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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**

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**JOINT STANDING COMMITTEE ON FOREIGN AFFAIRS, DEFENCE AND  
TRADE**

**Trade Subcommittee**

**Monday, 20 September 1999**

**Members:** Senator Ferguson (*Chair*), Senators Bourne, Brownhill, Calvert, Chapman, Cook, Gibbs, Harradine, O'Brien, Payne, Quirke and Schacht and Ms Bailey, Mr Baird, Mr Brereton, Mr Gareth Evans, Mr Laurie 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:** Senator Brownhill (*Acting Chair*), Mr Prosser (*Chair*), Mr O'Keefe (*Deputy Chair*), Senators Chapman, Cook, Ferguson and O'Brien and Ms Bailey, Mr Baird, Mr Hollis, Mrs De-Anne Kelly, Mrs Moylan and Mr Andrew Thomson

**Senators and members in attendance:** Senators Brownhill and Chapman and Mr Baird, Mr Hollis and Mrs Moylan

**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**

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**Subcommittee met at 9.12 a.m.**

**ESCOBAR, Mr Eduardo, First Secretary, Embassy of Chile**

**TARUD, His Excellency Mr Jorge, Ambassador, Embassy of Chile**

**CHAIRMAN**—I declare open this third public hearing of the trade subcommittee of the Joint Standing Committee on Foreign Affairs, Defence and Trade inquiry 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 the 1997 DFAT report on the future of Australia's trade and investment relations with South America.

Privatisation is an expanding trend in the region and 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 businesses opportunities for Australia. The interplay of global factors, such as El Nino, depressed commodity prices, and the fallout from the Asian and Brazilian financial crises impact 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 difficulties South American countries find in doing business with Australia.

To date, the trade subcommittee has received some 30 public and confidential submissions to the inquiry. It will be taking evidence from a range of witnesses including South American diplomatic missions, the Department of Foreign Affairs and Trade, Austrade and other government departments and agencies both at the federal and state levels, chambers of commerce and a cross-section of companies with an interest in South America.

On behalf of the trade subcommittee I welcome His Excellency Mr Jorge Tarud, the Ambassador of the Republic of Chile, and Mr Escobar. 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 request. Although the subcommittee does not require you to give evidence on oath, I should advise you that these hearings are legal proceedings of the parliament and therefore have the same standing as proceedings of the respective houses. The subcommittee has a submission from Your Excellency, submission No. 7. I now invite you to make a short opening statement, if you wish, before we proceed to questions.

**Ambassador Tarud**—Thank you, Senator. Firstly, I would like to thank you for this invitation. I consider it a very important matter for an ambassador to have the opportunity to speak about the relations between our countries in front of people who have been elected by the Australian people. You are the decision makers on their behalf.

I would also like to say that this is a particular date because in two days it will be 30 years that the Chilean Embassy has been in Australia—it opened in 1969 on 22 September. Also, I just came back from Sydney where I celebrated our national day with around 12,000

people just in one place, people who have been for many years in Australia. The majority of them have become Australians and have assimilated themselves to this generous country that received them. So this is a particularly good moment for meeting you today.

**CHAIRMAN**—Let me say that it is a good meeting for me. I must give my pecuniary interest as the chairman of the Australia-Chile friendship group. Would you like to say some more, Ambassador Tarud or Mr Escobar?

**Ambassador Tarud**—I would just like to make a small summary of what the bilateral relation has been since I have been in Australia. I would like to state that we are reaching, in my view, a level of friendship in our relations at all levels: the political level, the business level and the academic level, and that is something that has to be said. We are working together, Australia and Chile, in many fields, not only in the bilateral but also in the multilateral, which is very important. Australia and Chile are members of many important multilateral groups, such as APEC and the Cairns Group, which are extremely important for our people. Australia, like Chile, is a producer of agricultural products so we defend our common interests in the international scenario. We are also members of the Valdivia Group which is looking into environmental questions in the Southern Hemisphere.

The numbers of distinguished visitors from Australia to Chile and from Chile to Australia at all levels has proved that it is a very fluent relationship which has reached a point where I am particularly satisfied by the frank way of seeing things, a common view of many of us in the national and bilateral grounds. So I am particularly satisfied.

I take this opportunity also to mention that Senator David Brownhill, the chairman, has been in Chile on a very successful trip, having also had the opportunity to meet President Frei at the Presidential Palace. I am particularly satisfied and, of course, I would be ready to receive any questions from yourselves in respect of the relationship.

**CHAIRMAN**—Thank you.

**Mr HOLLIS**—Concerning tourism and business links, I understand that Qantas now flies to Tahiti and meets with a Lan Chile flight. Is that something like four flights a week?

**Ambassador Tarud**—There are two circumstances. Since September 1996, Qantas and Lan Chile for the first time coordinated the flights in Papeete. Before that you would have had to wait for 11 hours for a connection. Today the connection is immediate. It is the equivalent of a technical stop. You change planes and Lan Chile is waiting for the Qantas plane. There are two flights a week and three during the summer period.

On the other side, since November 1998 you have Qantas flying to Buenos Aires. That also has made quite a difference in approaching both countries. It is extremely important to have airlines travelling to our destination, especially the national airline, because in fact Australia was not connected with Latin America directly. You were not connected with 400 million consumers, and I think it was very important for the trade to be related directly. Today, we are. There is a fluent connection with the three airlines that are flying. In practice, you may have a flight once a day to Latin America, so it makes a great improvement. It facilitates tourism and, of course, business. Businessmen do not wish to wait for a couple of

days to take a plane. They would like to leave immediately, arrive quickly, do their business and come back to all the destinations. It is very important.

On the question of trade, I would have to say that the process of visas given by Australia is a very slow process. It takes time and is, in some views, very selective. I have seen that many young people are refused visas because they are young, and I think this might have to be studied. Our young people are also tourists and they travel all over the world in their holidays, and this has to be facilitated. Also, visas have to be facilitated when our embassy, our government, requests the Australian authority to give us a visa for people. I have encountered many difficulties in the past for projects done by this embassy. For example, there was a project for which we brought people from Easter Island for the first time in history. They came here at the invitation of the ACT government and multicultural affairs. Even the Chief Minister, Kate Carnell, was involved. Just two days before the festival started, I could not get the visas for these people and it was nearly cancelled. It was a high investment for all of us. Fortunately, we got the visas but we had quite a hard time.

**Mr HOLLIS**—Did they give you any reason when they had this difficulty with visas? If you have approached the department, do they give you an reason?

**Ambassador Tarud**—I do not see exactly what is the reason. What will really facilitate this quickly will be to have electronic visas, and Australia is working with many countries. So that will facilitate visas. In fact, I posed the question at a lunch in my residence just two weeks ago to Minister Ruddock. Minister Ruddock said that he was going to study it; however, that was not a big flow of people, so that could not be a valued investment. I do not know whether the investment is too high for electronic visas, I have no idea, but that will certainly facilitate the task for having a better communication and more tourists. Australians do not need a visa to come to Chile.

**Mr BAIRD**—Just to follow up Colin Hollis's questions—it is an area that interests me—in terms of the impediments of our visa system to tourism flow. This inquiry is looking at trade with South America. Do you believe that if we did it for three countries—the A,B,C: Argentina, Brazil and Chile—that this would solve much of our problem with electronic visas?

**Ambassador Tarud**—I do not think that matter of charging for the visa is the high impediment. You charge somebody \$50 or \$60 and the person knows that he will have to spend quite an amount. I do not think it is a big impediment. However, it is a barrier because Chileans do not need visas particularly for anywhere in Europe. We do not need visas for most of the countries in the world.

**Mr BAIRD**—We have a unique visa requirement—

**Ambassador Tarud**—Right, I know.

**Mr BAIRD**—which I for one disagree with but, anyway, that is by the by.

**Ambassador Tarud**—But, you had made exceptions recently with France and Spain.

**Mr BAIRD**—Yes, that is right.

**Ambassador Tarud**—So the rule is now not just one. So when you discriminate, I think we will have to study the others also. This is my point. The main thing in the processing of visas is that it takes time. As I told you, for this project of the embassy, it took us 30 days of discussion to get those visas. That is really something which goes against the work of the embassy. Our point was to show our culture in the Pacific, because we are also part of the Pacific—east of the Pacific—and this was the only point. We were, of course, responsible for those people. Really, we had a lot of difficulties and I do not think that it is reasonable, when a government is requesting something of another friendly government, that it take such a long time.

**Mr BAIRD**—Absolutely. I was speaking to the chairman and, in terms of our recommendations at the end of this report, I imagine that Minister Ruddock will look at South America and the costs of installing the ETA system—the electronic travel authority system—all over South America. Perhaps if we concentrated on the three commercial countries with which Australia has the most contact, then it would perhaps be something for us to look at. What we are looking at in particular is impediments to trade between the two. I think the air service is one which is improving.

**Ambassador Tarud**—Very much.

**Mr BAIRD**—I understand from Qantas that it is going very well. In terms of the visa situation, what are the other impediments that you see?

**Ambassador Tarud**—For trade?

**Mr BAIRD**—Yes, because we are a trade subcommittee, so our focus is on trade.

**Ambassador Tarud**—Right. In my view there is a slight impediment to trade in respect of the process of AQIS. It took them 2½ years just to answer a letter from our quarantine service. We wanted to know about grapes and a particular disease that has developed. It was a question only. I went personally with my people to visit the AQIS people and said, ‘It took two years and something to answer a letter.’ I am sorry, but this is an impediment to trade, absolutely. Their answer was that AQIS had some changes in their directive, new people, but it was extremely slow in answering that question.

**Mr BAIRD**—What does that come under? Is that Prime Minister and Cabinet, is it?

**CHAIRMAN**—Agriculture and forestry.

**Ambassador Tarud**—Of course, we are a country which produces grapes. We export all over the world, even to the most difficult parts where there is a lot of protection like Japan, the United States and all European countries. So our standards are really very high. For them to take so long to answer a question, it seems to me that something is wrong. It is an impediment in terms of agricultural exports. Not so recently, we completed all the procedures for Australia to be able to export meat to Chile. I understand it is already going ahead. We also have quite strong points to protect us because we do not have foot and



mouth disease, fiebre aftosa, which is the common disease which you will find in many cattle producer nations, et cetera. We are declared free of that disease so we have to protect ourselves. But we are not using this as a protection for free trade. If Australia has all the regulations, we tell you quickly, ‘Yes, okay, you can now export meat to Chile.’

**Mr BAIRD**—Part of the difficulty is the rhetoric that you hear around Australia. You often get told about how we are importing grapes from Chile and people ask, ‘Why are we doing this?’

**Ambassador Tarud**—I understand.

**Mr BAIRD**—As a free trader, I understand what you are saying.

**Ambassador Tarud**—Exactly. I understand that very well, and you must understand that in our country agriculture is a very important thing. We are probably one of the first exporters of fruit and vegetables around the world. Chile is one of the first countries, so for ourselves it is very important to control any disease. We are free from the fruit fly, for example, which you find in Australia. We are free of many diseases. We are protected but we do not use our regulations for other purposes. That is a very important point.

**ACTING CHAIR (Mr Baird)**—What about the other way around? Do you feel that there is anything that we could work on to assist our export base?

**Ambassador Tarud**—In which sense?

**ACTING CHAIR**—In terms of access from Australia exporting to Chile, do you believe that there are areas that we should be pursuing that we are not, just from your observation?

**Ambassador Tarud**—Do you mean commercially or that Australia could be doing more in Chile? I think there is a wider spectrum for Australia in Chile. It is not a big market. It has 15 million inhabitants. Today you have 43 Australian companies with offices in Santiago.

**ACTING CHAIR**—Is that right?

**Ambassador Tarud**—It is because our conditions for foreign investment and trade are so open. They are the most open conditions in all of Latin America. Your people understood that and went first to Chile. They established there and they are looking into other markets in the area from there. If you arrive tomorrow in Chile, and have never been there, you can be in business the next day. You just go and register yourself to the tax department and give your passport. They will give you a tax number and you are in business. It is a very easy way of doing business and is without any discrimination because you are a foreigner or a Chilean. You are immediately are at the same level as everybody else.

We do not have any discrimination. On the contrary, we have positive discrimination that you can make a contract with the state in which they give you a tariff for taxes. If in the future the executive decided to raise taxes you are covered because you have signed a

contract with the state and the taxes will never go up for you. So you have positive discrimination in favour of you.

**ACTING CHAIR**—Are there more Australian companies in Santiago than any other place?

**Ambassador Tarud**—Yes. There are more than in any other place in Latin America. Chile was probably the first country where Australians arrived for business. Today investments in Chile are officially around \$US1.3 billion. Why say officially? That is because many Australian companies have investment but from their associate areas in other countries. If a company has invested from the United States, our central bank see the money as from the United States and it is not accounted as Australian investment. I believe that there certainly must be around double that amount of Australian investment in Chile.

**ACTING CHAIR**—I have heard informally that the Qantas code share service is doing better to Santiago than to Buenos Aires, which reflects the greater degree of involvement. It would be interesting to see how it develops in the future.

**Ambassador Tarud**—I discussed that with the Qantas people because the main flow of passengers from Australia is to Chile. First of all, you must consider that there are around 30,000 Chileans or Chilean descendants in Australia. I would say Chilean descendants because today, just in Sydney, you have 5,000 people who were born on Australian soil and they are real Australians. But these people they travel to the country of their parents or grandparents, so the main flow are the Chilean communities which is the more important community in Australia of all Iberian communities, including Spain. This is the main flow, and the regular flow, for family visas and family purposes.

**ACTING CHAIR**—Do we have more people in Australia from Chile than from any other South American country?

**Ambassador Tarud**—Than any other. It is the most important community. I understand the second most important community is Uruguay, and then probably Colombia and Argentina. There may be 8,000. But for Chile, it is 30,000 people. People have been here since 1962 when the first flow of mainly professionals who came from Chile started. They were engineers and architects et cetera.

**ACTING CHAIR**—That was the basis for a relationship.

**Ambassador Tarud**—That is right. It was a small flow. You had the bulk of Chileans coming in the 1980s, and not even after the coup in Chile in 1973, when there was a very small flow of people. It was during an economic crisis we had from 1982-83. That is when the bulk of them came to Australia.

**Senator CHAPMAN**—I note from the list of Australian businesses investing in Chile listed in your submission, they are almost exclusively—with one or two exceptions—in the mining industry or mining services sector. What types of businesses do you see investment opportunities for in Chile beyond the mining section?

**Ambassador Tarud**—We are a mining country par excellence. As you know, we are the first producers of copper in the world. We have been a mining country for many years. However, in our economy, in the 1970s we were depending on 80 per cent of our exports of copper. Today the figure is not more than 35 to 38 per cent. Mining still is very important for Chile, as it is for Australia. So our link started with mining because of the knowledge and the feasibility of lobby projects.

However, you will ask yourself, what does Hoyts Cinemas have to do in Chile? Hoyts Cinemas are already installing 10 or 12 projects around Santiago. They have started to go to the south and north. They have a project of \$50 million in investments. They have been very successful, because Hoyts Cinemas are doing a very nice job, as they are in Australia. They have new concepts and are modern and they have been successful in those services.

I think that, having conditions as in Australia in terms of investment and stability, it is important that economic rules are very clear from the beginning. That for the businessman is so important—you know the rules and they do not change. This has been our policy. It is a country that is so open with the rules of investment that it has been attractive. AGL Gas, which is not mining, are developing a very good product in Chile. They have invested \$80 million. They are expanding that very rapidly and have been very successful in Chile. We started with mining, but today we are going to many kinds of businesses that any imaginative businessman who sees opportunities can quickly develop. In our country there is still the possibility of developing new things. I do not know if it will last for a long time. If an Australian today arrived in the United States to do business, on the first day he started his business, he would have 10,000 competitors trying to put him down. In our country, he may have four or five competitors, so he can manage to expand his business and consolidate in business. I think your people have quickly noticed that there is a possibility. Of course, when a country offers economic stability and clear rules, it is an attraction.

I would like to see that also on the other side. I would like also Chilean businessmen to come to Australia and invest in Australia. I think that the relationship has to be both ways. Chileans in the past 10 years have invested the equivalent of \$A20 billion abroad, so we do have the capacity to invest abroad. That investment to date has been mainly in Latin America. We are the second or third largest foreign investors in Argentina and the same in Peru. Last year, we had heavy investments in Brazil and in the United States. So it has been America, apart from a joint venture in Malaysia some years back from Chilean companies.

I think Australia gives a lot of opportunity to our people. You have been trading with Asia for many years and your expertise is very important, and Asia is very important for Chile. We have been dealing also with Asia. One-third of our exports is to Asia, mainly, of course, Japan, Korea and the People's Republic of China. So we have a common interest. I see that joint ventures with Australians in Australia can be also a very good point of very strong liaison between Chileans and Australian businessmen.

President Frei, who came to the APEC meeting, was thinking to come to Australia with a group of high level businessmen for that purpose. Unfortunately, it mixed with other visits, like that of the President of Korea. It was practically on the same date and it was previously committed. I will encourage the next president—we have elections in December—to pay a

visit to Australia and to come with very high level businessmen who are able to invest here also with Australians and do joint ventures with Australians.

Apart from trade, I think it will also be important as a gesture that the Prime Minister visit us. We never had an Australian Prime Minister in Chile. In 1993, we had the visit of President Patricio Aylwin. In 1994, President Frei was also in Australia. So I think it would be a good gesture from Australia—it is a political point, I would say—that the Prime Minister visit us. We never had a visit, never in history, so I think it would be a good point to consider. There is an invitation already from President Frei to Prime Minister Howard.

**CHAIRMAN**—Definitely at the heads of government level it would be a wonderful opportunity. Can I just ask you, though, about the strategic alliance. We have got the BRL Hardy and Mildara Blass ventures.

**Ambassador Tarud**—Yes, the wines.

**CHAIRMAN**—What is going to make your companies want to invest in Australia? You have not really dotted the i's and crossed the t's on what is going to make them come here to have a joint venture.

**Ambassador Tarud**—Because, first of all, Australia is a very solid country. Australia's economy has proved to be very solid. Even in the turmoil that we had in Asia, Australia managed excellently. All over the world countries were affected. Chile was affected. Our unemployment rose very heavily in the last months. Our growth was affected seriously. We were a country growing between six and seven per cent a year for the last 10 to 12 years, and this crisis had affected us. However, we think that next year we will recover from the crisis. We are expecting five points growth for next year.

Australia is a very solid economy. It is a very solid country near most of the Asian partners of Chile. Your expertise, your knowledge about the area is very profound. So, joining the interests of both Australians and Chileans—know-how, capital and geographic situation—can be very convenient for Chileans also. But they have to be attracted. We have to bring them here for them to see the conditions. Our people do not look at this area because of traditional dealing with others. Our main focus has been always North America and Europe. Europe is 27 per cent of our exports and North America is 20 per cent of our exports. Asia is 33 to 35 per cent of our exports.

People will say, 'Why would we go to Australia? It is so far from any other place.' But, if we attract them to go, I am certain that they will realise by themselves that we have enormous possibilities of joining forces here, in this land also. Your capital is welcome to Chile, but, in my view, to have a stronger partnership, it is also good that Chileans come to this soil and do business with Australians here and to be oriented to the Asian market. So we join forces in technology, capital and know-how. All these circumstances mean that we should be successful.

**CHAIRMAN**—How much closer are you to working with New Zealand than Australia, and why?

**Ambassador Tarud**—New Zealand has been very open for free trade. I have to say that in the recent meeting of APEC in our bilateral discussions we already formed a commission to study the preliminary effects of an eventual free trade agreement with New Zealand. We are starting to go into reality. We announced also with Korea the initiation of a free trade agreement with Chile. It will be the first Asian nation that will be talking free trade with a nation outside the area. It is a very positive step. As you know, New Zealand also announced at the APEC meeting that they will start preliminary negotiations with Singapore. Things are moving.

I would not like to talk about this question of P5 because it is not in my resources. This question has been in the press about the United States, Australia, Singapore, New Zealand and Chile. Chile is very open to free trade. We practise free trade even if we know that competition is difficult. I perfectly understand the political effects of it and it is not easy. But I think that if we were thinking that way we would never have been associated to Mercosur, with countries like Argentina and Uruguay which are so strong in agriculture, much stronger than ourselves. But we went ahead because our government believes in it and our President has the courage to say that we should go ahead. However, it was not politically easy because of the competition. We protected two or three very sensitive areas—wheat and other elements—which were given very long periods to be more stable. I am speaking of 15 to 18 years.

We cannot continue to try to make an economy by decree or by law because then we will be out of the picture. This world is advancing too fast. Globalisation is a reality and in fact free trade is allowing you and securing your people to be able to reach the markets. In future there might be a different trend in this world and people might not speak any more about liberalisation. In the same area we hear people say, ‘It is better to close our frontiers.’ What will your own people do, to whom will you export, which frontiers will you be able to pass?

We believe that it is security for us to go into contracts of free trade: security for our producers, for our people and for our manufacturers. That is why Chile is very fond of free trade. Being a small economy, just 15 million people, we have to be very active and accept competition. But, with competition also our people will get better knowledge and become more aggressive themselves. Otherwise, if there is no competition, quality goes down and prices go up, so it gives a good tonic to our own businessmen that they have been able to compete and they have been successful. At the beginning, of course, there were difficulties but they have been successful. They went ahead to follow the markets and to try to reach other markets. That is why in Latin America we have been big investors.

**CHAIRMAN**—Of course, your quality assurance and your productivity in horticulture is well renowned, especially through your exports to Japan and that sort of thing.

**Ambassador Tarud**—Sure.

**CHAIRMAN**—You are big competitors, of course, with Australia in the wine industry or do you think good allies?

**Ambassador Tarud**—I think that the two joint ventures that you mentioned, Senator, will be very successful. We are joining forces. We have technology, you have technology; we have capital, you have capital; you have good wines and we have good wines. Selling to each other will create, of course, very tough competition because we will have very great difficulties in order to enter your market on a big scale. We are selling Chilean wines in Australia but it is just, I would say, to an elite of people. It will be the same for you in Chile. If you bring your high quality wine, you will certainly sell wines in Chile, but never an immense quantity. So we join forces and we are going to all the markets today and that is a good point. Today, with Australia, we are selling wines in the United States and Europe with our common technology, our common capital and common know-how.

**CHAIRMAN**—For other products, what are the opportunities in your free trade zone for Australian business?

**Ambassador Tarud**—In the free trade zone there are great opportunities. We have a system in which you can bring the goods to the free zone area and if you do not sell them you can keep them there for a long period without paying any tax. This is situated in the north of Chile. When you sell something, in one day you have your goods in Santiago, and when the company pays the tax the goods can enter the country. The same thing will apply to all the rest of the countries in Latin America. It can be a very good point of sale without the company having tax to pay which is always a heavy amount. When you have, for example, cars or other products which are expensive, you could contain them in the free zone. That is what many companies, including many Asian companies, are doing. They are using the free zone in the north in Iquique.

**Senator CHAPMAN**—You mentioned the tendency for Chilean businessmen to be orientated towards North America et cetera—you mentioned a figure of 35 per cent or thereabouts. Is that attitudinal orientation reinforced by the fact that you also have formal trade agreements such as NAFTA, Chile-Canada and the Mercosur agreements? Do they tend to reinforce that attitude of a more local orientation for businessmen, rather than encouraging them to look further afield? How do we overcome that, if that is the case?

**Ambassador Tarud**—Our historical links have been with Europe. Europe has been our strongest cultural link but, as to trade arrangements, before doing our free trade with Mexico, I think the business with Mexico was less than \$100 million a year. After three to four years it is \$1.5 billion, so that shows you really what free trade can do to develop trading.

We always looked towards Europe, as not only a cultural partner but also a trading partner. For our exports, there are four countries in Europe which are very important: Germany, Spain, France and England. They are very important trading partners. Canada is one of the largest investors in Chile; probably today it is the second largest investor in Chile, mainly in mining. I will say that there is also an attraction in what has always been regular business. Sometimes people do not look beyond a market because they are a little bit lazy or do not take the time. They do not know Australia so they continue with Europe for traditional business for years. For many decades we have been doing that.

It is not easy to convince them about this part of the geographical planet. It is not easily accessible and if you travel here to Australia, you are far from anywhere else. If you travel

to Belgium, by car in two hours you are in Paris or Holland. When you come to Australia, the maximum you can do is New Zealand because you are passing through. You have to really convince people to come here—to travel 20 hours on a plane instead of 10 to the United States to do business here. It has not been easy to attract investors. That is why the idea of the President of Chile inviting them to come here was very good, because they like to go when the President invites them to come. I think we can develop that idea for next year. Most probably I will not be here, but I will be pushing from Chile.

**CHAIRMAN**—Is there a problem with shipping rates and Santiago as a port? Is that one of our problems of getting heavier products between our two countries?

**Ambassador Tarud**—Yes, shipping has not been very good. We have a line which is Mitsui and you have a ship once a month, which is not very much in fact. It is a container ship. I understand BHP had ships before, but I do not think they have any more ships bringing their own products in. The real commercial one is Mitsui. It is once a month and it is never enough.

**CHAIRMAN**—It obviously comes down from the north? Are there are good shipping lines from North America down to Chile?

**Ambassador Tarud**—Yes, from North America, but if we use North America it will be a very long trip. You will wait two months for your consignment. It would be much more expensive, because you would have to reroute your shipment of containers. It would be very expensive. I think the only way is to develop a direct line with the company, which is Mitsui. Try to develop that more—maybe twice a month instead of just once a month.

Of course, that is a limitation because, as you understand in business, time counts a lot if you are waiting for the goods and people like to sell before they arrive. If you are going to take another month to get your consignment, even from Chile, people will say, ‘Okay, I’ll bring the goods from the United States and not from Australia because it is faster.’

**CHAIRMAN**—Talking of time, I think we have gone over a little bit. Thank you very much for your attendance. Have you got anything further to add?

**Ambassador Tarud**—No, just to thank you for your patience and thank you for your interest in Chile. I know personally many of you here around this table. I know you all have an interest in my country and you know the possibilities that we have of working together in trading particularly because trading must come along with a political relationship. I think that the best message that we can all send to our business people in Australia and Chile is that the political level is working closely on a friendly ground. That is the best message of stability that we can send to our own people, so that is very important.

I thank all at this table for always having had an interest in Chile. I can be a witness to that. When Chilean authorities have come to Australia you have always been present—whether in a ministerial capacity or as a member of the opposition—and it is very important to create that link. The best way we can show it is that our presidents and prime ministers do not call themselves excellencies but Jorge or Juan, or John, et cetera—by their name. That is the way to facilitate things. We bureaucrats sometimes discuss many things for many

months, and things can sometimes be solved by a telephone call from people who know each other very well. I thank you all very much for the personal contribution you have given to this process of strengthening the bilateral relations between our countries.

**CHAIRMAN**—Thank you, Jorge, for being here today.

**Ambassador Tarud**—Thank you, David.



[10.03 a.m.]

**CLAESSENS, Mr Michael Joseph, Team Leader, Air Services, Sport and Tourism Division, Department of Industry, Science and Resources**

**HADLEY, Mr Peter Max, Manager, Engineering and Shipbuilding Industries, Department of Industry, Science and Resources**

**HARRIS, Mr Jeffrey, General Manager, Minerals Access and Rehabilitation Branch, Department of Industry, Science and Resources**

**RANKIN, Mr Graeme, Manager, Bilateral Science and Technology, Innovation and Science Division, Department of Industry, Science and Resources**

**CHAIRMAN**—On behalf of the trade subcommittee, I welcome representatives from the Department of Industry, Science and Resources. The subcommittee prefers all evidence to be given in public, but should you at any stage wish to give evidence in private you may ask to do so and the subcommittee will give consideration to your request. Although the subcommittee does not require you to give evidence on oath, I should advise you that these hearings are legal proceedings of the parliament and therefore have the same standing as proceedings of the respective houses. The subcommittee has a submission from the department, submission No. 25. I now invite you to make a short opening statement before we proceed to questions.

**Mr Harris**—Thank you. My colleagues are here as a reflection of the wide diversity of issues that industry, science and resources cover, and it might be helpful if I gave a very brief overview of the department's submission. The aim of the submission is to provide the subcommittee with some background material on our interests in South America. These cover resources, marine engineering, tourism and science and technology.

As regards our resource connections with South America, South America is both a market for our mineral exports, which are dominated largely by coal, and a market for mining related goods and services, which is an important element of our industry. We also import some minerals from South America, including copper and copper ores. If we were to identify issues that are impeding trade flows with South America, the main issue would be non-tariff barriers to trade. Tariff barriers are also important in some markets there. For example, Brazil and Argentina apply a zero tariff on Australian coal. For Chile, the rate is eight per cent, and until recently it was 11 per cent. The importance of this is that it is waived in the case of Canadian coal, and that shows the importance of free trade agreements in this region.

The main reason that Australian companies invest in South America is its very high geological prospectivity. That includes near surface deposits. The relative political stability of the region and the improving legal framework are also important attractions of the area. In our submission we indicate some of the companies that are investing in these various markets and we also indicate the size of those investments. I mentioned before that non-tariff barriers are a source of impediment to investment in South American countries. The range of

non-tariff barriers that are important in this regard include regulations, administrative procedures that lack transparency, regulation of foreign investment and so on.

With regard to the marine engineering sector, the lightweight commercial sector of the Australian ship building industry is a very competitive market. It is recognised internationally as a world leader in fast ferry design and technology. We have had some successes in South America in the sales of ferries, though it has not been a significant market. Australia is also a major exporter of recreational ships, fishing vessels and so on. Indeed, we exported of the order of over \$100 million worth of boats in 1997-98. Again, South America does not appear to be a major market for us.

The key issue in tourism remains the distance from the market. As a consequence, our interest in South America is based more on potential than actual tourism flows. In the past, air links to South America have been poor, although this appears to be improving. In relation to science and technological cooperation—the final area covered by our submission—in 1998 the Mercosur countries agreed that a memorandum of understanding on science and technological cooperation be signed with Australia and New Zealand. Australia is also negotiating an MOU with Chile in consultation with Foreign Affairs and Trade.

That is our brief overview of our submission. We would be more than happy to answer any questions your committee may have on specific issues.

**CHAIRMAN**—Thank you very much.

**Senator CHAPMAN**—In your submission you talk about several impediments to greater investment in minerals. You include regulation of land access and lack of transparency in administrative procedures. Could you enlarge on those problems?

**Mr Harris**—If we go to the individual countries we can see examples of those. In some countries the lack of a double taxation agreement is an impediment to trade. In other countries such things as the private ownership of mineral rights can cause an impediment. Largely this happens in some countries because the actual framework for tracking the legal ownership of minerals is lacking. In other cases just the lack of ability to transfer the resources can impede the market. In some countries we have also had difficulties simply with the transparency of regulations, and we have given a couple of examples here.

**Mr HOLLIS**—You paint a fairly negative picture of relationships with South America. What do you see are the positives? You mention that in Chile there is a little bit of trade. You seem to be fairly negative on most other things, including tourism. Could you expand a little on what you see are the positives?

**Mr Harris**—We would not regard our submission as being a negative submission at all. Indeed, we would say that it does point to the positive areas where the relationship has developed and where markets are opening in South America. As you have heard from one of the previous witnesses, Chile in particular is a very open market. We have some difficulties with Chile in the sense, as I have mentioned, of the tariff concession that they offer to Canada. But certainly we would say that our relationship with the South American countries

is a promising one. If I could go to some particular individual areas where there is cooperation and there has been some advance, air services might be the first point of call.

**Mr Claessens**—As we have mentioned in the submission, in the past, because of the distance from the market, it has been difficult to attract inbound tourism to Australia. We view South America as a whole, and Chile among the countries there, as developing markets.

**Mr HOLLIS**—If I can interrupt you, given the number of people from Latin America now residing in Australia and the number of Chileans and people from Uruguay and Paraguay arriving here, I would have thought there would be a fairly ready market for family visits or family reunions.

**Mr Claessens**—I do not have the statistics but there certainly is a strong element of VFR—visiting friends and relatives—traffic. It does come down to the point made by the last witnesses that we have a lot of competition from other markets which have better air service connections, witness North America and Europe. So, yes, there is a VFR sector here, but only a small one.

**CHAIRMAN**—In that competition, is Austrade doing its job as well as it can or is it understaffed or underresourced in Latin America? If you could give them some gratuitous advice, or give another minister in another department a bit of gratuitous advice, would you be saying that they need a more active role? Are they doing a good job or do they need more staff?

**Mr Harris**—I cannot personally make much of a judgment on that. I do know that, as far as our mining companies are concerned, Austrade mining commissioners and Austmine representatives are in the major areas wherever our companies are operating in South America. They also point to a growing market in mining related services such as software. For example, Australian mining software, which includes such things as mine management software, is used by something like 60 per cent of mine operations around the world. Because some of these countries in South America—including Chile, as you have heard—are major mining countries, that is a market for our mining related goods and services. So, to the extent that they are already showing a presence in those areas, I think that is probably reflecting a market that is developing.

**CHAIRMAN**—Is our tourist industry offering something in Latin America for them to come here? Does tourism come first or does trade come first, or it is just associations—like the Ambassador said a little while ago? Do heads of government draw countries together to propagate more trade? Is the tourism industry well enough on the ground? I know it is not your portfolio so you may have no comment.

**Mr BAIRD**—Michael, in relation to the air services, someone quite senior in tourism whom I bumped into last week said, ‘Do not be fooled by these new air services. They are pretty tentative. They had a bit of an upturn for a couple of months during the summer but they are into the long haul now. The word is that they are going to be axed.’ Does this sound valid, or not? If the Qantas service to Buenos Aires is axed then a lot of the spin-off starts to diminish considerably. Have you heard anything on that?

**Mr Claessens**—The decision as to whether services continue is obviously a commercial one for the airlines to make. As a department we are members of air service negotiation teams, so our primary priority in working with the Department of Transport and Regional Services, which has portfolio responsibility for air links, is to ensure that adequate capacity and adequate operational rights are made available to airlines should they want to launch services to allow them to expand and grow the market. Our experience is that new air services in any market are usually accompanied by some growth in the market, and that stands to reason because airlines will naturally seek to put passengers in seats and that means marketing more heavily in source markets. I understand that Qantas, in particular with its new Argentine services, has been working closely with the ATC to generate that market.

As I say, it is a commercial question whether they can remain committed in markets. It is a thin market in terms of total tourism players, that is true. In Argentina, there are two airlines operating on the route—Aerolíneas Argentinas and Qantas. However, they code-share, so obviously there is some commercial synergy there which helps both airlines.

**Mr BAIRD**—Can I just switch the tack a bit? I will follow up from Senator Chapman's questions in terms of the impediments to trade, which I suppose is what this committee is going to focus on a lot. For example, with respect to the agreements that Chile has with Canada, what are we doing to ensure that we have a similar tariff free situation?

**Senator CHAPMAN**—Can I interpose there, while you are also answering that question, can you perhaps answer this one as well? What is the rationale in these tariffs being applied? It is obviously not to protect their domestic industry, or I assume it is not from the nature of the trade that is going on. But is it actually designed to favour one country over another?

**Mr Harris**—I think that is a very good point. I would not like to try my arm at commenting any further than that. What we have seen, though, is that we do have very good bilateral relations with countries in the South American region and my brief here shows that, as a consequence of our representations to Chile, tariff was actually reduced, as I mentioned in my opening remarks, from 11 per cent to eight per cent. There certainly is capacity for us to improve Australia's access where it is impeded by tariff barriers. As I implied before, where the result of incomplete micro-economic reforms in South American countries leads to a lack of transparency in their arrangements, limitations on the repatriation of capital, or even the development of the domestic financial market, then these issues will be a lot longer in being addressed.

**Mr BAIRD**—Are we working heavily on it now, in terms of getting this tariff reduced?

**Mr Harris**—I am not aware of any further action being taken on that particular issue.

**Mr BAIRD**—Okay.

**Mr Harris**—I should mention though, in the case of the general region, through what is called APEC EGMEED, the Expert Group on Minerals and Energy Exploration and Development, we are working towards a general agreement, not in the sense of WTO but towards a general influence in these countries as to the benefits of opening their markets and improving their basic infrastructure and regulations.

**Mr BAIRD**—We should have actually taken it up with the Ambassador, as he gave us the whole pitch on the need for free trade but, all right, thank you.

**CHAIRMAN**—Mr Hadley, you are a shipping expert, are you?

**Mr Harris**—Shipbuilding.

**CHAIRMAN**—Why haven't we done better with the fast ferries sales? We did all right with Uruguay and Argentina. What is the hold-up?

**Mr Hadley**—The department has recently commissioned a report by Austrade in South America on why that has happened to see whether there are any market access barriers, and we are awaiting the outcome of that report.

**CHAIRMAN**—Have you had an input into that Austrade report?

**Mr Hadley**—Yes, we helped develop the terms of reference for it, and that was to look at market access barriers and to find out why Australian fast ferry builders were not as active in South America. After the initial success of Incat in Argentina and Uruguay for car ferries—

**CHAIRMAN**—So it is no good asking you what the answer to it is because you have not got—

**Mr Hadley**—No, not yet.

**CHAIRMAN**—If one ship, boat or ferry, gets in you would think that there would be a follow-up if it were successful, and it has been successful.

**Mr Hadley**—That is right, yes.

**CHAIRMAN**—Have you got a copy of the terms of reference for the study?

**Mr Hadley**—I do not have one here with me.

**Mr Harris**—Can we provide it?

**Mr Hadley**—Yes.

**CHAIRMAN**—You can supply it?

**Mr Hadley**—Yes.

**CHAIRMAN**—That would be excellent. You did mention earlier in your submission about non-tariff trade barriers and then we went on to tariffs and other things. You did not really clearly set out the non-tariff ones.

**Mr Harris**—I attempted to in giving some examples of them.

**CHAIRMAN**—Maybe I did not pick them up.

**Mr Harris**—Non-tariff barriers by their nature can be very broad and intangible and they can include, as I mentioned, such things as the ownership rights of minerals and how that operates. I will try and find some particular examples as I go through—foreign investment regulation, for example, is a very powerful non-tariff barrier. If I can pick up a country where we have an issue with foreign investment, we might say, for example, Chile—and you heard from the previous witness that Chile's foreign investment policy ensures foreign investment is treated equally with national investments and there are no restrictions on the right to repatriate profits.

If we looked at, for example, Argentina, I understand that prior to 1993 bureaucratic regulation was an extremely high barrier to entry to that market. It was not until 1993 that Argentina published their progress towards a new mining investments law. The brief that we have provided indicates that this has lifted Argentina's reputation as an investment destination. There are some other examples through our submission. It was not until the 1990s that Brazil lifted restrictions to encourage foreign investment. I cannot point to any others at the moment.

**CHAIRMAN**—What about land owning? Can you own land in Brazil? You can take that on notice. Obviously, you can in Argentina because we have Australian investment owning land there and no trouble with the land ownership for investment. All countries are a bit different. Have you got any further issues that you would like to put that we have not asked a question on that you might have expected us to ask?

**Mr BAIRD**—We have run out of questions as the answers have been so bureaucratic that you really have not given us anything. They have been so couched in officialese. How does this advance us at all when you are asked to direct questions in how would you comment on other areas in terms of what they should be doing more or less? We got nothing. How can that assist us? Surely you have some ideas as to what we may be doing better. None of us do things 100 per cent right.

This is an inquiry about improving our relationship. We have touched on some of it, but it is over to you guys. Should we be pushing more aggressively to remove the tariff barriers? Should we be putting more Austrade officers in? Are ATC doing enough? You all know what the situation is. If we want a bureaucratic answer, we can read the brief. If we want direct advice, we ask you specifically. In this type of environment, nobody is going to come back to you and say you should not say that. It really is useful to us in terms of this inquiry, otherwise there is no point having it.

**Mr HOLLIS**—I must say I agree entirely with Mr Baird. I was wondering what I was doing here. When I said you appeared negative, I hold with that. I thought that, of all the people who have ever been before this committee, you group were the most negative, most uninspiring and least positive. If you are not enthusiastic or not interested, why did you bother coming? If you are not enthusiastic, how can we be enthusiastic? The Ambassador this morning said that Australia was ignoring a market of 400 million people. I do not wonder we are ignoring it if the bureaucrats are so negative about it. Quite frankly, I thought

it was appalling. It was one of the worst presentations to any of the committees I have been before in the 18 years I have been in the federal parliament.

**CHAIRMAN**—I will just try and get you off the hook. What areas of science and technology cooperation are likely to be of the most benefit to Australia? We have air services a bit; we are still having an inquiry into shipbuilding. What area can you say to turn around the criticism of yourselves? What is going to be exciting? Where is it? Or is it a case of ‘throw it under the table and forget about it’? Give us something exciting.

**Mr Rankin**—Something exciting. It is really quite difficult because the distance is extraordinary and the relationships from the science community tend to be North America, Europe and then into Asia. North America is where a lot of the science and technology activity is. Europe is catching up very quickly. It is really hard to get them to focus into South America and to some extent into South Africa. That is not to say it is not happening. CSIRO, in particular, have activities around mining, mine site rehabilitation, and environmental aspects associated with mining. There has been work done in agriculture in the biodiversity sector, wine and viticulture research, and collaborative activity between CSIRO and the national science commission in Chile, for example.

In Brazil and Argentina, it is around biological control and biological work associated with agriculture and farming. It is in that sector that is important to us, where we have to have a lot of expertise, and where there are similar circumstances in Argentina and Chile, in particular. They are mainly dry land agriculture, cropping, farming, beef cattle production and that sort of thing. That is the main sort of activity. It is very difficult to get them to look at working in that area.

**CHAIRMAN**—I guess things go in a series. If Austrade identifies a need, they then come to you as the department. You have to have the enthusiasm in your department to say to somebody, ‘This is a bit of a goer.’ Then Austrade has to do the job on the ground here again after it has come through you because you know—or should know—some of the companies that would be good to get into that market. There has to be an enthusiasm all the way along. It is the same with tourism. That is why I asked the question about tourism. That is a lead-on to further trade, whether it be in your industries or some other industries.

**Mr BAIRD**—I suppose the bottom line we are saying to you guys is that you are all locked into the bureaucracy and what can be said and could not be said. I had the ultimate bureaucrat, Max Moore-Wilton, work for me. I know how you can still have a strong viewpoint but couch it so that you cannot have your butt kicked. If you were the Prime Minister, what would you do to improve the relationship? Do you think the distance and the lack of involvement we have had before means that we are better off putting our resources into other markets? I have heard that, for example, tourism is thin. The returns are much better if we put our bucks into Asia or Europe. If you honestly think that, then that is what we want to know. It is just sharing what you guys would do if you had to write this report.

**Mr Harris**—The first point that needs to be made is that we wish to put before the committee some background material on some issues that this portfolio deals with. You will notice when you read our submission that it introduces the fact that we are not addressing the terms of reference of the committee.

**Mr BAIRD**—Why wouldn't you address the terms of reference?

**Mr Harris**—Mr Baird, we took the view that we had some material that might help the committee in the nature of background material. We did not take the view that we had anything particular that we wished to impart to the committee in terms of key messages or key lessons for the future. However, addressing the comment you made at the conclusion, I think the key issue that we would say as a portfolio is to not to lose sight of the importance of any decisions being commercially driven, whether that be in terms of exports and mining services or investment in mining ventures in South American countries—and I have spoken before about the high prospects of the region—whether it be in the sale of seagoing vessels and ferries or in terms of tourism. That comment is one that we would like to make to the committee.

**Mr BAIRD**—You are saying that really the key factor is that you look at what the market is doing. So your role is not to forge the relationship but rather to watch. It should be market driven and then, as the market develops, you can provide assistance.

**Mr Harris**—I think that would be a fair implication.

**CHAIRMAN**—There are no further questions. Thank you very much for your attendance here today.

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

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

**Subcommittee adjourned at 10.34 a.m.**