South Wales. Interestingly, we have planted 450,000 hectares of eucalyptus over the last nine years, and at an increasing rate. Over the last couple of years, Uruguayan forestry companies have planted over 60,000 hectares per annum, which is a pretty impressive absolute figure.

I could mention other examples such as barley at 300,000 tonnes per annum, wheat, pastures, seed, citrus—you name it. All of these use similar, if not identical, production systems as Australian farmers, and in a very similar environment, although it is a bit more rainy. Our average rainfall is higher than the Australian rainfall. We have 1,200mm to 1,300mm per year.

Recently, when talking to an Australian person involved in agribusiness, he confirmed this view and said, 'I was in many Uruguayan farms and what I saw around me, in terms of equipment, was New Zealand equipment. The electric fences, milking machinery, and even the ear tags for the cattle, were all made in New Zealand.' I would ask if Australia can overlook these kinds of opportunities? The agriculture sector is therefore an untapped source of business. I think the important thing is to get to know one another better.

Something is being done. Over 100 Uruguayan farmers and people involved in agriculture have visited Australia over the last year, and the trend is growing. It is a pretty interesting industry, this technical agritourism industry. We would certainly like to see Australian farmers going to Uruguay in the same numbers and probably we have short-term good prospects in that particular regard. There is much more that can be done. Encouraging the participation of Australian firms in agricultural trade shows and exhibitions in Uruguay, and in the region in general, would be a good thing in that regard, as well as the organising of trade missions. I think we should encourage that as far as we can.

Putting people together is of paramount important. As recently as last month, a seed producing industrial from Uruguay came to Melbourne to attend a world congress and he went back home with a contract—a representation deal which he struck with an Australian producer. If this happened in this very casual way, without any planning or major support, I think we can imagine what could happen if we commit ourselves to develop this more.

I should also include research and development in agriculture on a commercial basis. In that particular field, something is being done by organisations involved in the area. We have the National Institute for Agricultural Research in Uruguay and it has signed a few contracts with its Australian counterparts very recently—some exchange of genetic materials on a commercial basis, a joint fight against footrot and some other illnesses, on the quality of wool, et cetera.

Two weeks ago, one of the deputy directors of the CSIRO attended a meeting in Uruguay of the heads of science and technology institutions of the Southern Hemisphere, which I believe is a very valuable initiative. On the bilateral front, quite a few areas were detected to develop on a commercial basis or for joint ventures to sell finished intellectual products to the world—for instance, wood technology, textiles, information technology, just to name a few.

Mining equipment and services are other areas of interest. There is quite an unknown potential in Uruguay in that field. Over the years we liked to think that Uruguay did not have any mineral resources, apart from the traditional limestone, quartz and granite, but with the modern techniques of detection it was demonstrated that we have a very interesting potential in gold and we have one of the few, probably the last, unexplored greenstone belts in the world. Fortunately, we have one Australian company prospecting for gold in Uruguay, with promising indications. It is a small company from Western Australia. We have a quite successful example of a company selling mining equipment to Uruguay and setting up the only operating goldmine in the country right now. It is Minproc, another Western Australian company, that set up this mining in record time—ahead of schedule—which is quite remarkable, and it was an award winning—

CHAIR—A true Western Australian tradition.

Ambassador Sader—Of course. They won an international award for environmental cleanness. So it is a very successful example that we would like to see repeated in the future.

Coming to the investment relationship, the difficulty is to have a precise idea of Australian investment in Uruguay. Apart from the fact that the structure of current international companies makes it very difficult to know which country one particular company is from, it is very difficult to put flags on companies. The fact that Uruguay makes no difference at all between national investors and foreign investors complicates things a bit further. However, based on empiric knowledge, I can mention a few cases. There is Uruguay Goldfields, the company I just mentioned from Western Australia, prospecting for gold; Burns Philp in yeast making; and Major Drillings, which is an Australian-Canadian joint venture, in mining equipment. There is marginal participation of Rio Tinto through share ownership of a Canadian firm prospecting for diamonds in the northern part of the country, and there is a small venture by Hoyts with a local operator in cinemas.

The amount of Australian investment is difficult to calculate but probably it does not go beyond the $A10 million. But six years ago it was zero, so it is a pretty positive thing. The most important thing is not what is being done, which is highly insufficient, but the potential. I mentioned the agricultural area. The key is the availability of fertile land at low cost. We have the highest per capita proportion of cultivable land in the world, the production of excellent agricultural commodities at a low price and easy access to consumer markets, in particular to the huge Brazilian market. I will mention a few interesting sectors. Dairying has the cheapest cost per litre in the world after New Zealand, excellent quality, quite a degree of investment in technology and people readily available to adopt technology because of high education and long experience.

Wine has been one of the success stories of Uruguayan rural industries. We had our wine industry multiplying its exports twofold every year for the last five or six years. Of course, we departed from a very low base and we only reached two million bottles this year, but it is a very promising field, with excellent quality wines—no brand name for the time being. It is probably where your industry was 25 years ago—good quality, small volume and no brand name; but, as you have been there, probably your industries could find this attractive. They are doing something in Chile and Argentina, but I think we have quite a significant number of comparative advantages in that particular regard, not the least of them being pretty cheap land costs compared to any good vineyard in the world. The quality is quite outstanding and the evolution is often depicted by the international wine and grape organisation as one of the models in the world.

Beef, lamb and forestry—to name some other sectors—offer to the international investor, and particularly to the Australian one, some very attractive prospects. I will not refer to mining again but I have some material that could be of interest to you. Then there is the infrastructure business. The region, and Uruguay in particular, embarked on quite a few megaprojects and many small to middle sized projects over the last few years. This reflects the economic, long-term realities of South America. So we are building for the future, building for increased commerce in the future and increased traffic in the future.

This goes for bridges—including the Buenos Aires to Colonia bridge, which is going to be the longest in the world—roads, railroads, ports, airports, waterways, waterway dredgings and a new energy matrix. We have recently started to change our matrix to natural gas through pipelines from Argentina. The infrastructure projects in Uruguay amount to a couple of billion US dollars which, by any standards, is quite an amount of money. I think there is an enormous window of opportunity for Australian companies but, as some submissions pointed out, it is a window that closes rapidly and many competitors have already come.

The fact of the matter is that quite a few Australian companies have a vivid interest in some of the projects that are being put forward in Uruguay. For instance, P&O has applied for a tender for a container terminal in Montevideo's harbour. Austrains belongs to the Bishop group. It is one of the four companies prequalified for a suburban railroad project. The competitive advantages of our ports have interested some important Australian resource businesses in some long-term projects related to the Paraguay Rio de la Plata waterway.

I was very interested to note that Austrade, in its submission, had mentioned the fact that there was a possible interest in Australian membership of the IDB in the mid-term future. I have always claimed that this is a very important thing. 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.

I could also mention the biotechnology area in which we have many competitive advantages, to which I referred earlier. It is a booming sector as well as the information technology sector, for which Uruguay is becoming one of the hubs of Latin America, in particular, in the Spanish speaking software market.

The last thing I would like to mention is tourism and visas. The number of incoming tourists from Uruguay to Australia is small but not negligible: it is 700 people per annum, according to Australian figures. I agree with many submissions which pointed out that the visa issue is a problem. It takes a long time to get an Australian visa and the percentage of rejection is quite high. This does not favour trade and tourism. I agree that Uruguay is never going to be a major tourist destination or a tourist source for Australia, but it is a small but interesting one. It will never pose a threat in terms of legal immigration; there is a total of 700 to 1,000 people. It is not that significant. There is also the fact that we do not need a visa to go to the United States of America, the European Union or New Zealand. I think this data is interesting.

I would like to conclude by thanking you once again. I think I went over the allocated time. I do not know if the subcommittee intends to visit the area, which I would very much encourage. I would like to invite you to visit us on a fact-finding mission. I am open to questions.

CHAIR—Ambassador, thank you for that very comprehensive submission. I will partly answer the question you posed. The subcommittee is in the early stages of a preliminary review of a visit to South America. We are keen to further promote the opportunities for closer trade ties between the two countries. We will now move to questions.

Mr HOLLIS—Ambassador, I am particularly interested in your comment about agritourism. When you said that something like 100 farmers came, was that an organised trip to look at agriculture pursuits in Australia, or did 100 farmers individually come?

Ambassador Sader—I would say there were four or five organised tours by two leading companies here in Australia in that particular area. There was a group of agronomists from Canelones, a Uruguayan province. Another was a group of veterinarians. There was also a group organised by a Uruguayan extension organisation called Plan Agropecuario which brought 30-odd farmers, among the best practice farmers of Uruguay, to get familiar with the Australian and New Zealand production systems. They found the Australian realities much closer to our realities than New Zealand, in terms of techniques and production systems.

There was another group of forestry people—the Society of Forestry Producers of Uruguay—who organised a trip. I also forgot to mention when I referred to services being provided that there are several consultancies from Australian firms to Uruguay in the agriculture sectors, and the forestry sector is one of those.

Mr HOLLIS—You mentioned a number of eucalyptus trees being planted—I forget the number. Why are they planted? Are they planted for timber?

CHAIR—Or for woodchips?

Ambassador Sader—Both; Uruguay offers quite an interesting combination of rainfall and soils and the absence of natural pests for eucalyptus growing. The rates of growth for eucalyptus are probably the highest in the world.

CHAIR—That would tend to make us think you were growing them for woodchips.

Ambassador Sader—Both.

CHAIR—With sawlog, you would get too many problems from stress. Are you doing work in that area, as a matter of interest?

Ambassador Sader—Yes. In fact, there are two main species that are being planted. We are also planting conifers but the two main species are eucalyptus globulus, which is a pulp related species, and grandis, which is a dual purpose one. This is a major avenue for future cooperation because you have the expertise here for industrial development of the wood. In the year 2002, we will have an output of over six million metric tonnes of wood, which is an enormous amount. Of course, the manufacturing industry is being developed but not as fast as it should be to cope with the enormous input of wood.

Mr HOLLIS—If you are planting these trees, does that indicate that there is no remaining forest left in Uruguay?

Ambassador Sader—That is a good question. The point is that we have natural grasslands; we never were a forested country. The natural forest only goes up to three per cent of the total arable area of the country. We are planting on top of the poorest agricultural soil which has been set aside for forestry purposes.

Mr HOLLIS—Is it economically viable to put this land into tree plantation rather than agriculture?

Ambassador Sader—Yes, it is much more viable. I read some figures the other day—I cannot remember the exact figure—but they are much better than the returns for beef, wool or crops. Of course, these lands which have been set aside for more favourable taxing system are not the good agricultural lands.

Mr HOLLIS—It is sheep land.

Ambassador Sader—It is mostly the regions where sheep grazing is done extensively. But, in the case of our industry, we do not have sheep grazing exclusively; we have dual purpose farms—beef and sheep, and beef, sheep, crops, et cetera.

Senator FERGUSON—I notice that 50 per cent of your exports are primary production or agricultural exports and yet, from Australia, for the first time I think in 1998, you actually imported quite a bit of beef—meat. You have regularly imported quite a bit of wool, but it seems to be increasing. Is that because you are looking for a special fine wool or something like that, because I know you make apparel? At times, there have even been some dairy products imported. I am just wondering why you need to import if 50 per cent of your exports are agriculture.

Ambassador Sader—It is a very, very pertinent question. First of all, I refer to beef. It was one shipment that we imported. It was to honour the commitments with foreign markets for manufactured quality beef. The point was that, in 1998, we were practically oversold. We were running out of cattle for export because of an enormous increase of consumption in the neighbouring countries and high prices for live cattle in the region which prompted retention by the growers. We exported record amounts to Chile, even to Argentina—almost 30,000 tonnes to Argentina. That is quite a feat. And, of course, to Brazil.

It is not the same situation this year. The regional markets have been weakened a bit by the economic recession. To answer your question, it was something that was done on a very ad hoc basis. It probably will repeat. It will happen again in the future, hopefully, if we run out of beef in the future.

Senator FERGUSON—What about wool?

Ambassador Sader—With regard to wool, it is the finer wools.

Senator FERGUSON—Fine wools.

Ambassador Sader—Because the majority of our wools are, on average, from 25 to 28 microns. We have a very good processing capacity in Uruguay. Over 90 per cent of the wool we produce we process, and we export it in many ways, but mainly in the form of wool tops.

Senator FERGUSON—Is the fact that the market is depressed for coarse fibres and for wool going to impact drastically on your potential?

Ambassador Sader—It has impacted already in the current trade figures. The last couple of years we had a decrease of the volume exported of wool. Of course, there is always going to be a market for coarse and mid-size wools. We are the No. 1 producer of this micronage in the world, which is not as thick as the New Zealand or as fine as the Australian. There is always going to be a niche. There is however an ongoing debate about whether we should go to finer wools or keep the current segment of the market and so on.

CHAIR—Do any members have any further questions?

Senator O'BRIEN—I think mine have been answered. It has been a very interesting presentation.

Senator FERGUSON—It was a very comprehensive presentation.

Ambassador Sader—Thank you very much.

CHAIR—Thank you very much, Ambassador. I do reflect the views of my committee members: it was a very, very comprehensive submission. I thank you for that, and I thank you for your time and your attendance today. I believe that you wish to table your statement. We will do that shortly. We will send you a copy of the transcript so that you can check it for grammar or fact.

Ambassador Sader—Thank you very much, Mr Chairman. It was a privilege to testify before the committee.

Resolved (on motion by **Mr Hollis**):

That the trade subcommittee accepts as evidence the statement tabled by the Ambassador as a submission to the inquiry into Australia's investment and trade relationship with South America.

Proceedings suspended from 12.35 p.m. to 1.41 p.m.

HAUGHTON, Ms Janette, Director, Overseas Resources and Liaison Section, Department of Immigration and Multicultural Affairs

NORTON, Mr Ross Phillip, Assistant Director, Air and Sea Port Operations Section, Entry Branch, Department of Immigration and Multicultural Affairs

PARKER, Mr John Roland, Director, Students and Working Holiday-Makers Section, Business and Temporary Entry Branch, Department of Immigration and Multicultural Affairs

RIZVI, Mr Abul, Acting First Assistant Secretary, Migration and Temporary Entry Division, Department of Immigration and Multicultural Affairs

SPELDEWINDE, Mr Peter, Director, Tourism and Visitors Section, Business and Temporary Entry Branch, Department of Immigration and Multicultural Affairs

CHAIR—On behalf of the trade subcommittee I welcome representatives from the Department of Immigration and Multicultural Affairs. The subcommittee has a submission from the Department of Immigration and Multicultural Affairs, submission No. 16. Do you wish to make any statement in relation to the submission, or would you care to make some introductory remarks before we proceed to questions?

Mr Rizvi—Thank you for providing the opportunity for us to appear before the committee. I would like to make a brief opening statement. In recent years, South America has not been a major operational centre for department of immigration operations. Permanent migration from South America has not been significant. Temporary migration has also not been significant, although in recent years it has begun to rise.

Against that background, the department of immigration has made some modest increases in staffing levels in our posts in South America. The nature of our operations in South America are under review. Our minister recently visited South America and against that background he foreshadowed some changes that we will be looking at.

While at this stage there are no plans to introduce the electronic travel authority in any further countries, the minister has indicated that he wants us to review whether agency arrangements—which are a more limited form of rapid processing compared to the ETA—could be introduced for Argentinean nationals. That review will start shortly and we hope to be able to act quickly once that review is completed. That was all I wanted to say at this stage, Mr Chair.

CHAIR—Thanks for that. We had as a witness this morning the Ambassador from Uruguay. The points of concern that he raised—and I wish to take this up with you—were the matters of visas and visa rejection, specifically. Would you, firstly, outline your policy in regard to visas; secondly, outline the criteria for rejection; thirdly, outline the wealth criteria, if it is there; and, fourthly, outline the reasons why you would perceive the need for rejections from South America at the level they seem to be occurring?

Mr Rizvi—I will ask one of my colleagues to pull out the figures on Uruguay, if we have them, and I will respond to the other parts of the question. I presume you are referring to visitor visas. The key requirements associated with an application for a visitor visa include that the person intends to make a genuine visit. There are other requirements, but rejections usually go to the question of whether a genuine visit is intended.

In making an assessment of whether a genuine visit is intended, the DIMA decision maker is required to consider a number of factors, although no single factor will necessarily determine the decision one way or the other. The decision maker is required to look at the case in its totality and on the individual merits. Some of the issues that may be considered include: the reason for the visit, whether the applicant has sufficient funds to undertake what the applicant has indicated to us that he or she intends to do in Australia, whether there are strong incentives to return and the employment status of the applicant. Those are some of the factors that are taken into account. As I said, any one of those individual factors would not necessarily lead to a rejection decision but rather it is looking at all of the factors in their totality.

CHAIR—Given the time all this takes—I recall that all these visa applications must be handled through your Santiago office—are there any plans to streamline it in any way?

Mr Rizvi—The question of streamlining usually refers to whether the electronic travel authority is to be introduced in any one of these countries and, if not the electronic travel authority, then some form of what we describe as ‘agency arrangements’ whereby we link up with a travel agent to facilitate more rapid visa processing. At this stage the government has indicated that with the rapid introduction of the electronic travel authority to some 31 countries now, which will shortly cover between 80 to 85 per cent of all visitors to Australia, that it is time to consolidate and pause before any further introductions to other countries are considered. So at this stage there is not an intention to extend the electronic travel authority to any further countries.

However, the minister has indicated that he wishes us to examine whether a more limited form of ETA—that is, an agency arrangement—might be introduced for Argentinean nationals. We would in that context also look at other countries. If the overstay and non-return rates associated with those other countries are such that an agency arrangement is possible, then that would be considered.

CHAIR—Have you any evidence that the visa breaches from this area are any better or worse than any other problem areas?

Mr Rizvi—We can only quote the relevant overstay and non-return rate figures. We have those with us for major countries in South America, and we can provide those to the committee if that would be appropriate.

CHAIR—To give me a handle on Uruguay, what is the problem there? Do you have a problem?

Mr Speldewinde—At the moment, the overstay rate for Uruguayan nationals—I am using 1997-98 visitor data as at 30 June 1999—is in the order of 3.13 per cent.

CHAIR—That would seem to be the lowest in South America.

Mr Speldewinde—It may be, but when you compare it to a global average of 0.36 per cent it is still well above the global average. If you look at the non-return rates—

CHAIR—Hang on. The global average will take into account countries where there is really never a question of overstay—Japan and those sorts of places.

Mr Speldewinde—Certainly.

CHAIR—So if we compared it to countries that may well have been deemed to be a potentially problem country, it would seem that Uruguay particularly have a very low rate. I am just wondering why they are suffering the price of being moderately good in compliance and what we are doing about it.

Mr Speldewinde—At the moment we are refusing visas for Uruguayan nationals at the rate of 3.79 per cent, which in itself is very low if you compare it to a number of other countries.

CHAIR—But if you look at Uruguay's economy, it is not bad in comparison to most of the others in that area and the other countries that we are worried about targeting, namely, the Asian countries, for obvious reasons; their economic crisis was higher. What did you say—

Mr Speldewinde—The rejection rate is 3.79.

CHAIR—I would have said that even 3.79 was a bit high.

Mr Speldewinde—Based on what, Mr Chairman?

CHAIR—The factors that you outlined are basically whether they have got a reason to go back, whether they have got money to support themselves and those sorts of things. We are trying to build a relationship and trade and tourism opportunities both ways with South America. Qantas have put on extra flights for that area. It would seem we are making it a little more difficult than it should be in regard to visas. That is why specifically, in evidence this morning, this matter was raised.

Mr Rizvi—Mr Chair, if I might just respond to that. Mr Speldewinde has referred to what is known as the overstay rate, that is the extent to which visitors from Uruguay remain in Australia illegally after their visa has expired.

The other factor that we consider when deciding whether a particular country might be regarded as a low-risk or high-risk country is known as the non-return rate—that is the extent to which a person applied indicating that they intended a genuine short-term visit, but at the end of that visit had decided, for whatever reason, to remain in Australia, either legally or illegally.

Whilst in the migration regulations there is allowance for persons to change status after arrival in Australia, relevant feedback to decision makers is the extent to which persons who have originally indicated a short-term visit subsequently seek to stay for considerably longer. That is a factor that needs to be taken into account.

For most ETA countries the extent to which people do not return after their initial visit or during the period of their initial visa—the non-return rate—is in fact quite low. For Uruguayan nationals that non-return rate for 1998-99 is a little over 11 per cent. That, compared to ETA countries, is quite a deal higher.

Senator FERGUSON—Is that exacerbated because of the large numbers of Uruguayans that have chosen to settle here and families are coming to visit and staying? Is there any evidence of the type of person that is overstaying their visa?

Mr Rizvi—We do not have that data with us, Senator, but that could well be a reason, although where an individual is applying from overseas to come to Australia on the basis of a family relationship, intending to stay permanently, the migration regulations require that those persons should apply from overseas. They should not apply for a visitor visa with the intention of changing status once here.

Senator FERGUSON—I understand that it may be possible. The reason that there is a higher percentage of overstays is that the number of Uruguayans in Australia is the second highest, I think, of the Latin-American countries. I think the figures that we heard showed that some 16,000 or more—possibly 18,000—have settled and it is just possible that visitors may have come on a visitor's visa and then, because of the family situation, they may have made a decision to overstay their welcome after they got here.

Mr Rizvi—Yes, that is quite possible.

Senator FERGUSON—In this table in your original submission you talk about the number of visitors that are actually coming here. It has been reasonably static, but is increasing a little bit from South American countries. But you do not tell us anywhere about the number of applications that have been rejected. What percentage of applications for people to come to Australia are actually rejected?

Mr Rizvi—For visitor visas?

Senator FERGUSON—Yes. I think we had the percentage for students but not for visitors.

Mr Rizvi—I have got visitor visas here. The average rejection rate for all South American countries is a little over six per cent, but that varies quite considerably from country to country.

Senator FERGUSON—What is Uruguay's?

Mr Rizvi—The rejection rate for Uruguay is 3.79 per cent.

Senator FERGUSON—So where are the higher ones? Which are some of the higher ones?

Mr Rizvi—The higher rejection rates are for Bolivia, 11.8 per cent; Colombia, 21.2 per cent; Ecuador, 31.7 per cent; and Peru, 25.8 per cent.

Senator FERGUSON—What are the reasons for rejections for Ecuador? We had the Ambassador for Ecuador here this morning. Are the reasons varied?

Mr Rizvi—I would not know the details of that but I suspect it would relate to whether an assessment of a genuine visit was made.

Senator FERGUSON—If one of the reasons that people can be rejected is the amount of money they actually have or the status of their wealth, what is the level? Does it vary between country and country? Is there a cut-off point that you say we must have before they can come?

Mr Rizvi—We do not establish a particular benchmark. It depends on the length and nature of the visit that the person will be undertaking and information that the person might provide as to how they will be supporting themselves in Australia.

Senator FERGUSON—So, in fact, if somebody were to come out here on just a visitors visa and was to say that they were staying with family and friends in Australia, you would not require them to have anywhere near as much 'relative wealth'—

Mr Rizvi—That would be relevant.

Senator FERGUSON—as somebody who said they were going to be visiting and touring and staying in hotels?

Mr Rizvi—That is correct.

Senator FERGUSON—Do you get down to that sort of detail when the visa application is being made?

Mr Rizvi—Those sorts of issues are inquired upon.

Senator FERGUSON—What languages do you put out your applications in?

Mr Rizvi—The application forms?

Senator FERGUSON—Yes. In Spanish, for instance?

Ms Haughton—No, they are not provided in Spanish or Portuguese, but the visitor visa form 48R is available in Spanish.

CHAIR—I believe that Spanish is about to become the most spoken language in the world.

Senator FERGUSON—It is the most spoken language in the world. I just wonder why we have most of the application forms only in English.

Mr Rizvi—At the moment, the main reason for the number of languages in which we produce our forms really depends on the level of demand and the level of the print run required. At present, particularly in Portuguese, the size of the print run does not justify the cost involved. Having said that, we have found that a more efficient way of making our forms available, including in Portuguese and Spanish, is via the Internet and enabling people to download the forms from the Internet in another language. We are proceeding to implement that now.

Senator FERGUSON—While the Internet is widespread through most of the Western world, in some countries where people may wish to come to Australia, the level of education or the level of technical availability of that sort of thing might be reasonably low. Is that taken into consideration?

Mr Rizvi—That is certainly a relevant factor.

CHAIR—It does not appear that you have electronic visas in this area. Is that correct?

Mr Rizvi—I am sorry.

CHAIR—You mentioned earlier about the facility for electronic visa processing in these areas. What are your plans there?

Mr Rizvi—At present, the government has indicated that it does not intend to expand the electronic travel authority beyond the 31 countries to which it has been introduced to date.

CHAIR—It would seem that this area is most disadvantaged now. They may not even have access to downloading the information over the Internet. They cannot get visa applications in their language. Would the slowness of having to send the paperwork down to Santiago and back to process it with limited staff indicate that it is difficult and that the temptation quite often is to reject rather than necessarily to do the work to approve?

Mr Rizvi—There are a number of dimensions to that particular question, but I will perhaps go to the last part of it first and work my way backwards. It is, in fact, the situation that it is easier for an immigration officer to approve than to reject. In workload terms, an approval is far quicker than a rejection decision. A rejection decision requires a much more extensive write-up of the decision record so that it meets all the relevant requirements. An approval decision does not require that same level of detail. The incentive is, in fact, to approve and not to reject.

We are aware of the difficulties of managing the market out of South America. A relevant factor, of course, is the relatively small level of applications we receive across South America, albeit growing. It is against the background that it is growing that we are looking at alternatives, albeit not the ETA, but we are looking at the possibility of introducing agency arrangements—that is, enabling ourselves to deal directly with travel agents in selected countries, starting initially looking at Argentina, but perhaps Uruguay may also become a possibility down the track depending on the visitor performance of those arriving. So we are looking at agency arrangements. That, we believe, should assist.

We are also gradually, or where we are able, increasing our staffing levels in South America. Recently, we increased the number of Australian based officers in Santiago from two to three and we also increased the number of locally engaged staff in Brasilia. We will continue to look at those sorts of issues.

Senator FERGUSON—You raised the issue of Brasilia. You only have staff who handle student visa processing in Santiago and Buenos Aires.

Mr Rizvi—That is, in fact, incorrect. The submission that was provided to the committee indicated that the staff in Brasilia do not issue student visas and that is, in fact, incorrect. The staff in Brasilia do process student visas and have for some time.

Senator FERGUSON—I did not realise that. I read where it did not happen in Brasilia. Is there any reason why it is in Brasilia? I have actually hosted a couple of Brazilian students and both came from San Paulo. It would seem that the population centres—Rio de Janiero and San Paulo—have about 30 million, at least, these days. Why would you have your application centre in Brasilia, which is a fair way to the north and much less populated? Wouldn't it be easier to have an office or somewhere where you could handle those things in the highly populated centres?

Mr Rizvi—That is a very relevant factor. It is a matter of weighing up all the factors involved here, and one of them happens to be cost. As a general rule, it is usually more cost effective for us to set up our offices in conjunction with the Department of Foreign Affairs and Trade operation, which is usually in the relevant capital city. Nevertheless, I am aware that San Paulo has been raised, and it is something that we need to continue to monitor. If the case for establishing something in San Paulo becomes apparent, that would be something we would look at but, at the moment, the analyses we have done so far suggest that it would not be cost effective for us to open an office in San Paulo.

Senator FERGUSON—You will have to correct me, because I cannot remember what I have read in the submission and what I have not. How many business visas have been issued on an average yearly basis to come to Australia from South America? You have a table somewhere.

Mr Rizvi—Yes, we do.

Senator FERGUSON—Is that the one on the top of page 173? I am sorry, that is in our submission. I am not sure what page number it is in yours. Is the table on business short stay and business long stay the one that we should be referring to?

Mr Rizvi—Yes, that is the table. The business short stay visas out of South America in 1997-98—and, unfortunately, I do not have 1998-99 figures with me—was 2,148. That is somewhat down on the year before. I am not sure of the precise reason for that but it could be because during 1995-96 and 1996-97 we may have issued a number of what are known as multiple entry and long validity short stay visas, which enable a person to come back for repeated visits without getting another visa.

Senator FERGUSON—It may be an indication of the economic circumstances too.

Mr Rizvi—That would also be relevant.

Senator FERGUSON—If we are dealing with trade matters, the number of business visas may finish up being far more important than the number of student visas, although the initial contact with the countries, both through visitors and through students, is very important. Do the numbers that have come from the various countries bear any relation to the amount of trade that we are actually doing with those countries?

Mr Rizvi—I have never actually undertaken a comparison, but I suspect that there would certainly be a relationship.

Senator FERGUSON—It may give us an indication of how successful our programs are both in attracting trade or in trade relations and we might then get some idea of where we should be concentrating our efforts. For instance, you had 754 from Argentina in 1996-97 but only 424 the following year, and it ranked 40th in the world, if I understand that correctly, and we had a lot more from Brazil and a reasonable number from Chile, yet our trade with Chile—from the information supplied to us—is a very, very small percentage although they are the most free of barriers. So it is an interesting table.

Mr Rizvi—It is, yes.

Senator FERGUSON—We probably cannot get the answer to it now, but the amount of business visas granted may bear some relation to either the increasing trade or the decreasing trade or the amount of trade.

Mr Rizvi—I think that is right.

CHAIR—Can you supply to the committee a list of the officers in your post who can actually process and issue the visas?

Ms Haughton—Yes.

CHAIR—I believe you had a series of seminars, run out of the Santiago office, that were conducted in the major cities in Brazil. What was the rationale for the seminars?

Mr Rizvi—I will just find that particular reference before I respond. Mr Chair, could you help me with the particular reference that you are reading from?

CHAIR—These are my notes.

Ms Haughton—I am not sure if these are the same seminars that you have listed there, but there were some seminars in relation to student visas—education providers conducted seminars in order to encourage people to apply for student visas and to explain to them the criteria for student visas.

CHAIR—I note in your submission, under 'Market expansion', it says:

. Staff in the DIMA Santiago Office have recently conducted seminars in major cities in Brazil.

Ms Haughton—It could be that they are in relation to student visas but I cannot be sure of that.

CHAIR—It must be pretty important if you do not know what it is. I now want to know what was the rationale and what was the outcome of those seminars.

Senator FERGUSON—It is in the middle of your submission, just above the heading 'Chilean participation in APEC business travel card scheme'.

Mr Rizvi—Yes, I see that. I think the rationale for those seminars would be as Ms Haughton has pointed out. Usually when these seminars are conducted they are often conducted in conjunction with another government department, often DETYA if it is in relation to student matters. The idea would be that DETYA would present information on opportunities for study in Australia, and the DIMA officer would explain the application processes associated with lodging a student application. Those sorts of seminars are conducted often in many parts of the world. In terms of this particular series and what the outcomes were, I can take that on notice and come back to you on what they were.

CHAIR—If you would.

Senator FERGUSON—Have you read the Tourism Task Force submission?

Mr Rizvi—Yes, we have read it.

Senator FERGUSON—They are a bit critical, aren't they?

Mr Rizvi—Yes, they are.

Senator FERGUSON—Would you like to respond to the criticisms, particularly about applications and turning down of visas and non-accredited media and a few things like that?

Mr Rizvi—In fact, they make a number of points: would you like me to work my way through the submission?

Senator FERGUSON—Yes, I would like you to work through it. I think it is important.

Mr Rizvi—I guess the first point that the TTF make concerns our application form. They say that it is conceivable that many South Americans would find fault with Australia's official requirements with form 48R for a holiday here. There are two points that I would make in relation to that. In the last study that the Bureau of Tourism Research made where they surveyed views of visitors about Australia's visa requirements, we scored a relatively high satisfaction rate with our requirements. There was not the criticism of those requirements that the TTF seem to suggest.

The second point I would make is that the forms and the questions that are asked in our visitor application form are essentially parallel with those of many of our competitor countries. Indeed, we ran a comparison—and we can provide the material comparing our forms with many of our tourism competitor countries—which shows that the kinds of questions we are asking are very similar. It is essential that we ask those particular questions in order to be able to make a proper assessment of whether an applicant is making a genuine visit. We do not believe the questions we ask are offensive.

CHAIR—In regard to the APEC business travel card scheme, is it operating in Chile or Peru?

Mr Rizvi—Chile, Mr Chairman.

CHAIR—And Peru?

Mr Rizvi—No, not as yet. I do not think Peru has indicated an intention to join, although we have had consultations with Peru. Chile is the only South American country which has actually joined up.

CHAIR—So it is operating there now?

Mr Rizvi—It is in operation, although I could not give you figures on the number of Chilean nationals with APEC cards at this stage. Chile was one of the first countries to join up.

Mr HOLLIS—In your reply to Senator Ferguson's question, you said that you had run a survey on countries and the requirement here, the form, or something, was no more onerous: no more onerous than what country—Canada or what?

Mr Rizvi—The comparisons we made were Canada, New Zealand, the United Kingdom, the United States, South Africa, Germany, France and Singapore.

Mr HOLLIS—Do they all require visas?

Mr Rizvi—They all require visas out of most countries from South America.

Senator FERGUSON—The actual cost of the visa application is now $60, isn't it?

Mr Rizvi—Yes.

Senator FERGUSON—The Tourism Task Force criticised the fact that there is no refund on rejection of the visa application. Do you accept their assumption that that is a deterrent to South Americans applying for visas?

Mr Rizvi—We do not accept that and perhaps I could just talk to that a little further.

Senator FERGUSON—Yes.

Mr Rizvi—The application fee is non-refundable, as is the case, I understand, with most other of our competitor countries' fees. It is a fee for the cost associated with processing. It is a cost we incur whether the outcome of the application processing is a rejection or an approval. It is a cost that is incurred and the fees—

CHAIR—Not with electronic visas?

Mr Rizvi—No, not with electronic visas.

CHAIR—So wouldn't it be fair to say that the South American countries are disadvantaged because they cannot get, and do not get, access to electronic lodgments?

Mr Rizvi—As I have said, the question of whether South American countries will get the electronic travel authority is a decision that the government will make after a period of consolidation. The electronic travel authority is relatively new. It has only been around for three years. It has expanded very rapidly. It now covers some 31 countries. Fairly soon, we expect that something between 80 to 90 per cent of all visitors to Australia will come on the electronic travel authority.

Mr HOLLIS—But you must see the dilemma that we and other people have. We have people coming before us, telling us about trade opportunities in South America. We have people coming before us saying that there is great tourist potential—a two-way tourist potential.

This morning we had the Uruguayan Ambassador here talking about niche markets. For instance, over the last year or so, they have had 100 farmers in different things. Here various groups in the community promote tourism and all sorts of things. When they approach Australia Post or somewhere, they hit this barrier of visas. You say that most countries require visas from South America. I will check that one out because it seems to me that, increasingly throughout the world, visa requirements are being relaxed, except in Australia. That is not only in regard to South America but in regard to a whole range of countries. You try and be a teenager and get into this country from Indonesia or any of those countries. You can have all the credentials in the world.

I suspect that you people are the same in regard to South America. If a young 22-year-old male from Uruguay tried to come to this country for a holiday and had all the backing here, my bet is that nine times out of 10 the first time they applied they would have been rejected and lost their money. Then whoever was bringing them here would go and see the local MP. We would get on the phone and, after giving all sorts of guarantees, it would be relaxed. The point I am making is that whereas, on the one hand, one group of people are trying to promote a positive image of Australia—and saying come to sunny or friendly Australia—on the other hand, a set of bureaucrats, maybe on government instructions, are putting barriers in their way.

Mr Rizvi—I accept the conundrum, Mr Hollis. We are required to administer the migration act and regulations which require us to consider whether an applicant intends a genuine visit or not. We need to assess that within the context of the regulations that we work with and we are required to consider that in the context of the objective data that we have about overstay rates and non-return rates. We have moved very rapidly to introduce the electronic travel authority, which is a highly facilitative measure, to 31 countries in a period of three years. That covers something like 80 to 90 per cent of visitors to Australia. Most of the remaining portion of visitor countries have overstay and non-return rates which are of some concern to the government. We are required to balance those concerns with the concerns to facilitate entry for tourism and other factors. We try to strike that balance as best we can. I am not pretending we get it right every time, but it is a difficult judgment that individual officers have to make, and they make that to the best of their abilities.

Mr HOLLIS—The biggest overstay rate in this country would be from New Zealand because nothing is required of them. I wonder if you could provide this committee with a list of the 15 countries with the highest overstay rate?

Mr Rizvi—Yes, we can provide that, Mr Hollis.

Senator FERGUSON—I do not believe everything the Tourism Task Force tells us because they have said lots of things in the last six months, particularly about tax. I think they estimate that the rejection of applications causes a loss of revenue of $350 million. Do you accept those figures?

Mr Rizvi—I saw the calculations that they had made. No, I do not accept those figures. I believe that they are based on flawed calculations.

Senator FERGUSON—That is pretty comforting because $350 million is a fair bit.

Mr HOLLIS—If you say you do not accept them, on what basis don't you accept them?

Mr Rizvi—Because what they have applied are averages. Most of the countries which have high rejection rates tend to have relatively low per capita incomes. It seems to me to be fundamentally flawed to apply a global average per capita income and global average expenditure rates to a group of countries where they have relatively low per capita incomes.

CHAIR—Do you have any figures?

Mr Rizvi—No, we do not have any figures.

Senator FERGUSON—Have you got any idea of the reasons why so many are rejected from Ecuador? It was 31 per cent of the applications from Ecuador. Would they mostly be on financial grounds? I do not imagine that there is an enormous Ecuadorian community in Australia where they might be likely to overstay because of any family or business connections.

Mr Rizvi—It could be a range of factors, Senator. I can go back to the post and get you more information on that.

Senator FERGUSON—I want just that one country because it is the highest. We had the Ambassador from Ecuador here this morning. He is new in the country and trying very hard to promote Ecuador as a tourist destination and business destination, et cetera. It would be very helpful for us to know why there is almost a one in three application rejection for Ecuadorians. I can understand Bolivia and Colombia and those countries, but I think you said Ecuador was 30 or 31 per cent.

Mr Rizvi—We will ask our posts and come back to you with information on that.

Senator FERGUSON—Okay.

Mr Rizvi—I have just been provided with some information, however, which shows that Ecuador has a per capita GDP of $1,656.

Senator FERGUSON—It might be a financial matter. That is why we need to know.

Mr Rizvi—Yes.

Mr HOLLIS—Often those who are travelling are the middle class or better off in the community. You are giving the average there of GDP. I would imagine that, if I was an Ecuadorian and wanted to have a holiday in Australia, I would not exactly be begging on the streets. I would suspect that I would be a lawyer or a doctor or my father would have substantial business interests. I think that many of these people who are going to travel here as tourists are from the middle income or higher level of income in the community.

Mr Rizvi—I suspect that, for the genuine tourist, you are absolutely correct.

CHAIR—Following up on the point that my colleague raised, local tourism operators will say that the best tourists for them are the backpackers because they do not tend to pay for their packages overseas or to any operator. They arrive in towns and they have to get food and meals. They do not spend a lot necessarily on accommodation, but they spend a lot on the way through. It would seem that, on the information we have before us, it would be harder for those groups to get a visa than for someone getting a fully paid-up package to come here on a holiday. What is your response to that?

Mr Rizvi—Certainly, if the individual concerned is young and perhaps does not have a job, then—

CHAIR—I would put to you that most young people, given that the reciprocal rights to gain a working visa clock out at 26, would not have a job.

Mr Rizvi—I think we need to distinguish here between the Working Holiday Maker Scheme and backpackers. The term ‘backpackers’ is used in the industry generally to refer to a much wider group of people.

CHAIR—Yes, I accept that.

Mr Rizvi—The Working Holiday Maker Scheme is a very specific scheme targeted predominantly at seven countries with which Australia has a working holiday-maker agreement. Those persons are allowed to enter Australia and work for periods of up to three months with any one employer during a 12-month period. Visitors are not allowed to work at all.

CHAIR—I accept that.

Mr Rizvi—If a visitor with relatively little funds is coming to Australia, one has to ask: how will they support themselves while they are here? If they intend to be a backpacker, and have very little funds, then one would conclude that the most likely thing they would need to do in order to support themselves while they are here is to work. If they are a visitor working, then they must be working illegally.

CHAIR—So I take it the answer is yes?

Mr Rizvi—It is very difficult to generalise. One has to consider the individual cases on their merits. For me to answer yes to a question which is fairly broad would be incorrect. It would have to be taken on an individual case-by-case base, which is the way our individual decisions are made.

Mr HOLLIS—It is only a philosophical point, but it is just as well many other countries in the world were not as stringent over the last 25 or 30 years with young Australians going abroad. If every country overseas were as stringent with Australians going abroad as Australia is with young visitors from abroad, I should imagine that the thousands and thousands of Australians who spent 12 or 18 months abroad in their late teens or early 20s would have been substantially reduced to about 10 per cent of the number who went there. It is only a philosophical point.

Mr Rizvi—I think, Mr Hollis, the response must be that young Australians do not tend to have a great habit of overstaying.

CHAIR—That you know of. It is not in your jurisdiction.

Mr Rizvi—It is not in our jurisdiction, but certainly in the contacts we have with other countries, I am not aware of a country that has raised concerns about Australian overstayers.

CHAIR—I see that you have advised that students from non-gazetted countries generally have a lower rate of compliance with visa conditions.

Mr Rizvi—That is right.

CHAIR—Why is that?

Mr Rizvi—The non-gazetted versus gazetted country regime is essentially designed to identify or divide up countries for student visa processing between those countries where students have a high tendency to comply, that is, gazetted countries, and—

CHAIR—Does South America fall into that category?

Mr Rizvi—I do not think there is a country from South America which is gazetted for student visa processes, although—

CHAIR—Do they fall into the category of a low rate of compliance?

Mr Rizvi—That is correct, although we are in the process of reviewing the range of gazetted and non-gazetted countries. It is possible that some South American countries, subject to the outcome of that review and the minister's decision, may transfer from the non-gazetted category to the gazetted category.

CHAIR—When will the review be finished?

Mr Rizvi—We are undertaking that at the moment. We should have it completed before the end of this year.

Senator FERGUSON—I notice that there is a considerable increase in the number of student visitor applications in the 1998-99 year. Have you any idea of the reasons for that big increase? Economic conditions are not all that flash in some of those countries.

Mr Rizvi—I suspect that it is probably the result of increased marketing by the Australian Tourist Commission, by the increased air links that have been established by Qantas, and by increased marketing by education providers from Australia, going to South America.

Senator FERGUSON—The increased publicity might work but do you think that an applicant for a student visa would take into account increased air links? I would have thought they would have tried to get the student visa and worry about how they are going to get there afterwards.

Mr Rizvi—In respect of students, you are right, it is probably not the air links. Increased visitors are probably more relevant in terms of air links. In terms of students I suspect it is promotion. There is the relative price competitiveness of Australian education compared to the alternatives, which are usually the United States and Canada. That increasing competitiveness is making Australia a more attractive destination for students from South America.

Senator FERGUSON—Have you got any idea of how many of those students are actually students that are coming out on exchange, which is not a cost to them, compared to students that are coming to university?

Mr Rizvi—We would have to take that on notice.

Senator FERGUSON—There have usually been a considerable number of exchange students from South America. I thought it might be a considerable proportion, compared to those that are actually paying to go to university.

Mr Rizvi—We will have to take that on notice, but I will say that the biggest growth area from what I can recall in students out of South America is the ELICOS industry, the English language courses, which are full fee paying.

Senator FERGUSON—Yes.

CHAIR—Given that one should surmise that there will be an increase in visa applications in the lead up to the Sydney Olympics and during the Olympics simply because of the footage of Australia worldwide, what plans have you put in place to match that demand and to address some of the problems we have raised this morning?

Mr Rizvi—In respect of Olympic family members we have what is known as the special purpose visa arrangements.

CHAIR—I am aware of that one. I am talking about others that will look at Australia and say, 'Wow.' We are going to be on their screens all the time. It will be the first time, for many countries around the world, that a place called Australia will be on their screen. That may well spark an interest to go and visit the place called Australia. My question was: what are we doing in the visa area to match that demand?

Mr Rizvi—In respect of that group, there are two things that we are in the process of doing. The first is, as I have mentioned, that we have increased our staffing levels in South America. That is something we will keep under review. If demand continues to rise, we would seek to respond to that demand.

The second thing we are doing, as the minister has already announced following his recent visit, is to examine the possibility of introducing agency arrangements into the lower risk countries in South America. We believe that would enable us to handle a much larger volume of visitors from those countries and enable us to provide a much more convenient service.

CHAIR—As there are no further questions, thank you very much for your attendance today. We look forward to the additional material that you are going to forward to the secretary. A copy of *Hansard* will be provided to you for you to correct any errors of grammar or fact.

[2.34 p.m.]

COWAN, Ms Sara, Acting Assistant Secretary, International Policy Branch, Department of Education, Training and Youth Affairs

CROSS, Ms Rebecca, Assistant Secretary, Australian Education International, Department of Education, Training and Youth Affairs

HORNE, Mr Robert Drake, First Assistant Secretary, International, Analysis and Evaluation Division, Department of Education, Training and Youth Affairs

CHAIR—Welcome. I must advise you that the proceedings here today are legal proceedings of the parliament and warrant the same respect which proceedings in the respective houses of parliament demand. Although the subcommittee does not require you to give evidence on oath, you should be aware that this does not alter the importance of this occasion. The deliberate misleading of the subcommittee may be regarded as a contempt of parliament. The subcommittee prefers that all evidence is given in public, but should you at any stage wish to give any evidence in private you may ask to do so and the subcommittee will give consideration to that request.

The subcommittee has your submission from the Department of Education, Training and Youth Affairs. That submission is submission No. 18. Do you wish to make any statement or introductory remarks before we go to questions?

Mr Horne—I would like to make a short opening statement. The first point to make is that Australia's major market for the export of education remains Asia. In 1998, 83 per cent of the overseas students studying in our institutions came from Asian countries. South America is a small market at present: in the same year, 1998, only 1,600 South American students were studying here. Last year we did commission a study through Australian Education International into the potential of the South American education export market and it did identify certain opportunities there for Australian providers. You have a copy of that study with our submission. The opportunities lay in the fields of postgraduate study, English language and training consultancy.

There is interest among Australian education providers in diversifying into South America. This is part of a wider trend of diversification. We have all had a reminder recently that having all your eggs in the Asian basket can be awkward in times of economic turbulence in Asia, and it is natural that providers should be looking to other markets as well. The cost of establishing and maintaining a presence in this market will be significant and would have to be regarded as a long-term investment. In the first year or two the costs will be higher, I think, than the likely returns.

We do not at the moment have a dedicated presence for Australian Education International in South America, but later this month we are going with the International Development Program, which is the main body representing the export of higher education in Australia, on a joint exhibition tour of South America. That will enable us to make stronger government-to-government links in the education field than we have had hitherto, and to look at the market for ourselves and better assess the case for presenting Australian education and training services there. We will be using the study in Australia 2000 materials, which we have successfully launched in Asia, adapted for this new market.

Besides the export of Australian education which I have been talking about so far, we are engaged in a dialogue about education and training with a number of South American countries through participation in APEC and also in the University Mobility in Asia and Pacific Program, the so-called UMAP program, which provides for international awards and exchanges. Within the APEC forum, Chile and Mexico have expressed interest in participating in an Australia-New Zealand project on trade and investment in education services. The project is looking to identify issues affecting trade and investment and to study the potential impact of free and open trade.

In summary, at the moment it is a small market. We are interested in diversification. We have this exhibition tour coming up very shortly. We are also seeking to open up contracts through the multilateral fora, both UMAP and APEC.

CHAIR—Of any student links or clientele that you do have from Brazil, have you noticed any decline in that market as a result of the Brazilian financial crisis a short while ago? Was it similar to your experience from the Asian financial crisis?

Mr Horne—Looking, for example, at the numbers of students from Brazil, which is easily our biggest export country there, in 1997 there were 1,024 and in 1998 there were 1,075. These are small numbers for a country the size of Brazil, but they are pretty stable.

Senator FERGUSON—I was just reading through your submission again. We talk a lot about supplying education programs in Australia for people coming from South American countries to Australia. Could you elaborate on any efforts we might have to actually become involved in education in those countries, or whether there are any technologies or professional expertise that we can deliver by way of trade to South America, rather than just concentrating on students who are coming to Australia?

Mr Horne—We have a strong brief in the department to promote Australian education overseas and get the students here. It is a very important trade for Australia—over $3 billion a year—and it is very important to our education institutions, so that is a high priority for us. Some of the work that we do in multilateral fora is designed to help other countries—it has more of an aid emphasis, if you like. That would be true, for example, of some of the study tours that we have organised. So far, that kind of work has mostly been done in relation to Asia, not a great deal in relation to South America.

Senator FERGUSON—The reason I ask that is that when you only have 1,000 students coming out of a population of 160 million or 170 million—I do not know what Brazil is at present, but it must be close to that—it is a very small percentage of students actually coming to Australia. Although it is a very important trade issue for our education system, it would appear that there are an awful lot more of them who cannot afford to come to Australia and there might be an opportunity for trade by providing some education facilities of some sort actually in Brazil.

Mr Horne—I would like to answer that in two parts. First, I think one of the things about Brazil is that study overseas is just developing in that country. I thought it was remarkable in the report we sent you that the first thing it says is that, overall, something like 11,900 young people from Brazil study overseas. If we are getting 1,000 of them, that is one in 12, it is not bad. The reason the numbers look small—and I agree they are small for a country of that size—is that there is not a huge number of people going overseas to study.

If you take some of the countries that we deal with in South-East Asia, we have something like 17,000 students coming from Singapore and about the same number from Malaysia. There are much bigger markets for us there, partly because of market share—our market share there is a lot higher—but also because at the moment study overseas is not highly developed in Brazil.

Senator FERGUSON—I am surprised at that because there are probably more middle and upper class income earners in Brazil than the total population of Australia. I only know of exchange student programs from up to 20 years ago when there were always Brazilian students on exchange, but it is different to be on exchange than actually studying when you are away. I am surprised to hear you say that there is such a low number. I do not doubt the figures. I am surprised that such a low number actually study overseas, whether it be in the United States or anywhere else.

Mr Horne—I think it is surprising, too. The team that goes over there needs to look at how we pitch to the market. Is it really that there is just not much of a tradition of this? One of the things that came through the study quite interestingly was that there is not a highly developed tradition of postgraduate study in some South American countries; it is often at the postgraduate level that students travel. The study was pointing to the fact that, although many of these countries do not have a tradition of that, they are now seeking to develop postgraduate studies. So there could be a market there.

Senator FERGUSON—Are the numbers even less in Argentina?

Mr Horne—The numbers coming from Argentina to Australia are less. This table shows 104 in 1997 and 129 in 1998. The total size of the market is smaller than Brazil’s, but I am not sure that I can turn the figures up straight away.

Senator FERGUSON—How do you promote the educational facilities of Australia? Is it done through Austrade or do you have your own officials doing it outside of Austrade offices? It is trade, but I do not know whether you do it through Austrade offices or whether you have your own DETYA facilities.

Ms Cross—There is a very small Austrade presence in South America. At a later stage, if Australian Education International were looking to set up in South America, we would explore opportunities to do that jointly with Austrade. As an initial step, as Mr Horne mentioned, there is a series of exhibitions being run in four or five South American countries, and we are jointly badging those exhibitions with IDP Australia and—

Senator FERGUSON—IDP?

Mr Horne—The International Development Program.

Senator FERGUSON—I see.

Ms Cross—It is a private agent that acts on behalf of the university sector. By our presence there in the exhibitions and running a series of seminars involving academics and people from government, we are aiming to promote an awareness of Australia and also, as Mr Horne said, to get a better understanding of the market and a better idea of the real potential before we go in and make a more long-term promotional effort.

Senator FERGUSON—So you are not making promotions and presentations directly to students; you are doing it through the bodies that control the students?

Ms Cross—We are doing both. The exhibitions that we run will be attended by potential students who will come through and get information on the institutions that are participating and on living and studying in Australia. We will supplement that with some seminars and academics—

CHAIR—Could you supply us with a copy of that program?

Ms Cross—Yes, I can.

Senator FERGUSON—The major number of people by far are still coming here under the English language learning program.

Mr Horne—Yes, that is the biggest single contributor. Again, looking at the 1997 figures when we had 1,024 students from Brazil, 380 were at ELICOS colleges, which is the English language sector. In the following year, of 1,075 students, 449 were in ELICOS colleges. There is a good sprinkling of students in vocational education in schools and some in higher education, but probably the biggest single component is in ELICOS colleges.

Mr HOLLIS—I take it that the people who come here as students do not run into problems with getting visas, do they?

Mr Horne—I have not heard that they do. With these small numbers, I suspect that they would not have problems.

Mr HOLLIS—So you have not heard any evidence that people have had difficulties in obtaining visas?

Mr Horne—No. We have not had any substantial body of complaint of that kind.

Mr HOLLIS—They would have to be proficient in English before they came here, wouldn’t they? Most of these people would have either Portuguese or Spanish as their local language.

Mr Horne—Yes. As we have mentioned, quite a large segment are coming here with a view to improving their English. Again, quite significant numbers are coming to schools.

Those who are seeking to achieve a qualification in higher education or vocational education do need reasonably good English before they come. I think you would find that the admitting institutions would want to test that.

Senator FERGUSON—Immigration has told us that Brasilia has a two per cent rejection rate; Buenos Aires, five per cent; and Santiago, 5.5 per cent. I presume that is for visas, but I am not quite sure.

Mr Horne—You have just had witnesses from DIMA. I do not know exactly what those figures are. I am not surprised to hear that the rejection rates are fairly low because I was not aware that this was a significant issue for students coming from South America.

CHAIR—We have received evidence that, in the Austrade posts in Argentina and Brazil, the allocation of time to the promotion of education services has been reduced. In one post, the educational activities have been contracted out to the local education agency. What level of promotion would be needed to effectively promote education services?

Mr Horne—That is a question which we need to judge in the light of the study tour that is going ahead. You can always mount an argument that, with greater representation, you could do more, which might yield more students. But we get similar arguments from all parts of the world. Resources are finite and we need to make an assessment as to whether South America, as distinct from somewhere else, will yield good returns and whether putting on more staff will be likely to yield more students. Diversification is also something we want to look at. That is how I would approach it.

CHAIR—Thank you very much for attending. If there is any additional material you wish to send through to the secretary, please do so.

Proceedings suspended from 2.55 p.m. to 3.06 p.m.

[3.11 p.m.]

BLACKBURN, Ms Joanne, Assistant Secretary, Cross-Modal and Maritime Transport Division, Department of Transport and Regional Services

CRUTCHLEY, Mr Leigh Stuart, Deputy Director, International Trade and Services Team, Cross-Modal and Maritime Transport Division, Department of Transport and Regional Services

GRIFFITHS, Mr Tony, Team Leader, International Trade and Services Team, Cross-Modal and Maritime Transport Division, Department of Transport and Regional Services

PARLE, Mr Andrew John, Director, Americas, Africa, Middle East and Pacific, International Aviation, Department of Transport and Regional Services

CHAIR—I welcome representatives from the Department of Transport and Regional Services. I must advise you that proceedings here today are legal proceedings of the parliament and warrant the same protection and respect which proceedings in the respective houses of parliament demand. Although the subcommittee does not require you to give evidence on oath you should be aware that this does not alter the importance of the occasion. The deliberate misleading of the subcommittee may be regarded as a contempt of parliament.

The subcommittee prefers that all evidence be given in public, but should you at any stage wish to give any evidence in private you may ask to do so and the subcommittee will give consideration to your requests. The subcommittee has a submission from the Department of Transport and Regional Services. That submission is submission No. 21, and I would ask you, if you wish, to elaborate on that submission before we proceed to questions. Thanks very much.

Ms Blackburn—Thank you, Chairman. We are attending the hearing this afternoon to provide any additional information that the committee may wish to ask of us. I do not have a statement to make to the committee. The submission was made on behalf of the department. The information which is contained in that submission remains current and accurate, and I have no additional information to add to the material that is in that submission. However, we are very happy to provide additional information or answer questions from the committee. Thank you.

CHAIR—All right. Thanks for that. Have my colleagues any questions?

Senator FERGUSON—In your submission you give us a look at the total air traffic that is now currently available between Australia and South America, and I understand that, although the travel growth has increased, in fact there is still far more capacity than there is demand.

Ms Blackburn—Thank you for your question, Senator. I will allow my colleague to introduce himself because he will need to answer this question.

Mr Parle—Sorry, Senators, for being late.

Senator FERGUSON—No, you are not—you are early, actually.

Mr Parle—I did not fully hear your question, Senator.

Senator FERGUSON—I noticed that, although there has been an increase in traffic—I think Qantas said they had an annual passenger growth rate of about 10 per cent or something like that—in fact the capacity still far exceeds the demand for seats on those legs.

Mr Parle—That is correct. If you look at the capacity that has been negotiated, it is far in excess of the traffic that travels over that route. In fact, for the whole of South America, there is something like 871 passengers travelling each way each week between Australia and South America. We have, for example, in the Argentine agreement, something like 2,800 seats for each side, so there are 5,600 seats a week available. If you add the 2,000 seats from the Chile agreement that we have, that is an additional 4,000. It is 2,000 for each side, so there is another 4,000 seats. So it is far in excess of the amount of traffic that is generated on the route at the present moment.

Senator FERGUSON—Are the routes, then, not profitable, or are they charging enough to make them profitable?

Mr Parle—You would need to talk to Qantas about that, but I think the description is more that they are developmental routes. It is a long distance between Australia and South America. It is very thin in the amount of traffic that has been generated over a number of years. So it is in that developmental category.

Senator FERGUSON—Do they still fly over the pole?

Mr Parle—No, they do not fly over the pole. They fly to about 60 degrees south, I think it is, and they cut across to Buenos Aires.

Mr HOLLIS—It was always a misnomer that they flew over the pole.

Senator FERGUSON—They never quite got over it.

Mr HOLLIS—No.

Senator FERGUSON—They ducked around it. Now that Ansett has joined the STAR Alliance and Varig is involved as well, that means there is going to be more capacity.

Mr Parle—We are very interested to enter into an agreement with Brazil. We have not got one yet. Once we do the negotiation, yes, there obviously will be more capacity available.

Senator FERGUSON—Within the STAR Alliance that Ansett has, Varig is a member, so there is actually a connection with Brazil anyway, isn't there?

Mr Parle—Yes, that is right. In terms of getting to South America, there are many ways of getting there.

Senator FERGUSON—Through the States.

Mr Parle—You can go via South Africa, via Los Angeles, via Europe. There is plenty of capacity in that sense to get to South America. It is that sense of the direct service that consumers really look for.

Senator FERGUSON—When we talk about trade, which is what the inquiry is all about, I guess the other important thing really is the shipping lines because things that are not going to travel by air are going to have to go by ship. Is there more than adequate capacity on the shipping lines now for any trade that takes place between Australia and South America?

Ms Blackburn—I will probably have to answer that question a bit intuitively on the basis of saying we have had a recent withdrawal of a line from proposed service to South America, essentially due to unattractive freight rates.

Senator FERGUSON—Which line was that?

Ms Blackburn—That was a line called Kien Hung, which is a Taiwanese line. They had a proposed fortnightly service, but it was, as we mentioned, cancelled due to unattractive freight rates. As I understand it, there are no conference liner services between Australia and South America. What you have essentially is regular liner services that just opportunistically provide services, usually in the course of other trades. We have some listed in our submission—the fortnightly services and monthly services. As I said, intuitively, I would suspect that we are not in a situation of having shortage of shipping capacity.

Senator FERGUSON—Going back to the flights, have you any idea what percentage of the traffic that is coming over on those flights from South America to Australia is actually business travellers? There is a far higher yield for the airlines from business travel than there is from student travel or tourist travel. Have you any information on—

Mr Parle—I think I do, Senator, if you could bear with me.

CHAIR—I see they have payload restrictions with low yields, which leads straight into the point that the senator was asking.

Mr Parle—In terms of business for short-term arrivals from South America at the end of December 1998, in terms of visitors, of the total of 22,000, there were only 1,500 that put down business as their reason for travelling. That is for the visitors.

CHAIR—That does not mean they were necessarily business or first class, does it? They could have been flying economy class.

Mr Parle—I thought you were talking about the category coming here for business.

Senator FERGUSON—It is just that people who fly business class have a far higher yield for the airlines.

Mr Parle—I do not have that sort of breakdown. Possibly the airlines, and particularly Qantas, would have that sort of information.

Senator FERGUSON—Where we are probably coming from is that, if there are payload restrictions with low yields, the airlines are not going to keep it up for ever. That would be damaging to the trade relations we are wanting to open up with South America. If there were things that needed to be done to ensure that there is a greater awareness that would cause any shutdown not to happen, that would be useful.

Mr Parle—In terms of it being still a very developmental route, there still needs to be a lot of promotion done to attract traffic onto the route. Obviously, of the business people that travel business class, there are a lot from Australia, for example, that do use the services that we have. But it is really a matter of attracting travellers to the services to build up the demand. The point we make is that it is not a matter of supply; it is building up that demand to make the services profitable for the airlines to continue to invest in the route.

Mr HOLLIS—Qantas used to fly that route some years ago and then pulled out. They have recently come back into that route. They used to go via New Zealand.

Mr Parle—They still do now. You are talking about a few years ago.

Mr HOLLIS—I flew not all that long ago. I used to fly from Buenos Aires across that bottom part to New Zealand and here. That was a weekly service. Then they stopped the service.

Mr Parle—I think there was a service in the early 1990s. Qantas was co-sharing with Aerolineas. It was Aerolineas aircraft operating that service at the time. Now Qantas operates in its own right.

CHAIR—Has Qantas given you any advice as to their view? Are they happy with the progress to date? Is it above or below expectations?

Mr Parle—I think they are reasonably happy with the way things are developing. They are very new to the route; their service commenced operations in November last year. It will take a while for them to make those judgments about how well they are going. Obviously, they are continuing to provide the service. There is nothing that we know that says that they are concerned about how the route is going.

Senator FERGUSON—I suppose you have no idea in the department about how many people might go to South America from Australia, for instance, via the United States, rather than direct through New Zealand to Santiago or Buenos Aires.

Mr Parle—In terms of the traffic that travels between South America and Australia, which is called origin destination traffic, we can get a split-up. But I would need to get the people at the department to have a look.

Senator FERGUSON—Sometimes fare structures determine which way people will go rather than what time. If you can get a cheaper—

CHAIR—If you can get an around-the-world ticket it is sometimes cheaper to go that way.

Senator FERGUSON—They will go to America on the way, but there may be a lot more people with South America as a destination which cannot be judged by the demand for the seats that have been filled on the cross-Pacific run.

Mr Parle—You are correct. The frequency of service, say, between Sydney and Los Angeles, and using Los Angeles as a hub into South America, with the ease of travel over to Los Angeles—up until the direct services that Qantas put on and with the new aircraft that Aerolineas have put on—a lot of people would have made that choice. It would have taken a lot longer, but a lot of people would have made that choice.

Ms Blackburn—Purely anecdotally, Senator, we actually travelled to Chile earlier this year for APEC-related work. In terms of the cost, the direct flight from Sydney to Santiago was, I think, actually less than half the cost of flying from Sydney to Los Angeles and from Los Angeles to Santiago. That does not account for possible use of around-the-world fares, and I do not have any experience of those. I offer that purely as an anecdote because we looked at whether we could in fact combine doing some business in the States with going to Chile. As I said, the costs were more than double the direct flight.

Senator FERGUSON—That does surprise me. I thought there may have been a chance that there was an incentive for people to do the other thing—to go to America and then go down.

Ms Blackburn—That was a single quote from a single airline for that proposed flight—Sydney-LA, LA-Santiago.

Senator FERGUSON—I guess if they want to attract people onto the run they are going to have to make it cheaper.

CHAIR—As I understand it, the fares are fairly competitive.

Senator FERGUSON—And you have confirmed that.

CHAIR—Yes. I can recall, many years ago, if you got a straight ticket to go to Johannesburg it would cost you an arm and a leg. The cheapest way was with an around-the-world ticket to do that, plus others. But, as I mentioned, I understand that the fares for that new sector straight to South America are very competitive.

Senator FERGUSON—I would like to get back to the question I had about shipping because I am not quite sure whether I got the full answer I was looking for. With the current trade that we have between Australia and South American countries—not necessarily just one—are those lines perhaps not becoming viable for some of the shipping companies because there is not enough trade, or is there not the capacity for the trade that we want to do? You just said that one shipping line had pulled out of an agreement. I think some of the others are only a monthly shipping service. Have you any idea whether it is adequate for what we do now? If there was to be increased trade, would we have to drastically renegotiate extra shipping?

Ms Blackburn—I would like to make two comments with respect to that. In the submission which we have given to the committee, at paragraph 3.3 we have drawn attention to the fact that this question of whether or not the level of shipping services is adequate has been raised. We are currently working with the Department of Foreign Affairs and Trade on collecting and assessing information. We are in a process of doing some further assessment of that. We have indicated in the submission that, to date, capacity limitations have not been cited as an impediment to trade opportunities.

The second comment I would make is that in some respects it is a bit of a chicken and egg situation. Shipping lines, as you would appreciate, will tend to go where there is cargo to be had at a price that makes it worth while. I would be unable to say at this stage whether it is a case of there is no cargo or there is no shipping. I think if I had to plump for one, I would go for the fact that the cargo is not there yet. I was interested in your discussion earlier on the question of aviation. I said it is a chicken and egg process of which comes first in trying to encourage the business and then the shipping line will follow, or make the capacity available first in the hope that some cargo will land on it.

Senator FERGUSON—It is just that the cost of shipping might determine whether or not South America trades with us or trades with the United States or somebody else. It is a fairly long haul across there. If there is excess capacity, there is liable to be more competitive rates offered to people who are wanting to trade than if there is full capacity and people are not trying to get the business to go there. It may make the difference between an Australian company winning a contract and someone from somewhere else who can actually ship it there a lot cheaper.

Ms Blackburn—I understand your point. The response I would make is that the role for government in that is, in some respects, limited. It is not within government, or certainly our role within the department, to encourage shipping lines to go somewhere unless they basically make a commercial decision that it is a viable activity for them. At a more conceptual level, there is at the moment, in world shipping generally, an oversupply of capacity and very, very low freight rates. As a general statement, I do not have available, at the moment, the information to give you any particular details on freight rates on South American routes. I am quite happy to take on board looking at that because it is useful information for us as well, if that would be of benefit to the committee.

Senator FERGUSON—Some idea of the rates—

CHAIR—It would be useful.

Senator FERGUSON—Is it about a two-week shipping trip? I do not know how long it takes to get to Santiago.

Ms Blackburn—I am sorry; I have no idea.

Senator FERGUSON—Perhaps a couple of weeks.

CHAIR—And with those figures, probably a comparison of the rates to other comparable shipping routes would be helpful as well.

Senator FERGUSON—That would be very useful.

Ms Blackburn—I will take that on. Our access to freight rates is about the same as everybody else's. We get them from the published rates.

CHAIR—That will be fine.

Ms Blackburn—It is well recognised that there tends to be a fairly large divergence between published rates and what individual companies can negotiate. To the extent that we are able to, I am happy to put together the information for the committee.

CHAIR—If I could just take you back to the previous question on the origins of flights and where they start from, could you get that information and submit it to the committee?

Mr Parle—Yes.

Senator FERGUSON—The other thing I would like to know is this: of those flights that are going between here and South America, is there any air freight comparison with passenger component?

Mr Parle—We can give you an idea of how much air freight has been taken.

Senator FERGUSON—From the time it actually takes to get stuff there I imagine that air freight would be quite attractive. As the only way you could deal with anything that has a life sensitive time frame, air freight would become very important. I remember this morning the Ambassador of Ecuador was talking about cut flowers that they sell in China. Without air freight they could not do it.

Mr Parle—Yes. We have access to those sorts of figures.

Senator FERGUSON—Could we have those figures?

Mr Parle—Yes, we will get them for you.

CHAIR—You were mentioning that we have not reached agreement with Brazil yet. How far away do you think we are? Also, what are the impediments?

Mr Parle—We have been keen to enter into an agreement with Brazil for a while now. There have been a couple of sets of informal talks, and over the last year we have been seeking to formalise the arrangements, but because there have been problems with the Brazilian economy and Varig has had some financial problems, obviously their interest in opening up an air service agreement with Australia is not a top priority. We have our post in Brasilia trying to get some dates set for that round of talks, but to date we have not been successful. We will continue to press and, hopefully, soon we will be able to conclude the arrangements.

CHAIR—Varig do not fly here, do they?

Mr Parle—No, they do not.

CHAIR—I do not remember seeing them.

Mr HOLLIS—Going back to shipping for a moment, would you be able to tell me about the quality of the ships that trade between Australia and South America? Do we have any of the famous rust buckets on that run? That I find often dictates the rate: the rustier the ship the cheaper the rate and the better the insurance in the hope that sometimes it will go down and they will get more out of the insurance than they will get out of the cargo.

Ms Blackburn—I do not have any information with me. I do not know whether it would be available.

Mr HOLLIS—Through the Australian Maritime Safety Authority you could work out a comparison between the number of flag ships from there that were detained—

Ms Blackburn—Could I say two things to that. First of all, we have to a very significant extent reduced the incidence of what you describe as rust buckets actually coming to Australia in the first place. I would be surprised if the Australia-South American routes are in fact heavily populated by what you describe as rust buckets. There has been a very significant effort put in in Australia essentially through our port state control activities, the net result of which is most of the very bad ones no longer visit here.

In terms of the particular shipping lines which are listed in our submission, they are well recognised shipping lines. The extent to which they are using flag of convenience shipping, I do not know. I do not honestly know whether that information would be available to us. I am reluctant to say I will take your question on notice, because I am just not sure what information I can get for you.

Mr HOLLIS—A lot would depend too on the cargo that was being conveyed. I do not suppose there would be much coal shipped from Australia to South America, but if it was grain, some of the ships that have been detained in recent years, especially off the Queensland coast, have been various grain carriers. I suppose if it was just general cargo, you would not expect it, but if it was a coal carrier or, indeed, a grain carrier, you might expect that the quality of the shipping might not be state of the art.

Ms Blackburn—I guess what I would like to say to that is that I would not have that expectation with respect to shipping which is either originating from Australian ports or terminating in Australian ports. With respect to your question about the exports and imports, in our submission at paragraph 3.2 we have listed the major export/import commodities by country in order of value. As reluctant as I am to say it, coal does feature quite significantly as an export from Australia. It is the second highest value commodity export to Argentina and it is highest value commodity export to Brazil and also Chile.

Mr HOLLIS—I might do a bit of a check with AMSA and see how many of them have been detained. You might be surprised about how many have been detained for various periods, if they are coal carriers.

Ms Blackburn—I am certainly happy to take on notice and provide you with the information of AMSA's port state control activities and their detention rate with respect to ships on this particular route. I am assuming that they will be able to differentiate the particular route the ships are on when they detain them.

Mr HOLLIS—I am sorry. I did not get that last bit.

Ms Blackburn—AMSA in its port state control reports and statistics certainly maintains the information about the ship—the kind of ship it was, the flag of the ship and what it was detained for—but I am just uncertain whether that information actually includes that, at the time this ship was detained, it was in fact on a voyage from this port to this port. To the extent that it has that information, I am happy to try and obtain it for the routes between Australia and South American ports. Will that meet your information needs?

Mr HOLLIS—Yes. What is the flight time? Do they still stop at that spot right at the bottom of South America?

Mr Griffiths—Rio Gallegos. No.

Mr HOLLIS—They fly from there across to Auckland. It is the most desolate airport in the world, especially when you arrive there in the middle of the night. What is the flight time?

Mr Parle—What has happened more recently is that Aerolineas have new generation aircraft. They have gone from the old 747 200s to long-range Airbus A-340 aircraft. They are not required, on that leg coming back to the west, to stop at Rio Gallegos, so that cuts around two hours off the time.

Mr HOLLIS—What is the flight time?

Mr Parle—It is about 13 hours to Auckland; something like that, I think.

Mr HOLLIS—That is no longer than, say, from London to Singapore.

CHAIR—The flight time from Sydney to San Francisco is 14 hours.

Ms Blackburn—Twelve on the way over.

CHAIR—It depends on which way you are going, of course. The flight time between Melbourne and Perth is a darn sight shorter on the way back. I prefer it to be the reverse—for obvious reasons. Can you briefly outline the aviation strategy for South America?

Mr Parle—We have had a strategy in place for a number of years. Basically I suppose you could say that we are trying to engage as many airlines as possible on this route because it is such a long, thin route and it needs the investment from a number of airlines. For example, Qantas and Lan Chile operate services where Qantas operates to Tahiti and turns around its aircraft and Lan Chile operates from Santiago into Tahiti, working on a code-share basis. It is quite a seamless service. The engagement of a number of airlines on that route obviously makes it at least viable for the carriers to continue to operate. Obviously, there is not enough traffic for a single carrier to make a decision to operate the whole length of the route, so this is quite a viable alternative.

In terms of Argentina, for example, Qantas and Aerolineas code-share on each other's services. They are investing in each other's services and selling each other's services to passengers at each end of the route, so there is quite a lot of cooperation in that regard. Air New Zealand for many years was also involved with Lan Chile over Tahiti.

We are continuing to encourage that sort of approach, as I said, because of the way that the route is still developmental and it really continues to require a number of airlines to be involved.

CHAIR—Mr Hollis, do you have any more questions?

Mr HOLLIS—No, I have no more.

CHAIR—I think we have covered all the points that I wanted to raise. When you are ready, could you provide that additional information to the secretary. A copy of *Hansard* will be provided to you for you to correct any errors of grammar or fact. On that basis, I thank you for your attendance here today.

Resolved (on motion by **Mr Hollis):**

That the subcommittee authorises the publication of evidence given before it at the public hearing this day.

Committee adjourned at 3.43 p.m.