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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, 1 OCTOBER 1999

SYDNEY

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

**Trade Subcommittee**

**Friday, 1 October 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 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:** Mr Prosser (*Chair*), Senator Brownhill (*Acting Chair*), Mr O'Keefe (*Deputy Chair*), Senators 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 Brownhill, Chapman and O'Brien and Mr Baird and Mr Hollis

**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.

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**Subcommittee met at 9.30 a.m.**

**CHAIRMAN**—I declare open this fourth public hearing of the trade subcommittee of the Joint Standing Committee on Foreign Affairs, Defence and Trade, which is 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 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 has been radical, particularly in Chile, Peru and Argentina. Most South American governments have shown a commitment to creating a stable regulatory environment 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 Brazilian financial crises impact on the expansion of our trade and investment links 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 level—chambers of commerce and a cross-section of companies with an interest in South America.

[9.32 a.m.]

**ALMENDRADES, Mr Sergio, Secretary, Australia-Peru Chamber of Commerce and Industry Inc.**

**BEDON, Mr Daniel Esteban, President, Australia-Peru Chamber of Commerce and Industry Inc.**

**CHAIRMAN**—On behalf of the subcommittee, I welcome representatives from the Australia-Peru Chamber of Commerce and Industry Inc. 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 under 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 received submission No. 31 from you. I now invite you to make a short opening statement, if you wish, before we proceed to questions.

**Mr Bedon**—Thank you for the giving us the opportunity to appear before the committee. Firstly, I would like to give a very brief overview of Peru. Peru is one of the rapidly growing countries in South America, mainly due to its vast richness in natural resources—mining, fisheries, agriculture, oil, et cetera. It is strategically located, and its territory offers a natural variety of coast—there is the Pacific Ocean—mountains and jungle. It has a rich history that goes back to the pre-Inca and Inca times. Peru has become one of the world's cultural assets famous not just for Cusco and the ruins of Macchu Picchu but also for the colonial cities—the legacy of the vice reigns of the Spaniards—displaying admirable architectural buildings in the main cities such as Lima, which is the capital city, Arequipa and Trujillo.

I have prepared for you a presentation. I will be using transparencies to present to you the economic and trade conditions that Peru has actually put in place to attract business opportunities from the international community.

*Overhead transparencies were then shown—*

**Mr Bedon**—The presentation is around 60 slides, but I understand that there is a shortage of time, so I will cut out a number of the slides. I will start with an economic presentation that was prepared by Prom Peru—that is, the Department of Promotion of Peru—in September 1998.

We consider Peru to be a country on the move. It is the third largest country in South America and the fourth most populated country, with 24 million inhabitants. It borders Brazil, Bolivia, Colombia, Chile and Ecuador, and it gives us a strategic position in South America. We have a gross domestic product of \$61.6 billion. We have 53.5 million hectares of rainforest, a multiparty democracy and a literacy rate of 87 per cent. At the Annual Conference of Executives—CADE 1996, it was said:

Peru will be the Latin American country most integrated into the world in trade, investment and technology.

Peru will be a mature democracy, socially integrated and pluralist, with education and quality employment that will have eliminated extreme poverty.

The micro-economic policy of the last eight years went hand in hand with political, social and institutional reforms. Those policies included monetary and fiscal austerity, the liberalisation of interest and exchange rates, the elimination of subsidies and price controls, the liberalisation of foreign trade and capital flows, the creation of a favourable legal framework for foreign investment, the modernisation of our pension system, the transparent privatisation program, the development of capital markets, flexible labour markets, property reduction programs and a strategy to achieve social peace.

Thanks to these micro-economic foundations, we have been able to accumulate growth of 41.1 per cent between 1993 and 1997—the highest in Latin America. Export growth was even faster: 92 per cent between 1993 and 1997. Inflation went down from 7.650 per cent in 1990 to 6.5 per cent in 1997. Peru will have solid economic growth. We had a problem with the El Nino phenomenon in 1998, as we all know, and that cost a little drop to four per cent in the figures that you see here. The figures that you see in 1999 and so forth have been adjusted by two per cent, and next year we expect to have growth of 4.0 per cent.

**CHAIRMAN**—Is that when all the fish stock went down to Chile?

**Mr Bedon**—Yes, that is exactly right. With inflation rates at international levels, the El Nino effect in 1998 put our inflation rate at eight per cent. The year before that it was 6.4 per cent, but we are still maintaining a positive growth here. I have a nice picture of Lima here: the financial infrastructure is ready. Peru has a solid financial system. Peru is the preferred place if we consider the categories: loan allowances required for investment, capital adequacy, market-to-market investment, the deposit reserves required and the reporting required. So we cover all these points, and we are first ranked in all of South America.

**Mr BAIRD**—What is this based on?

**Mr Bedon**—In these categories—low allowances required and capital adequacy. We check all these areas of market-to-market investment, deposit reserves required and reporting required, with increasing internal savings spurred by a private pension fund system. As you can see, from 1983 onwards we have increased our internal savings in Peru up to June 1998. We have also grown in the area of foreign direct investment, particularly from 1993 to 1997, and we keep growing.

**Mr BAIRD**—You are trying to direct investment into Peru?

**Mr Bedon**—Yes, into Peru, which allows for the financing of the decreasing current account deficit with long-term capital. We are decreasing the current account deficit and we expect by 2002 to have it down to 3.5 per cent of GDP. These figures were produced by the Prom Peru department.

**Mr BAIRD**—Yes.

**Mr Bedon**—The private pension fund system has an increasing number of affiliates. We are growing in that policy as well in Peru. We are copying a lot from other major countries. Because of these attractive conditions, secure regulations and strict supervision by the regulatory agency for the private pension funds we have increased competition between AFPs which creates efficiency, service and customer satisfaction with individualised accounts and compulsory contributions deducted from the pay cheque by the employer. The consolidated pension fund at the end of 1997 was \$4,108 million which is 66.5 per cent. You can stop me if you see that my accent is a bit broad.

**Mr BAIRD**—It sounds interesting.

**Mr Bedon**—This contributes to internal savings that are providing long-term working capital for companies. You can see the figures here from 1993 to 1998. That also helps to increase internal investment. We also have figures from 1994 up to 2000. You can see consistent growth—

**CHAIRMAN**—What are those figures?

**Mr Bedon**—Those figures are internal investment.

**CHAIRMAN**—Are they billions or millions and what percentage?

**Mr Bedon**—They are millions of American dollars.

**CHAIRMAN**—Only millions?

**Mr Bedon**—Yes, that is definitely in millions of dollars. Peru is less vulnerable than other countries in the region. International reserves amount to seven times the monetary base. Our flexible system of exchange rates avoids speculation. You can see that our reserves amount to seven times the monetary base and we have figures of that from 1994 to 1998. Those are the amounts of the reserves we have up to 1998.

**CHAIRMAN**—Did you say those figures—going back to the previous one of \$26.6 million estimated at 2000? Wouldn't that be billions? We have to get that right. You can correct it at the finish, if you like, but I suggest that it would be billions.

**Mr Bedon**—I am taking the data here from the page before. Maybe you are right. Yes, it should be billions.

**CHAIRMAN**—Internal investment would be more than the estimated \$26.6 million.

**Mr Bedon**—Anyway, I can confirm that information.

**CHAIRMAN**—What is the definition of internal investment? Is that domestic investment?

**Mr Bedon**—Yes, it is domestic investment. That is what we are talking about here. It is the private sector investing in Peru.



**CHAIRMAN**—But from domestic and external sources, or just from domestic sources?

**Mr Bedon**—As far as I know, from domestic sources. Here we have a chart which presents elements such as a healthy public finance; an efficient monetary policy and independent central bank; a successful privatisation process; a solid regulatory system; low inflation and strong annual growth; and a flexible exchange rate system and high foreign reserves.

This is a comparison between all the main countries in Latin America. We start with Chile, then Colombia, Peru, Argentina, Mexico and Brazil. These figures are from 1998 prepared from the ministry of Peru. It also compares the countries' ratings by Standard and Poor's.

The regulatory framework is a key issue in the structural reform program. The main functions of regulatory agencies are to promote development, modernisation and improvement in quality of services increasing private investment; encourage and preserve free, fair and effective market competition; supervise the correct application of tariffs consistent with competition; and enforce contractual obligations in privatisation contracts.

Peru has a modernised customs system. It collected \$US626 million in 1990 and \$US2,723 million in 1996—a growth of 334 per cent. The contribution to Treasury grew from 23 per cent in 1990 to 35 per cent in 1996—a growth of 52 per cent. The average time of clearance in the year 1990 was 15 days. In 1996 we have modernised the system to clear in two hours. The point of collection in 1990 was at customs; in 1996 collection is through banks and online. Customs used to inspect 70 per cent to 100 per cent of goods. Nowadays we only inspect 15 per cent of imports and five per cent of exports. So you can see the customs system in Peru has been modernised.

This is accompanied by a trade promotion framework. There is a simplified 2-tariff system: 12 per cent tariff levied on more than 98 per cent of imports and 20 per cent tariff levied on the remainder. We used to have a much more classified and longer list for this type of period in the customs office, but now we have only two tariff rates. There are no trade barriers, subsidies or government intervention. The modern customs clearance includes temporary admission and drawback under a policy promoting free trade agreements.

Peru is near the top of the list of Latin American countries with major foreign direct investment. We see the first one is Bolivia followed by Peru, Chile, Colombia, et cetera. Peruvians are open-minded towards foreign cultures. This is a chart which shows our cultural barriers ranking. Peru is in the third place behind Brazil and Argentina. The Asia average is below the Latin-American average for that specific consideration.

There is equal treatment of foreigners and nationals. If you compare Latin America's average with Asia's average, you see that we are at the top. Of South American countries in this area, Peru is again in second place following Argentina. We are well prepared for dealing with foreign investors. Peru also provides investment protection and, in South America, it is in first place, followed by Chile, Argentina, Colombia, et cetera. So we are in a good position in that area as well.

Peru offers competitive energy costs. It is just below the average at 5.64. Even though we follow Venezuela, Mexico, Ecuador and the other countries, I would say Peru is in the average line for energy costs. There are an increasing number of foreign companies interested in operating in Peru. We have seen consistent growth from 1991 to 1997, and we are bringing in a lot of people from the international community.

In relation to technology, Peru's communication resources are increasing more and more. From 1994 especially, these resources started to grow consistently and strongly. These are telephone lines for 100 inhabitants in Peru. The country is facilitating a better connection with the world and, in South America, it is in second place after Brazil. It is followed by Argentina, Venezuela, Chile, et cetera. Peru's domestic market attracts cutting edge technology. Our growth is very easy to perceive. From 1993 onwards, we have grown by 162 per cent. That is in patent applications received each year.

International institutions are recognising that Peru is a country improving its competitiveness. It is ranked 37th in the world, and fourth in Latin America after Chile, Argentina and Mexico. It improved its position to fourth place in 1998.

**Mr BAIRD**—On what issue is Peru ranking its economic or competitive position?

**Mr Bedon**—It is based on the international standards in different areas of trade and commercialisation. What we are trying to do is to get closer to the major countries in those standards. That is what we are trying to do in quality assurance, et cetera. What I am saying is that Peruvian businesses are increasingly demanding quality standards. That is an area we are very concerned about because we know that, without these quality standards, we will not be able to get into the international markets. That is one of the main concerns for the government. You see we are also following the ISO9000 international quality standard.

We are also concerned about employing a more skilful labour force. You can see the tremendous growth from 1991 to 1994 in each area: construction, customer goods, hotels and restaurants, intermediate goods, personal service, and banking and finance.

**CHAIRMAN**—What is the average weekly earnings, converted to Australian dollars?

**Mr Bedon**—You mean average weekly earnings for Peruvians?

**CHAIRMAN**—Yes. Could you take it on notice?

**Mr Bedon**—Yes.

**CHAIRMAN**—I would be interested to know. For example, with skilled labour there must be different tiers of labour costs.

**Mr Bedon**—Yes, definitely.

**Mr Almendrades**—The monthly figure, in American dollars, ranks from \$200 to \$600, at the technical level.

**CHAIRMAN**—So it is not cheap labour?

**Mr Almendrades**—It is not cheap labour now. It was cheap labour before—

**CHAIRMAN**—It was cheap, but it is not now?

**Mr Almendrades**—It was cheap, but not now. When the Fujimori government took office it was cheap labour. We were rating inflation at that time at 2,500 per cent a month. But now that is the range, between \$US200 and \$US500 a month, at the technical level.

**Mr Bedon**—That is for the technical level but we have other levels, for management and especially for people coming from overseas who definitely are earning according to the international standards.

**Mr Almendrades**—For example, for a professional, 15 years experience, in engineering it is \$US1,000 to \$US2,000 a month; for managers, \$US3,000 to \$US4,000 a month.

**Mr Bedon**—At the level of general management, for example, I know that about five years ago the best paid general manager was on about \$US14,000 a month. So that is more or less a picture of employment in Peru.

This leads to the next one, on growing productivity. We have a comparison there for the years 1996 and 1997. Latin America and the Caribbean is a white box and the shaded one is Peru, so you can see we are well beyond the average of the Caribbean level.

On opportunities for investment, we have created good conditions for investment in Peru. There are legal stability agreements covering tax stability, foreign exchange stability, stability of non-discriminatory treatment and stability of the labour regime, and there is international insurance coverage of investments guaranteed by the state, and international arbitration. So we are following the international standards and we are sure that this will bring good results at the end. There are certain conditions: a \$US200 million minimum investment or a \$US500,000 minimum investment that creates at least 20 new jobs or at least \$US2 million in exports for the first three years.

**Senator CHAPMAN**—That is the requirement to be able to invest, is it?

**Mr Bedon**—Yes, it is.

**CHAIRMAN**—What happens if you do not meet that requirement? Let us just say that I say I am going to invest and create 20 jobs and I only create 18.

**Mr Bedon**—I am not fully informed about the details of the system. What I would say is that if the government sees that there is a reasonable explanation for those types of situations with international investors we are prepared to do a change of terms et cetera.

There were 211 legal stability agreements signed between 1993 and 1997. This gives a very good picture of what we are doing in Peru. Twenty-one per cent were in mining; 20 per

cent, finance; 22 per cent, industry; 15 per cent, energy; eight per cent, commerce; and 14 per cent, others.

The legal framework is attractive for private investment. The features are: constitutional guarantees; non-discriminatory treatment for foreign capital; prior registration or approval not required; freedom to invest in any economic sector; unrestricted transfer of all capital, dividends and royalties; and simplified administrative requirements. Just as a comment on that, when I left Peru about 12 years ago, the ministry of the economy, for example, was a huge building of 14 levels full of employees, and other branches. When I went back to Peru about one year ago, the ministry of the economy was reduced to a two-level building with very few employees. So the administration system has definitely improved a lot. Bureaucracy is finished.

We have flexible rules for hiring foreign workers. Up to 20 per cent of the total work force are foreigners. Up to 30 per cent of the total payroll may be paid to foreigners.

Our tax system has also been modernised. There are only three taxes on local and foreign activities: income tax, 30 per cent, and that is 15 to 30 per cent for individuals; sales tax, 18 per cent and mostly creditable; and tax on consumption, 10 to 30 per cent. There are two contributions—social security and the national solidarity fund—to be abolished by 31 December 1999. There is zero tax on dividends and capital gains and zero tax on exports.

What are the areas of investment opportunities? The investment opportunities are in agri-industry, mining, manufacturing, fishing, petroleum, infrastructure, tourism and banking.

Our program of privatisation has four main objectives: to contribute towards an improvement of the market economy; to promote private investment, local and foreign, in the main sectors of the economy—electricity, communications, hydrocarbons, industry, mining, et cetera; to promote the development of Peru's capital market, increasing the amount and number of transactions and of participants, through the citizens' participation program and mutual funds; and to generate revenues for the Peruvian Treasury Department, oriented to finance social programs to reduce extreme poverty in Peru.

With respect to generating significant revenues and investment commitments, this graph shows the figures from 1991 to 1997. Projected investments are the shaded boxes and the revenues we collected are the white boxes.

This shows the type of important investors we have attracted. Examples are Telefonica, of Spain; Generandes, USA-Chile; Mobil Oil, USA; Repsol, Spain; Banco de Credito, the largest bank in Peru; Pluspetrol, Argentina; Cambior Inc, Canada; BHP, Australia; Perez Companac, Argentina; and others from Canada, Peru, USA, Chile, China, Argentina and Spain. They are an example of the investors we have.

**Mr BAIRD**—Is that list predominantly mining?

**Mr Bedon**—Predominantly, yes. I would say that is the main percentage, if you remember the pie chart we showed before, but also we have the capital markets and so on.

The Peruvian government is accomplishing the goals it has set. In telecommunications, this is the growth we have achieved. Also, this shows finance, industry, hydrocarbons, electricity, mining, fishery and others. This is what we have reached in the progress of privatisation of all the different public companies that we used to have in Peru.

The last information from the Peruvian government is that the President is accelerating the process of privatisation and concessions now. That is a strong commitment to help the international community in Peru. Peru has strong economic fundamentals: net international reserves equal to 15 months of imports and more than seven times the monetary base; a current account deficit financed mainly by long-term capital; a solid financial system with strict regulation; a reformed and privatised pension system which is adequately funded; and support for market oriented reforms.

The government's policy goals are: to assure sustained economic growth over the long term of at least six per cent annually, with annual inflation near the level of industrialised countries, an extra growth rate of more than 10 per cent before the end of decade, and a domestic savings rate of 25 per cent of GDP; to eliminate extreme poverty and reduce by 50 per cent the number of Peruvians living in poverty; to underscore a promising future. Peru is a country on the move.

I turn to my next chapter. You can refer to your copy. I have produced for you a list of the different opportunities of investment, privatisation and concession programs that the government is running at the moment. We have \$US7.861 billion in the state sector. In the area of emergency program—for rehabilitation of roads, highways, et cetera, due to El Nino destruction—we have \$US1.3 billion. The Mi Vivienda program is a government housing program. Our government is very committed to get strategic alliances to run this program. It has a \$US500 million program to build up 50,000 units for low income earners in Peru in the next five to 10 years.

There is \$US1.6 million for highway programs and \$US1.2 million for the reparation program—for bridges, national infrastructure, a rail system, investment in the jungle and an energy program. Privatisation programs amount to \$US8.3 billion and \$US1.5 billion in the area of telecommunications. We are also committed and very keen to improve our ports and airports in order to provide a better service to the international community ready to invest and set up business in Peru. We are also privatising those projects and looking for operators in different ports and airports. We include the main airports in Peru and the international airport of Jorge Chavez is part of the program. The main port of Peru is also involved in the program. In private investments, we have a \$US7.9 billion investment in the area of mining; for infrastructure a \$US1.2 billion investment, and investments in energy, fishery and agricultural projects, et cetera.

That is what we have in Peru. We actually feel that we are ready to face the challenge of leading Latin America and are also able to offer a land of opportunities to the international community. We understand that it will be a very difficult world in the years to come. We have a land rich in natural resources that we are ready to share with all of those countries that are interested in making alliances. That ends my presentation.

**CHAIRMAN**—Thank you. It was a very comprehensive and interesting one.

**Mr BAIRD**—Thank you for your presentation. It was very comprehensive, and we enjoyed it. We had no problems with your accent at all. It was a great accent. My question relates to a couple of things. Firstly, we are normally told about A, B and C: Argentina, Brazil and Chile; we do not have A, B, P in that. Having seen quite a few of your graphs, it certainly looks as though you are up there with the big guys in terms of economic growth and all the key indicators. Why is it that you are not perceived as being up in that group?

Secondly, in view of the fact that we have a number of people of Peruvian origin here in Australia and that linkages have developed between Australia and Peru, can we see Peruvian airlines flying here? Where do you see the future of the growth? From our point of view, we are interested in where we should be suggesting that the government put their resources. Your answers would help us understand a bit about that.

**Mr Bedon**—To answer the first question, I would say that Chile has had a very strong presence in Australia for the last 10 years, and that was because Chile had started its process of improving the nation with changes and restructuring before us. They had the opportunity to restructure political alliances that have put them well in advance of the other countries in Latin America. On the other hand, Brazil always has been the largest country in South America. Peru has not been in the picture before because of the tremendous trouble we have been having with terrorist groups, and that definitely was something that stopped people from the international community. The international community used to see Peru as a land of struggling and fighting, and things like that. That definitely was not good for Peru. In the meantime, Peru restructured the country. Part of the problem was to eliminate that process of terrorism, and we achieved that end. For the last five years, Peru has taken up a good presence in the international community. Obviously, it will take a little bit of time for the international community to accept and to see Peru through the right eyes. That is the main thing I would say.

**Mr BAIRD**—The second question was with regard to the linkages with Australia: the number of people of Peruvian background, et cetera.

**Mr Bedon**—We have here in Australia between 8,000 and 10,000 families—about that number more or less. We know that we have not been able to develop large businesses here as yet. One thing that we know is that there is an increasing number of Australians visiting Peru, and that is because of the opportunities that we have been able to produce for the international community, especially in the area of mining and fisheries. I hope that answers your question.

**Mr Almendrades**—Just expanding a bit on the Peruvian community in Australia, 10,000 families is equal to about 30,000 or 40,000 Peruvians in the whole of Australia. The main immigrants from Peru to Australia were women about 25 to 30 years ago. At that time, the Australian government put an advertisement in Peru that, for the same reason, there were not women here in Australia. So the Australian Army sent two charters to Peru to bring back the women. In comparison with other countries in South America, Chile and Argentina, families came from the beginning. So that is why the Peruvian community has not been as large as other countries in South America.

**Mr BAIRD**—Are there any plans for Peruvian airlines to fly out that you are aware of?

**Mr Almendrades**—Not at this moment. We have the presence of Argentineans and Chileans here at this moment. We are in the process of restructuring the Peruvian airlines through privatisation as well. We are seeking in the future to do that.

**Mr BAIRD**—Thank you, Mr Chairman.

**Senator O'BRIEN**—I am just looking at the trade between the two countries. Obviously, your presentation has been directed towards demonstrating the investment climate in Peru at the moment, but I am looking at the actual products that we import from Peru and Peru imports from Australia. We seem to be comparable economies in the sense that we both have very strong mining and agricultural sector products. What exchange of products in those areas would you see to be the best opportunities for Australia and Peru?

**Mr Bedon**—I have a very strong perception that what we have all been very interested in is technology. We in Peru look for alliances in the areas of technology and consulting. We have the natural resources. We know that there is no problem with that. We are looking for that type of support, technology and consulting. That is why the privatisation and concessional problems are more focused on that, apart from finance, of course. But that is the area we are very keen to get from the international community.

**Mr Almendrades**—I will expand a little bit more. There are three main areas in which I think Australia would be keen to do it. They are dairy products, leather and computer products. We as Peruvians—and every country in the world now since globalisation—are very aware of the Internet and computers. This will be one of the areas in which Peru will attract business from Australia.

**Senator O'BRIEN**—Does Peru have a dairy industry as such?

**Mr Almendrades**—There is not enough to accommodate the demand. We know that New Zealand is one of the exporters and Australia as well. I was in Peru last year and I saw a sample of Australian margarine in Peru in the supermarkets as well. Also, we have soaps from Australia. Already there is an Australian market there.

**Senator O'BRIEN**—Thank you for that.

**Senator CHAPMAN**—The first question I would like to ask relates to the mining industry. I recall when I was in Peru in 1992 we had some discussions with the mining minister and he was at that stage just commencing the privatisation process of the industry. In the current situation, can you tell me what proportion of the mining industry is now private and how much is still in government hands, if any? What stage has the privatisation process reached over those seven years?

**Mr Bedon**—Let me see if I have the figures here. You say in the mining industry. At the moment the largest project in mining is the Camisea project which is in the process of shortly going to privatisation. In terms of percentages, I would say that we have so many projects open at the moment it would be hard to look for a specific percentage, but I would say that there is more than 50 per cent of opportunity at the moment. In the list that I have here, in mining projects you have \$7.9 billion of opportunity for the private investors. That

accounts for the large projects in Peru. I would say more than 50 per cent is available. I can provide that information in detail.

**Senator CHAPMAN**—Is the balance to be privatised or is that going to be retained in government hands?

**Mr Bedon**—It is to be privatised. We are looking for consultants, financiers and operators.

**Mr Almendrades**—Perhaps I could expand on that. I think without any doubt we are going into the mark of 80 per cent privatisation in the mining and the government is aiming at a 95 per cent private sector as well.

**Senator CHAPMAN**—The second issue I wanted to raise was the issue of taxation. As I understand it, currently there is not a double taxation agreement between Australia and Peru. Would the establishment of a double taxation agreement be advantageous to Australia-Peru economic relations or is it not of great relevance?

**Mr Bedon**—Because Peru is always seeking these opportunities of international trade, we are always looking for changes in the countries in which we are interested. What we are always trying to do is adapt ourselves to those changes in the international community. Obviously, there will be a reaction to that type of structure in taxes but I am sure that what we want to do is go forward and take the next step. I do not see any particular specific problem in that type of change in taxes.

**Mr Almendrades**—I think I could expand on that as well. By July 2000 Australia will embark on the GST as well, which Peru already has. I think Australia will match in that sense the taxation of Peru. So I would say to your question, yes, the same taxation will provide a lot of benefits as well to both countries.

**Senator CHAPMAN**—As to political stability, what is the current state in terms of guerilla activity and that sort of thing? Some years ago you had the Shining Path very active. Are they completely eliminated or are they just diminished?

**Mr Almendrades**—It seems to me that we take it in percentages. We see the terrorist activity now as five per cent compared with 100 per cent before the Fujimori government. Peru was very socially unstable before the Fujimori government. Now there is a lot of stability. We have been fortunate to put in jail the two major contributors to the Shining Path. Abimael Guzman and Polay Campos are now in jail for life. They were two of the major individuals who contributed to 10 or 20 years of terrorism in Peru. I would say it is five per cent now. It seems to me that the government has achieved a lot of stability socially in Peru at this moment.

**Mr Bedon**—There is another point I have to mention here which is very important. The strategy of the government is to eliminate every seed of terrorism by educating people. That is the strategy. The government is increasing a lot in the area of educating people in the regions in which before there were not many opportunities for education. The government



believes that that will definitely terminate the problem of terrorism. It is this type of situation in educating the new seeds of Peru.

**Mr Almendrades**—It is not easy since Peru has three different gradients which is the coast, the mountains where there are Indians and the forest where there are the Amazons, who are a different type of Indian. So we have particularly three different races with three different cultures and three different ways of living.

To accommodate and educate that large number of people in such difficult geographic configurations is very challenging. It would be easier if we were like Australia with one plane. It would be a much easier task.

**CHAIRMAN**—If I want to start a business in Peru, say a joint venture, is an investment protection agreement available, for example?

**Mr Almendrades**—There is.

**CHAIRMAN**—And I can buy land and hold it in my own name?

**Mr Almendrades**—Yes. There is no problem at all.

**CHAIRMAN**—My next question is in relation to your agreements with the EU and the Andean Trade Preference Act. Does that mean that Australia starts off at a disadvantage doing trade with Peru, compared with the EU or the US, through the ATPA agreement?

**Mr Bedon**—No, I do not think so. I can say that Peru, at this stage, is looking for other areas in the international community to create more of these alliances. We have been very much attached to America for many years, and that is the situation not only for Peru but also for all of South America. That is why Peru is part of the APEC group now—in order to open up different horizons. Peru sees in Australia a tremendous opportunity for business and technology. We really need to export all these natural resources that we have.

**CHAIRMAN**—Is the legal system a British or an American system?

**Mr Bedon**—The legal system is, I would say, a Napoleonic type of system. It is based on a very international type of system that applies to everyone.

**CHAIRMAN**—You mentioned inflation was something like six per cent or thereabouts. My last question is in regard to interest rates. What are the borrowing rates at the moment?

**Mr Bedon**—Sergio, do you know what the interest rates are in Peru?

**Mr Almendrades**—I think they are in the range of 18 per cent or 19 per cent.

**CHAIRMAN**—They are 18 per cent or 19 per cent?

**Mr Almendrades**—Yes, that is right.

**CHAIRMAN**—So you take your own capital in—which you can—as long as you employ those 20 people?

**Mr Almendrades**—Yes.

**CHAIRMAN**—I cannot just take capital in to invest at 18 per cent or 19 per cent.

**Mr Almendrades**—When I say 18 per cent or 19 per cent, it is at the personal level. At the company level, there is a grade in which the government will probably subsidise some of those interest rates. So it is a much lower interest rate for investment. The individual rate when you go to the bank and ask for a loan is 18 per cent or 19 per cent.

**CHAIRMAN**—Have you anything more that you have not been asked a question on that you would like to proffer?

**Mr Almendrades**—No.

**CHAIRMAN**—You were going to come back to us with information on those figures—whether they are billions or millions. That would be pretty handy.

**Mr Almendrades**—Yes.

**CHAIRMAN**—Thank you very much for your attendance here today and for your very comprehensive submission.

**Mr Almendrades**—We thank you all for giving us the opportunity to show you our country a little more. I hope there will be some business between Australia and Peru. We look forward to that.

**CHAIRMAN**—Thank you. We hope to have a visit there as well.

[10.32 a.m.]

**BAINES, Mr Derek, Commercial Manager, Americas and Pacific, Qantas Airways Ltd**

**HAWES, Mr David Charles, Group General Manager, Government and International Relations, Qantas Airways Ltd**

**KERR, Mr John Charles, General Manager, International Relations, Qantas Airways Ltd**

**LONG, Mr Lee Trevor, Manager, Group Facilitation, Qantas Airways Ltd**

**CHAIRMAN**—On behalf of the trade subcommittee, I welcome representatives from Qantas Airways Ltd. 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 Qantas, submission No. 14. I now invite you to make a short opening statement, if you wish, before we proceed to questions.

**Mr Hawes**—Thank you, Mr Chairman and members of the subcommittee. I will make a brief statement in relation to the submission, which you have seen. It is now almost five months since we provided that to you, but from our perspective it remains a reasonable representation of the picture as we see it. We have now, of course, had an added period as a direct participant in the South American market since we provided that submission. Although it is still less than a full year since we began our services to Argentina—and less still since our code shares with Lan Chile were introduced—it can be said that we are very pleased with the progress that has been made. Our passenger loads have shown solid rather than spectacular growth, and our market share is quite healthy. The same can be said about freight, where there has been a steady increase over time, largely on the back of consolidated loads from Asia. We would be happy to elaborate on any of those matters.

Notwithstanding the positives which I have referred to, South America remains a market with a strong potential rather than an opportunity which has been realised at this stage. It has yet to return a profit, although we are hopeful that with careful nurturing this will be achieved in due course. I am sure that you appreciate that we do not have full control over all of the factors that will help bring this about. A number of these were referred to in our submission. Broadly speaking, these can be grouped under headings of facilitation and border control—we have Trevor Long here to speak about that—marketing and tourism promotion, and market access.

I will go very briefly through the high points of some of those items. In the area of facilitation and border control, the lack of an ETA visa issuing facility and, perhaps even more significantly, the government's unwillingness to allow transit without visas, are the most significant factors retarding growth in South American travel between Latin America and Asia. The latter impacts very significantly on our ability to carry business traffic

between South America and Asian countries via Australia, where there is potentially a high volume of such business to be won. In the area of marketing and tourism promotion, we are certainly appreciative of the efforts of the Australian Tourist Commission staff in the region, but believe that a higher priority in terms of personnel and financial resources from the ATC would be of assistance and would complement our efforts. This is in the context, of course, of Qantas continuing to devote very significant resources of its own and the New Zealand authorities continuing to develop this market, as we understand they propose to do.

On the market access side, as a result of the improvements made in recent years in the aviation bilateral regulatory arrangements with Argentina and Chile, there appears to be nothing holding back airlines from further expansion in any of these relationships. Qantas has no plans to operate its own aircraft into other South American markets at this stage. However, Brazil is of interest to us because of its relative market size, both in terms of our being able to open sales offices there and in being a potential code share feeder on to our Buenos Aires and Santiago services. Unfortunately, progress in obtaining the necessary approvals to register Qantas in Brazil has been painstakingly slow, and the Brazilian authorities are, we understand, showing no signs that they are prepared to negotiate an aviation bilateral with Australia in the foreseeable future. Without progress on both of these fronts, Qantas's ability to make the most of any opportunities in the Brazilian market is heavily circumscribed.

In conclusion, I would say that Qantas is still establishing itself in the South American market. The company's commitment at the planning and implementation stages has been a significant one. It is our hope that business will be able to grow in line with the potential for closer trade and economic links between Australasia and Latin America. In this regard, we believe the committee could play a helpful role in ensuring the longer term stability of Qantas services by framing recommendations in the practical areas that I have outlined. Again, we would be happy to take any questions that you may have in any of these areas.

**CHAIRMAN**—Thank you. Is the difficulty that Qantas is having in establishing an air service agreement with Brazil because of a reciprocity type of thing—that is, Brazil cannot get an agreement here—or is it that Brazil does not want us to go in because of their own airlines? What is the reason?

**Mr Hawes**—Hitherto, there has been no bilateral air services agreement between Australia and Brazil. We have been giving advice and encouragement to our own Department of Transport in recent years, requesting them to pursue such an agreement. We understand that the reluctance on the part of the Brazilian authorities is related, perhaps in no small part, to the current state of the aviation sector in that country, the health of the carriers and the competitive situation in the market. So we would imagine that Brazilian carriers, having no plans in relation to Australia at this time, have had a reluctance to be receptive to our overtures.

**Mr BAIRD**—Firstly, David, congratulations on starting this service to South America. I think that has given a real impetus to the relationship between Australia and South America, and I think it has probably led on to this inquiry. I have a couple of points that I want to raise. First, someone senior in the Australian Tourist Commission suggested to me that the service will not last, that the numbers are not good enough, that it is all done a bit on

incremental costing at the moment and, when they pull the plug, we will have wasted our money. What assurances can you give this committee that, if we put in recommendations for government assistance, you do not then follow and pull the plug, leaving us with a lot of recommendations to assist the market which can then not be fulfilled?

Second, as we have the advantage of you being a former senior public servant, if you were on this side of the desk, what would you put in recommendations regarding the facilitation of services and, particularly—the thing that stands out also and which, you know, is dear to my heart—on the question of visas and the ETA system? To what extent do you think it is costing us business overall? Would a change in the ETA system improve your overall viability of service? As well, how would you address the question of stopover visas? What real impact would they have on the service? What are the key points? I understand from your presentation that the key things are the ETA system, stopovers and the bilateral aviation agreement with Brazil. Is there anything else that you would be putting in the recommendations from our viewpoint?

My final question is in relation to you mentioning about One World facilitating relations with other carriers in South America. To my understanding, Lan Chile and Aerolineas are not part of that agreement, so to what extent will that retard development?

**Mr Hawes**—There is quite a meal in that range of questions, and it covers some territory that I will invite my colleagues to contribute to. I will just go back and make one observation, which I was almost inclined to add to my opening statement. The observation is that, going back over a number of years, Qantas was very often asked by members of the business community, the tourism industry, companies that had made investments in South America and government panels and committees of inquiry: why are you not operating direct services in your own right to South America? Indeed, that was a subject of the last inquiry we referred to in our submission.

The answer which we gave on those occasions was not that we were in any way against the notion of, or lacking interest in, the only continent to which we were not at that stage flying—we now operate Christmas scenic charter flights that overfly Antarctica—it was that the volume of traffic, or the size of the market as we perceived it, was not such that we could commercially envisage making a go of it, but we were keeping the South American market under review. We did keep it under review and, little by little, the rate of growth and the size of the market reached the point where we felt that we could make a go of it. Perhaps it would not immediately return a profit but, as a developmental route, it was certainly worth making the investment.

It is somewhat ironic therefore that, having made that investment, we turn to other parties and say, 'There we are! After Qantas has been enjoined and encouraged by various parts of the Australian community—the stakeholders—to make this effort, we now find people saying to us that they have reservations about kicking in the various forms of support because the market is not yet large enough.'

**Mr BAIRD**—Just on that very point, do you think the Australian Tourist Commission has given you enough assistance with development? Are they putting enough resources in?

**Mr Hawes**—They are beginning to show greater interest. Having read the transcript of their appearance before this committee recently, there is certainly evidence, and I think confirmation of the fact, that they are beginning to take more interest. Initially, I think there was a reluctance or a bit of a hesitation on their part. They have a large but, nonetheless, constrained budget. There is a very large world out there and a lot of potential in various markets into which they have to allocate their efforts. When the commission looked at South America, they could only devote limited attention to it—promising though South America may be. As has been pointed out, they are increasing their on-the-ground-resources over there—admittedly from a very small base—and working in partnership with us on facilitation or familiarisation visits and so forth. So that activity is increasing. But if you asked us whether they could do more, sure, we would like to see them do more. That is one point.

In relation to the visa or the facilitation questions, we had the opportunity only two days ago in a tourism forum to raise the question of ETA with Minister Ruddock. His response was that basically, ‘We cannot grow the market for you, but when the market does grow to a certain size and seems to warrant it, then the government would look at ETA.’ The government’s approach to ETA is obviously for high volume, low risk markets.

**Mr BAIRD**—What countries would you recommend that it be put into as a priority?

**Mr Hawes**—We would say Argentina, Chile and Brazil. Looking at the traffic flows, it is about a third in each of those areas. We would certainly like to see efforts made to facilitate travel. On the question of transit without visa, that is something that Trevor might be able to explain.

**Mr BAIRD**—Is it similar to the problems the Taiwanese were having with Eva Air in Brisbane. Weren’t they even having some people arrested in Brisbane airport?

**Mr Long**—The issue with transit visas is a vexed one. I do not think they were having people arrested, but certainly they were being fined very heavily. There have been a number of carriers that have suffered from that.

You mentioned stopover visas. In real terms it is not truly stopover; it is effectively a passenger who wishes to transit Australia but not land, so in fact stay—what we call in the industry—‘air side’. They get off one aircraft, get on to another aircraft and depart.

**Mr BAIRD**—Is it unusual to have that type of arrangement where they want visas for transiting a country?

**Mr Long**—It might be instructive if I compare Australia’s requirements to like countries. For example, within the United States, they permit all but 14 nationals to transit without visa. Within New Zealand, they permit all but 73 nationalities to transit without visa. Within Australia, we permit 39 nationalities to transit without visa.

**Mr BAIRD**—How many are then excluded?

**Mr Long**—The rest of the world, essentially, and that is quite a significant number.

**Mr BAIRD**—How much revenue does that lose for you?

**Mr Baines**—It is hard to put a figure on it. The research that is done is very qualitative and therefore hard for us to be able to put a figure on it. Trevor, would you agree?

**Mr Kerr**—Sorry, I was distracting Trevor.

**Mr Baines**—In terms of any research that is done on transit without visa versus transit with visa, it is very difficult to say what would happen if the regulations were changed, but it is obvious that there would be a significant improvement.

**Mr Long**—It is very difficult. We have had many anecdotal reports from our airports where a passenger will turn up to transit without visa through Australia, we will refuse them uplift, but they will go to another carrier operating exactly the same route who will take them. The reason they do that is that they are prepared to run the risk of being found out by DIMA.

**Mr BAIRD**—The key question in terms of our marketing is: how many additional passengers would you take on your South American service if this restriction was eased?

**Mr Baines**—If we look at the size of the market, and perhaps as an example take Argentina, which is where we fly our aircraft into a significant market, the potential for through traffic to Asia is somewhere four to five times the size of the Australian market. Obviously, we probably could not carry all of that traffic because we have two flights a week at this stage and it is a significant market. But, in terms of the relativities, we are trying to put a significant marketing focus on travel through Australia to Asia. The figures we have would indicate that the Asian market from Argentina is four to five times as large as the Australian market. We do not want to exclude any traffic to Australia, of course, but in terms of incremental traffic and as part of our marketing mix it is a very significant potential for us.

**Mr Hawes**—Could I make this observation about some of these facilitation questions? We have not known it any other way. The regulatory framework we have been operating under is that which exists today. So intuitively, and particularly when you can look at a neighbouring country such as New Zealand, which has a 90-day visa free arrangement now concluded with four countries in South America, on the face of it doing well in the competitive scene in the tourism market, and other measures which might facilitate travel, this has to be better, in our view, than what we have. You should ease the burden on travellers or make Australia a more attractive destination or get rid of the impediment that immediately is put in front of someone's mind that if you come here you need to run an obstacle race in order to fulfil the entry requirements.

**Mr BAIRD**—So are a lot of them going via New Zealand instead?

**Mr Hawes**—There has been a sharp jump. For example, we have noted that for traffic between Argentina and New Zealand the figure is something like a 26 per cent jump. Bear in mind, this is only a short period of time and—

**Mr Baines**—A lot of business travellers go via the US.

**Mr Hawes**—Yes, as I said, business travellers going via the US.

**CHAIRMAN**—So you say they will come to New Zealand but then they will not come on to Australia because of a visa?

**Mr Hawes**—I am not saying that they will not come on. But if you make the observation between growth that New Zealand is seeing—off, admittedly, a very small base—in tourism from South America, certainly from Argentina, then that has to count for something. You cannot put it all down to the facilitation question. It may, in part, reflect the efforts of the New Zealand tourism authorities in promoting over there. But we are in a competitive environment. And we are not only competing with a New Zealand destination, or the Caribbean or Europe or the United States, it is also for use of a tourist dollar—and, of course, that dollar is competing against outlets other than tourism as well.

**Mr BAIRD**—David or Trevor, have you had discussions with DIMA on the reasons?

**Mr Long**—I have had discussions with DIMA and raised the issue a number of times. Their last response to me was that they were consolidating, firstly, on the ETA system and that they are reconsidering the TWOV—transit without visa—issue. I met with them in June. I wrote to them in August. I have not had a response at this stage. The last time the transit without visa nationalities were considered was during the Gulf War.

**Mr BAIRD**—All right. Just to round off our figures, in terms of the ETA system not being extended to South America, how much do you reckon that is worth? I know it is difficult to quantify but, if you saw that it was extended to those countries, what increase could you project in tourist numbers to Australia from those countries?

**Mr Baines**—It is very hard, as you say. There is also the issue of the cost associated with the issuance of visas, as opposed to the method. You would have to say that probably there would be a 10 or 15 per cent potential there. It is obviously wrapped up with other issues as well, issues of marketing and marketing support. It could be promotable.

**Mr Hawes**—If we take that back to your first question about the long-term viability of flights, a five or eight per cent increase could turn something from red to black. Just to return to that point, we cannot give you any assurance about whether these flights will stay on or not. Those are commercial judgments that the company has to make. You will notice that in some parts of the world we have scaled back our activity and we have increased it strongly in others. That reflects the commercial life of the times. But this route has been approached as a developmental route. It, in our view, is one with considerable potential. It is performing in line with expectations. It is not at the moment making a profit, but it could be not far away from doing so if we were able to increase seat factors by a couple of per cent or if the yields were to improve, and so forth.

In part, that is why we say to people like the ATC and the immigration authorities that, if we all pitch in and get behind this, not only will we be able to ensure that the operation is sustainable but we will be able to grow it. After all, we only provide the infrastructure that



gets people between Australia, or Australasia and Latin America and Latin America and Asia, and so forth. It is the activity so generated which will make that a success.

**Mr BAIRD**—So, in short, the things that you are recommending are change to the ETA system, stopover and funding for the ATC in South America. Is there anything else on your short list?

**Mr Hawes**—There are the regulatory matters relating to Brazil, but I would not put on those quite the same priority, and there are areas there where Australia can only go as far as its bilateral partners will allow. The first two are the ones that are in the competence of our own authorities, if you like, and where the answers rest within our own borders.

**Mr BAIRD**—With regard to One World, does it have any impact because of Lan Chile and Aerolineas not being part of that?

**Mr Baines**—Lan Chile has announced that it will become a member of One World in the year 2000. The date is not clear, but I would imagine early in the year 2000 it will become a functioning member. There is a chance, I believe, that Aerolineas Argentinas may also join, but that is certainly unclear at this point. It makes it easier in the context of One World marketing activities to have more deals, more frequent flyer interchange. The product is strengthened by that sort of alliance. But at this stage we are not sure whether Aerolineas will join or not.

**Mr BAIRD**—Thank you.

**Senator O'BRIEN**—I notice that on page 14 of your submission, on promotional activities, you say:

Given our still relatively small presence in South America this is a significant commitment, and reflects our need to quickly develop a profile for the airline and its primary destination—Australia.

Given what you have said so far about the future of your service, is that an indication that the actual commitment of Qantas to servicing South America is conditional on a continuing growth of the market, or do you think you can survive at current levels?

**Mr Hawes**—For longer term viability, we have to see growth but, as I said, we knew when we went into South America that we had to make our presence felt there and that might take a little while to establish. To do that, you have to put in the effort. It is not just enough to say, 'Hey, we're here. If you go down to the station, you will find a train.' You have to get an appropriate distribution network set up and build a lot of relationships on both sides. We do believe there is potential for growth there. We had seen the evidence of growth before we actually put in the investment. There was an increase in traffic in the three or four years leading up to that decision and, if that trend continued, we thought we could make a go of it. So we are still anticipating that will happen.

With regard to Bruce's opening comment, obviously, if everyone took that attitude, it would not be long before the services would fall over. If they think it is not going to work and say, 'Why waste our dollars on it?', that attitude will not take them very far at all. But it

is not the attitude that we necessarily see on the ground now with the ATC. They have been very helpful. We have done some work together. It is just that we think that, within their priorities, if they could ratchet up South America a bit, that would be good.

**Mr BAIRD**—They were not being negative about the market. It was more that they were fearful that that might happen: if they had put in the resources, the services might have been withdrawn.

**Mr Hawes**—We would not have made the investment if we were fearful that would happen. We have had a bit of confidence in it. Your confidence can be shaken from time to time, no doubt, but if you recognise that this does take a little while to graft on and grow and then get away, we can do it.

**Senator O'BRIEN**—Obviously, commercial decisions have been taken and you have a projection of growth and a planned ongoing commitment based on that growth. I think you have already answered a number of questions about what you want from the government in terms of assisting you to achieve your objectives. How important in the scheme of things is the freight belly load capacity? Is there enough trade to make that a helpful supplement to your revenues?

**Mr Kerr**—Freight is an important part of the payload on any service. In relation to our Argentine flights, we are finding that our 747 aircraft, which could carry, say, 20 tonnes, are carrying on average about six to eight tonnes per flight. So it certainly makes a contribution, but there is an opportunity there for it to make a greater contribution. Most of that freight is ex-Australia. It is not so good coming back and a lot of the freight that we carry is consolidated freight from Asia. There is certainly a contribution in terms of Australian payload, but there is a significant contribution also with that consolidated freight.

**Senator O'BRIEN**—I have not focused on Argentinean trade in looking at your submission, but what opportunities in terms of Australia's trade might be created for that belly load capacity going into Argentina?

**Mr Kerr**—Ex Buenos Aires, we are mainly seeing leather and leather goods. In terms of Australian contribution, the only point we make is that it is basically consolidated loads from Asia. At this stage, I would say it would be primary produce. There would not be much manufactured produce.

**Senator O'BRIEN**—What transport systems are competing and possibly taking whatever limited exports we have to that area and do you have a possibility of successfully competing against those alternate transport modes? Perhaps you want to take that on notice.

**Mr Kerr**—I think we would probably need to take that on notice. I know in their evidence to you, the Department of Transport talked about some of the maritime opportunities, but I am not really familiar with those. We could take that on notice.

**Senator O'BRIEN**—I do not know that we have much of a fleet to take advantage of maritime opportunities.

**Mr Kerr**—No, we do not.

**Senator O'BRIEN**—In terms of the transiting South America-Asia passengers, presumably a lot of that traffic goes through the United States or Hawaii at present. Are there cost benefits using Australia? Are we cost competitive, ignoring the visa issue for the moment? What are the financial implications for you, given that you are competing with existing services?

**Mr Baines**—Generally and increasingly, we are competitive through to many destinations in Asia from the key South American markets. That is a focus of our activity both in our internal Qantas consideration and also in some of the IATA fora that we are involved in, in which we are required to negotiate fares between carriers. There is an IATA conference coming up next month at which we will try to pursue further the implementation of fares via Australia to Asia from South America. The outcome at this stage is unclear but we are increasingly competitive and trying to position ourselves well in the markets against some of the competitive routings via the US. It is a serious effort to be out there and competing on that level.

**Mr Hawes**—It is an important potential supplement or component of our own revenues on the southern link. That is why it is important to us. If we are looking to really have these services cemented in as viable and profitable in their own right, that is an initial revenue stream which we see currently being disbursed through other carriers via North American routes.

**Mr Kerr**—The South American-Asia market is a significant business market. The business loads are substantially higher than South America or Australia. For that reason it has an attraction as well.

**Senator O'BRIEN**—I guess the base of the question is, if you ask the Australian government to address the visa need but financially you are not all that competitive, it is a bit of a hollow ask. The other issue is that you appear to have significant capacity to the fill, so you are obviously in a position to be competitive if you are permitted to. Is it fair to say that the IATA question is critical to that matter?

**Mr Baines**—It is certainly a major part of the efforts.

**Senator O'BRIEN**—What is the timetable for resolving that issue? Can you give us a time frame?

**Mr Baines**—I understand the meeting is during the month of November. There would be a fairly quick resolution either way at that meeting. If we were unsuccessful in getting what we wanted, I would understand that there would be a further attempt at another session of that meeting in the next year.

**Senator O'BRIEN**—I wonder if you would not mind keeping the committee informed on that particular issue, given that it obviously factors in critically to the direction of a number of your submissions today.

**Mr Baines**—Certainly.

**Senator CHAPMAN**—What are the major impediments to achieving a satisfactory agreement with Brazil? Do you believe the Australian department has been working hard enough to achieve success in that area? Is there anything more that can be done?

**Mr Hawes**—From our point of view, we see that not only the Australian Department of Transport and Regional Services but also the interface between Australia and Brazil at government-to-government level have been active in pursuing and keeping the Australian request before the Brazilian authorities.

As I indicated earlier, the nature of bilateral dealings is such that, if the other party is not so disposed, it is very difficult to crank an agreement up. I do not think we would have any cause for concern that the issue has not been pursued sufficiently on the Australian side. The former transport minister Mark Vaile, now trade minister, was in Brazil recently following a Cairns Group meeting in Argentina. I believe that part of his agenda was to refer to that interest as well. I do not think from our side we would have any concern.

**Mr Kerr**—Brazil is important to us and a bilateral aviation agreement would be very useful. It is probably important not to overestimate it. We do not have direct plans to operate into Brazil and their airlines to our knowledge do not have plans to operate into Australia. It would enable us to perhaps code share beyond our gateways and generate some feeder traffic in that sense whereas currently we have to rely on Latin-American carriers to feed that traffic for us. Whilst it is certainly something worth doing, I would not want to leave the committee with the impression that it was really significant.

**Senator CHAPMAN**—Are you aware from the Brazilian side what their objections are to finalising an agreement?

**Mr Kerr**—Their economy is not all that robust as we all know. Their airlines are suffering. They are taking the view that until there is some improvement in the prospects of their airlines they would like to put a hold on bilateral negotiations. That is not just directed at Australia. That is something which they are applying, we understand, across the board. The official responses we have had are that just for the foreseeable future they want to take stock and evaluate. As with all these things they are leaving the prospect open that as things improve they will be prepared to talk to our authorities.

**Senator CHAPMAN**—Are you able to tell us what the deal is in your code share arrangements and how the revenue is split? Is it split on the basis of which code people make their bookings with or which actual company's aircraft people travel on or is it just a fifty-fifty split? What is the deal?

**Mr Baines**—It is directly dependent on how many passengers travel on which carrier on particular flights. It is a passenger by passenger calculation.

**Senator CHAPMAN**—It is determined by the actual aircraft they are on irrespective of who they might be booking through.

**Mr Baines**—That is correct. If we carry a passenger with an Aerolineas Argentinas ticket code then there is an amount paid in due course by Aerolineas to us and vice versa.

**Senator CHAPMAN**—That leads on to another question. I was making some inquiries a week or so ago about fares to and from Recife but going through Tahiti, Chile and Argentina en route at least one way. The answer I got back was the best Qantas fare available was one that went both ways through Chile and Tahiti rather than going only one way and then coming back direct from Buenos Aires, which surprised me. I would have thought you would want to keep passengers on your own aircraft as much as you could.

**Mr Baines**—I will have to investigate that one. That does seem an interesting problem. To Recife?

**Senator CHAPMAN**—Yes.

**Mr Baines**—I will have a look into it.

**Mr HOLLIS**—You were talking about the route to South America and the potential for growth. How does this compare with the route to Africa? Is Africa a better route or more profitable?

**Mr Hawes**—We certainly have more flights currently operating to Africa—four a week.

**Mr Kerr**—Four going to five.

**Mr HOLLIS**—And they are all fairly full?

**Mr Hawes**—They are certainly profitable.

**Mr HOLLIS**—It surprises me—not only what you have said today but what others have said to us about the lack of passengers between Australia and South America. Just looking at South America it seems to have everything that a tourist would want.

From your point of view, what would be the impediments? Is it expensive internally? Are the flights expensive internally? Why is it that people are not going there? It has this image of being the sort of place that people would want to go to. Is it an expensive destination?

**Mr Baines**—I suspect that the reasons that tourism to South America from Australia has not grown enormously in the last few years obviously varies from country by country but there have been many cases of instability in certain countries. Previously the lack of air services, or the small number of direct air services, has had an impact on how promotable tourism is.

**Mr HOLLIS**—That would only apply in the case of direct Australia-South America or South America-Australia. This question was put when the Australian Tourist Commission was before us. How many Australians visiting South America do it as a leg on from, say, the States or somewhere like that? I guess that would not show up in figures.

**Mr Baines**—I think it is true to say that people visiting the northern part of South America will generally tend to travel via Los Angeles from Australia. It is a routing that is quicker and more sensible in many cases. In the past, particularly, there was a reasonable amount of traffic in that direction but the advent of services such as certainly the routing into Buenos Aires opens up a lot easier access to Brazil, to Chile, to Peru and to the countries in the southern cone.

**Mr HOLLIS**—Do you get the question about the visas from other parts of the world? There are difficulties with the length of visas and so on. This is an issue that has come up with every group that has appeared before this committee. Some have raised the question of the difficulty with visas from places like Paraguay and others have brought up the hassle with business people that often occurs. In fact, someone put up a cartoon before us saying, ‘Great place to visit, but you don’t want to stay here.’ You could almost say it was a very bureaucratic approach. Do you get this from other parts of the world?

**Mr Long**—I alluded to the fact that we have had reports from different ports about this problem when I gave the example of passengers who will go to another airline to travel. Yes, it does come up from time to time. The transit visa issue tends to be a sore point in different airports or from different countries from time to time.

**Mr HOLLIS**—Yes. It is not only the transit visa; it is the visa full stop. I think today is the first time I have heard of a transit visa problem but I most certainly have heard of the visa and the hassle. Even a couple of ambassadors who have appeared before us have been very strong on this point about the unnecessary hassle that people are put through in trying to obtain a visa to visit Australia.

**Mr Long**—Certainly the ETA has gone a long way towards addressing a lot of those issues.

**Mr HOLLIS**—But that does not apply in Latin-American countries.

**Mr Long**—No, it does not but we would like it to.

**Mr HOLLIS**—You would like it to.

**Mr Long**—That is true. The number of complaints that we get about visas are currently coming from countries which I believe DIMA would consider to be high risk countries, such as India. We would be on a beating to nothing if we tried to get ETAs in countries that were, in the eyes of Immigration, high risk countries. The point with South America is that they are not high risk countries.

**Mr Hawes**—One thing that might be worth drawing your attention to—since I know it was covered by one of the parties that appeared before you in one of the other hearings—relates to the possibility of having special agency arrangements as a means of not going quite to the ETA but of providing some additional facilitation.

**Mr BAIRD**—It was DIMA.

**Mr Hawes**—That is right. I think it would perhaps be worth discussing.

**Mr BAIRD**—Did they talk to you about that or not?

**Mr Long**—They have not talked to us about that as an option, but I might comment that this special arrangement simply means that certain travel agents are nominated as an equivalent of a post for the purpose of issuing visas. They still issue a paper visa, and therefore there is still the \$60 equivalent cost to the traveller. All it does is expand the options.

**Mr BAIRD**—Plus there is probably a processing charge as well.

**Mr Long**—Correct. All it does is expand the options for passengers to get visas; it does not make it much more easy.

**Mr BAIRD**—Just to follow on from Mr Hollis's question, do you regard Argentina, Brazil and Chile as high risk countries for Australia?

**Mr Hawes**—That is not really our judgment, but we would have thought that those are countries for which ETA could be sustained. Obviously they do not as yet come into that high volume category, and that is why we are being asked to bide our time. That is not to say that the government could never contemplate providing ETA in South America, but they simply look at the volume of travel and say that it is really too low to justify the investment. That investment, as we understand it, would be relatively low. It is quite a simple process to switch on the facility through the CRS system to enable that type of thing.

**Mr BAIRD**—What type of cost would you estimate?

**Mr Long**—Essentially, because it is so automated, it would simply require DIMA to permit approved nationalities to access the ETA system. They could do it through the travel agents because that, in fact, is the way in which it is met now. DIMA would have to clarify it, but I believe that the major cost to DIMA would simply be the appointment of a liaison officer within the country to resolve issues as they come up from time to time with the travel agents. In most of the major countries DIMA have ETA liaison officers whose principal job is to go out and explain to the travel agency industry how to apply for ETAs and resolve issues that arise from them. DIMA do not provide the industry with the equipment necessary to do it. It is all automated, and it is all on the travel agents' systems.

**Mr BAIRD**—It is a pretty marginal cost.

**Mr Long**—Yes. I might just take this opportunity to make a comment. I have got the statistics in front of me for ETA issuances worldwide. In a number of the high volume, low risk markets where the ETA has been rolled out, the numbers have been fairly low. In Monaco, there has been none; in Vatican City, there has been none; in Liechtenstein, there has been one.

**Mr BAIRD**—When you say they have been rolled out, do you mean they have been put online to the ETA and it has not been taken up?

**Mr Long**—That is correct.

**Mr BAIRD**—So what are you then saying to us?

**Mr HOLLIS**—They are hardly high tourist countries, though, are they?

**Mr Long**—The decision of DIMA based on their own parameters has been to roll these out to these countries and the numbers have been fairly low as a direct result.

**CHAIRMAN**—In your submission, you talk about your two B747-400 services weekly with 390 seats each. My first question is are there smaller planes that will do the distance or is that the only plane that will do the distance on the BA flight? My second question is what is the percentage of empty seats on those flights? I am not talking about your business, but I am just asking whether a smaller plane is more economical or whether a bigger plane, with a capacity to fill those seats, is the best way to go.

**Mr Baines**—Correct me if I am wrong, but my understanding is that the 747-400 is the only aircraft that will operate effectively across that distance.

**CHAIRMAN**—That fixes the first question.

**Mr BAIRD**—What about the Aerolineas air services?

**Mr Baines**—As well as the A340? We do not have any of those.

**CHAIRMAN**—Does the A340 go across the pole?

**Mr Baines**—Yes. It is called the transpolar route.

**CHAIRMAN**—So what is the percentage of empty seats that you have and what is the percentage of empty seats that they have?

**Mr Baines**—I am not sure of Aerolineas's seat factors at the moment, but Qantas is operating at around 60 per cent load factor, which is, admittedly, offering the potential for growth, and we need to grow the market to improve our economics on the route. It is lower than our average seat factor internationally on other routes.

**CHAIRMAN**—What is the international empty seat average? If that is a way of putting it.

**Senator CHAPMAN**—I think it is load factor?

**CHAIRMAN**—Thank you very much, Senator Chapman.

**Mr Baines**—I think at the moment, roughly speaking, we are averaging around 70 per cent.

**CHAIRMAN**—That is Qantas. What about other carriers?



**Mr Baines**—I am not sure, but it would not be too far off that, on average, I would imagine.

**CHAIRMAN**—Would all the companies be about the same?

**Mr Baines**—They would be about the same, yes.

**CHAIRMAN**—So there is always about a 30 per cent unloaded factor on planes?

**Mr Baines**—It averages across the year, but of course with the peaks and troughs, it is really impossible to operate generally more than 80 or 85 per cent across average.

**Mr Hawes**—Yes, and it can vary significantly from route to route and from season to season.

**CHAIRMAN**—I have another question for airlines generally, not just Qantas: are the longer flights more productive as far as return is concerned or are the shorter flights more productive? In other words, Sydney-Singapore, 60 or 70 per cent loading, is that a better flight than a 60 or 70 per cent loading for Sydney-Buenos Aires?

**Mr Baines**—I think it really depends on the route and on the particular circumstances. There are some long-haul routes which Qantas is doing quite well on, economically, but there are also some where we are not doing well. To draw the parallel with Australian domestic, I think it is similar. There are some short-haul routes that we do well on, and others that we do not. It depends on the route, very much so.

**Mr Hawes**—And the traffic links. Some might be dedicated largely leisure routes. Others could have a very high volume of business or front-end traffic which would change the profitability quite considerably.

**CHAIRMAN**—This comment is not really to Qantas but to airlines in general. Some of the packages that are given—for instance, you can spend two nights in Los Angeles or something like that, and fly from Sydney to Los Angeles—you are basically flying for nothing and you are paying for your hotel. I am not being categorical about that as a deal. So is the tourist deal better than the business deal on a long flight?

**Mr Baines**—I think the wholesale packages that—

**CHAIRMAN**—I should preface that a bit better. Will the airlines profitability be based on tourism or will it eventually be based on business?

**Mr Baines**—The returns from the business travel are obviously much better for the airlines than from the leisure market. If you increase the business market by the same percentage, as the leisure market increases, the return from that business sector will obviously get you a long way ahead. The yields are significantly different in the leisure market compared to the business market.

**Mr Hawes**—Some of the initiatives or incentives that you refer to are not reflecting the fares right throughout the economy cabin on any given flight. There are efforts being made to fill the last available seat, so it really goes to the overall parcel of revenue, on flight X or Y on any given day, which will determine how you are faring.

**Mr BAIRD**—I have a question with regard to the Olympics: do you see the Games generating additional travel to Australia from South America?

**Mr Hawes**—We would hope so. I believe that people sitting behind us from the Australian-Latin American Business Council would hope so also.

**Mr BAIRD**—Do you have any figures?

**Mr Baines**—We do not have anything specific at this stage.

**Mr Hawes**—But we are heading into a period where there is going to be considerable focus on Australia not only for the Olympics but related and associated activities in Australia and perhaps continuing beyond the Olympics. I think that is another reason why we would be hopeful that, the further we go into the future, the more successful or more firmly entrenched these services can become. This would be a good period if you were going to say, ‘Having seen the development over the last three or four years, we look to this important focus period for Australia into the future.’ Perhaps that can be something which really enables the South American service to take root. That is an inbound mentality.

We also need to be able to do things to grow the business going in the other direction. Some of our strongest supporters were the Australian business travellers who were heading into South America. They had invested over there. They knew the route and knew the potential, and they said, ‘Why aren’t you doing that?’ You do not mount a service just for the sake of 10 or 12 business travellers a week; you have a whole aircraft that you want to fill. So we really have to work on this at both ends. And that is what we are trying to do.

**CHAIRMAN**—Are you playing any part in the Austrade ventures for the Olympics with their business club?

**Mr Hawes**—I am not aware of any personally. I do not know.

**CHAIRMAN**—Thank you very much for your attendance here today.

[11.37 a.m.]

**ABBA, Mr David, Executive Director, Australia-Latin America Business Council**

**BENDIXSEN, Mr Axel, Corporate Member, Australia-Latin America Business Council**

**BLANCO, Mr Jose, Chairman, Australia-Latin America Business Council**

**BRADLEY, Mr Paul, Member, Executive Committee, Australia-Latin America Business Council**

**LEES, Mr Don, Corporate Member, Australia-Latin America Business Council**

**CHAIRMAN**—Welcome. Do you have any comments to make on the capacity in which you appear?

**Mr Lees**—As well as representing the Australia-Latin America Business Council I am a director of Sheldon Trading.

**Mr Bendixsen**—I am the Regional Manager for Aerolineas Argentinas.

**Mr Bradley**—I am chairman of the Australia-Mexico Chamber of Commerce.

**CHAIRMAN**—The subcommittee prefers that all evidence be given in public, but should you at any stage wish to give your 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 Australia-Latin America Business Council. That is submission No. 5. I now invite you to make a short opening statement, if you wish, before we proceed to questions.

**Mr Blanco**—The submission that the council has lodged identifies many of the issues that we wanted to put before the trade subcommittee, so I think we would prefer to move to answering any questions that the members of the subcommittee may have. Before you you have a cross-section of the membership of the business council, people from different areas who hopefully will be able to shed light on the queries that the committee members may have. So I will pass back to you.

**CHAIRMAN**—Thank you. Can I apologise on behalf of the subcommittee for getting caught in the fog on the previous occasion, but we are all here ready to go today. I will ask Senator O'Brien to ask the first question.

**Senator O'Brien**—I am happy for you to sort out amongst yourselves who fields the questions that I ask. In your submission you talk about allocating an increased budget to Austrade in relation to its role in South America, you say, rather than Latin America. I

would like you to expand on that. Where do you see it appropriate for those additional resources to be allocated in the context of what resources are allocated now?

**Mr Blanco**—Perhaps I could start. First of all, it seems to me that the issue of making people aware of South America—and that is the term, rather than Latin America, in the terms of reference of your subcommittee—is that there has to be some positive discrimination in favour of South America to make up for what is an imbalance in the level of awareness about the region. The other aspect is that the perception I have about Austrade is that it has a number of geographic divisions—Europe, the Americas, Asia, et cetera—and, within Austrade's activities, each of them competes to obtain a larger slice of the Austrade budget. I assume that based on the results achieved by each region, each market, there may be a redirection of the total budget.

In the case of South America, I understand it falls within the Americas budget and I think there is perhaps a danger that it is submerged under what is the priority of the North American market. Also, we have had a change of guard, from last year until now, in the senior trade commissioners that Austrade has in the region. Whilst I understand that Austrade is currently working on a three-year business plan that it hopes to have approved in the near future and which will shape its activities over that time, we have had almost a 12-month period of very little activity as far as Austrade is concerned in marketing the South American markets in Australia in a visible way. I am sure that through its network it has been very active, but it has not been out in the media drawing attention to the South American markets. That is something that I think has to be rectified. We need to have people talking about South America.

In terms of an allocation of budget, it has to ensure that each post in the region has the resources that it needs in order to exploit the opportunities. We have also made reference to the need to educate Australians. That means having reports dealing with the different industries which may be of interest to Australian companies and having those widely distributed. They did one of those for the mining industry some time ago and I understand it was very successful. There are other industries which would benefit from that type of in-depth research and then marketing of the findings to the companies back in Australia.

**Senator O'BRIEN**—I was going to ask you what particular opportunities you were referring to in that general statement you just made. Perhaps you would like to expand on that in the context of your answer.

**Mr Blanco**—The other item is whether it is done through Austrade or through some separate entity. I think we have made reference to the desirability of a Garnaut style report to put the South American region in its context and to identify all of the areas. And coming from someone outside, whether it be government, Austrade, et cetera, it would have far more persuasive powers than otherwise.

I would like others to comment on where opportunities exist in South America. My view is that they are there in whichever area Australian companies want to look at, and in some more than others. If we look at, say, the building materials sector, there are opportunities for our companies. I think that companies such as Pioneer, which has an office in Buenos Aires,

and people from James Hardie, from CSR, even Boral, should all have been there looking, and can still go there and look.

It will vary from market to market and it will vary over the economic cycle. At the moment the reality is that the economic scene in many of the countries in the region is not buoyant—quite the contrary. But, again, the perspective that needs to be taken is a longer-term one. Companies need to study today, because any investment or activity may not come for 12, 18 or 24 months, so the sooner they start to look the better.

There are other examples. New Zealand counterparts obviously have their big companies in the region, but a lot of the smaller ones are picking up contracts to supply things such as the conveyor belts for the movement of luggage in the new Santiago airport. There is a whole program of improvement in airports throughout the region. I know that AMP Investments was part of a consortium, I think it was together with the British Airports Authority, that showed interest in some airports in the region. So there is a whole range.

**Mr Abba**—Agribusiness is one major area where we could be exporting expertise—I know there are some dangers in it—for instance, Argentina could do with the expertise that Australia has in such things as meat processing or the use of leather and tanning. I am talking about updated methodologies. The telecommunications area is another major area for Australia to participate in. We have expertise covering vast areas, and we are talking vast areas. Having pioneered trade missions in the late 1970s and early 1980s to South America, before the direct routes from Sydney to Argentina, and having had to go through Los Angeles, Mexico City, Lima, Santiago, Buenos Aires and San Paulo to get to Rio, you get to understand, after 30-odd hours, what a large area we are talking about. We have expertise in such things as remote area power supplies, which would be eminently exportable to the Latin-American countries. There are a whole variety of areas. The other area that readily springs to mind in which we have some major advantages is our expertise in IT software and so on.

The problem is that very few people know of the Latin-American market—or the South American market—and because of the distances involved it is put in the too-hard basket. One of the things that we have to appreciate is that it is in the same time zone or same part of the world: the Southern Hemisphere. From another point of view, it is basically European countries that we probably have a greater affinity with than African or other such areas; therefore, our ability to get involved has a lot of potential. What has concerned me since the late 1970s—20-odd-years ago—is that there has not been a dramatic improvement. Again, I think that comes down to a lack of knowledge and communication, and we have an obligation to do something about that.

**Senator O'BRIEN**—I thought there might have been other perspectives. Mr Bendixsen, what does Aerolineas think?

**Mr Bendixsen**—I endorse what David has just said. I think the problem of distance is a bit more of a myth than a problem because Australia deals and trades with areas that are further away than Latin America, especially with the transport links that we currently enjoy. In the last six or seven years, we have seen an increase in interest from this part of the world—mainly Australia and New Zealand—and we can tell a little not only from the people

who are coming and going but also by the type of cargo freight we are carrying and how that affects the activities. If I can go back further than that, the initial cargo that we would carry was mostly related to agricultural products—not finished products—such as electric fencing equipment, ear tagging equipment, vaccines and those types of things. Nowadays, we are seeing different types of products that have occurred because of the activity in mining, telecommunications, food processing and even in the entertainment area. As you are probably aware, Hoyts and Village Roadshow are very active.

There has been considerable growth in these years. Whilst it might be a small start, it is encouraging to see that it is a very broad, varied base of activity. As familiarity is overcome or becomes better and people get to know the countries better and how to deal with them, that is going to grow. As Jose mentioned earlier, the economic cycle will no doubt continue to be a cycle. At the moment, it is a bit flat because of the Brazilian problem, but that is already on the way up and we expect the recovery to be in the foreseeable future.

**Senator O'BRIEN**—How important, in the context of your proposal to expand our trade there, is your proposal that the Spanish language be promoted. I guess that what you are suggesting is that it should be promoted as one of the languages in our schools, perhaps to a senior secondary level to encourage specialisation. How important is that in the context of what you say is a need to broaden awareness of and awaken ideas to the opportunities in South America?

**Mr Blanco**—Part of the issue of language goes to questions concerning tourism and business flows. Listening to the discussion with the Qantas representatives, I think a lot of Australians have not gone to South America through lack of knowledge and therefore through perhaps erroneous perceptions of what would await them were they to go there. From discussions that I have had with a variety of people, many of them ask, 'Can I get by if I do not speak Spanish or Portuguese?' I think that puts a lot of people off. Perhaps in the Asian context, they have a greater knowledge and they believe and understand that, if they go there, there will be enough people who speak English for them to get by. They do not need to go as part of a packaged group and they can do their own thing, whereas in the South American context maybe they have a concern that, if they do not go as part of a package, they will have difficulties.

I think to do business, Spanish is not a prerequisite. This has been demonstrated by enough Australian companies that have gone there and that have successfully pursued their business interests. But there is no doubt that having the Spanish language skill facilitates business activity.

I think that the teaching of Spanish not only would be useful for South America but would be useful in Latin America and it would then throw in a lot of other countries such as Spain. It would give you a foothold into the southern European markets. If you just look at the ranking of global languages, Spanish would be in the top two or three. If you then assume increased globalisation, if you then look at the North American market and the increasing number of people who are Spanish speakers, it would seem to me quite logical that you would want to have a greater understanding of that language.

**Mr Lees**—As far as business is concerned, a very high percentage of business people in South America speak English. That is an important factor as far as—

**Mr BAIRD**—What percentage would that be—80 per cent?

**Mr Lees**—If we are talking about major companies in Argentina, Brazil or Chile, you are probably talking about 70 or 80 per cent of people who speak good English.

**Mr BAIRD**—Does it vary from country to country?

**Mr Lees**—It does. I would say that probably there would be a lower percentage in Brazil. But in Argentina and Chile, particularly, a very high percentage of people speak English and relatively good English.

**Mr Abba**—In Uruguay, Paraguay and some of the smaller countries like Bolivia, it would be far less. My experience of not only having lived in South America for several years but then having taken trade missions there was that, as has been said, most senior executives had excellent English, in fact, probably better than ours. There are a large number of English schools in Chile, Argentina, Peru, et cetera. I was involved in starting a student exchange program between Australia and most Latin-American countries, and the English of those kids who came over here was excellent.

**Mr Bradley**—In my experience, you would never have a problem finding somebody who can speak English in any of those Latin speaking countries in dealing with a company. On the matter of trade, trade is a very important issue in this country, more and more so, because if you look at our GDP of about \$500 billion, we have trade accounting for about \$100 billion. That is 20 per cent of GDP. Ten years ago you might have had GDP of \$250 billion and trade accounting for about \$20 billion which was about 12½ per cent of GDP. We are a trading nation. As far as trade promotion goes, there is a lot of emphasis on industries and products. I know Austrade's strategic plan includes mining, agribusiness, telecommunications and one other industry. In the value of a product that is delivered to a consumer, you could have about between 25 per cent and 50 per cent of that value being factor costs and between 50 per cent and 75 per cent of that value being value added. In my view, it is a question of who is getting the value added.

If you are talking about export promotion, you are talking really about only capturing a very small amount of the total value added. If you want to ensure the best outcome for the country—taking Australian trade into perspective—a lot of the Australian trade that goes on now is just value added. It is simply a straight pass through import and export on letters of credit. Somebody would be taking a transferable letter of credit and just value adding and re-exporting those products to, say, New Zealand.

If we can move to an emphasis on Australian companies, whether or not they are involved in import or export, you should be ensuring that more of the value added in trade is actually trapped and remitted to Australia—in other words, supporting Australian companies which are on the ground overseas in export promotion. There is a lot of support for those companies through EMDG and that sort of thing. I know it is politically very difficult but we should also support Australian companies which are sourcing products overseas for this

market and for re-export into other markets like New Zealand and Asia. That is where the value added is.

**Senator CHAPMAN**—I note your reference to the earlier inquiry done by the Senate standing committee in 1992 and the fact that a number of those recommendations seem to have been ignored by government. Then you put the view that perhaps a report by someone like Professor Garnaut would be taken more seriously. Regarding the Garnaut report that was done on trade, I am not sure that any more of its recommendations have been adopted than of the parliamentary report. What is it that makes you think a Garnaut-type report will have more impact on the government than a report that we might do drawing expertise and input from a wide range of witnesses and coordinating all of that?

**Mr Blanco**—Just do a survey of how many people remember the Garnaut report and how many people remember the first Senate report. It is publicity. We are competing for the attention of Australian business. Every country has its trade promotion agency and its embassies working on that front. We want to harness the potential of Australian companies and direct it towards the opportunities available in South America because they are showing signs that, of their own volition, they are not looking in that direction, for whatever reason. We have to do something, if we believe in this cause, to capture their attention and to get them looking in that direction.

This is a very passionate issue. If you take an Australian businessman to South America, I would be prepared to give a very strong guarantee that the percentage who would return thinking that there were not opportunities down there would be extremely low. If you were able to interview all the people that have gone to that part of the world, I think you would be impressed by the enthusiasm that they acquire for that region, both as a tourist destination and as a business destination and also in terms of the opportunities that it generally offers for Australia—not only looking in that direction but also looking perhaps up into South-East Asia. If we have to move South Americans from the southern cone to South-East Asia, as does happen and will continue to happen, Australia, as a transit point, is as valid as North America. If we want that business we have to do something about it.

At the moment this is a very one-sided courtship in the sense that it is the South Americans that have made most of the overtures to us about getting our big companies to go there. They need our investment; they need our technology, et cetera. We really have done very little to try and attract some of their major corporations to our shores. That is what the Garnaut, or a Garnaut-style, report means for me. It means publicity. It means, unfortunately, greater credibility than a Senate report, with all due respect.

**CHAIRMAN**—With no disrespect.

**Mr Blanco**—I mentioned that, Senator.

**Mr BAIRD**—Could I say on the same account, Jose, as somebody who puts on some of the best parties that Sydney sees—that function that you put on was excellent—why didn't you invite the press today? This is an open forum. If you wanted promotion for South America it was very definitely a missed opportunity right here in front of you. If you had



put out a press release saying this was what was going to happen and gave them a submission you would have seen them here.

**Mr Blanco**—Yes, the media has a very important role to play. Over the years we have made overtures to media representatives. I know airlines and Austrade have paid to take journalists to the region. Can I just say that up until the Brazil hiccup you would be very lucky to find much coverage of the South American markets in Australia, other than the occasional sensationalist report about shootings or whatever it may be.

The other aspect is that journalists have always told me that they will write about South America provided it has an Australian context. They will not write to say, ‘This market is doing very well or this market is whatever.’ They will only say, ‘This company is doing XYZ in that market. And, by the way, the market is doing very well.’ You have to be able to give them that Australian nexus; otherwise they will not publish.

**Mr BAIRD**—You could not have more of an Australian nexus than of a joint standing committee, all party inquiry that is looking at trade with South America. It is a great opportunity to get the press involved and maybe a press release to say what you said to the inquiry might be of interest. Knowing your great promotional skills in putting on events, I was surprised you missed the opportunity.

**Mr Blanco**—My understanding is that what we lodged as a submission with the Senate was not able to be disclosed at the present time.

**Mr BAIRD**—It is not with the Senate. It is a joint standing committee of both houses.

**Mr Blanco**—With the joint standing committee, it was not able to be released.

**CHAIRMAN**—No. As soon as it is received, it is a public document.

**Mr Blanco**—As soon as it is received?

**CHAIRMAN**—Formally received, yes, which we have done.

**Mr Blanco**—I will take note of the suggestion. It has merit and I assure you that we will pursue it.

**CHAIRMAN**—You will have to most probably be a little bit controversial now to get it read. That was a helpful remark from Mr Baird, not provocative. Or maybe it was a little bit provocative.

**Senator CHAPMAN**—In your submission you also refer to the turnover of Austrade staff in South America. Is that a serious issue? My understanding was that Austrade in a number of markets and particularly in South America was trying to place people with expertise that was particularly relevant to the industry sectors that had relevance to those countries. Is that not occurring?

**Mr Blanco**—Perhaps it was sheer coincidence but last year there was quite a turnover of staff. Almost simultaneously we had new senior trade commissioners appointed to Buenos Aires, Sao Paulo and Mexico City, and there are only two other offices in the entire region. So three out of five changing at the same time, as I say, could just be coincidence.

**Mr Bradley**—I think a more serious issue is the underrepresentation of Austrade staff in South America, although it has been coming more when you compare it to other markets like Japan.

**Mr BAIRD**—If you compare it—if we can be provocative for a second time—to the returns on investment, all you guys are in the private sector and you do not put in lots of money for something that is not going to give you adequate returns. If you have all the cards in front of you and you look at the trade with Japan, it is No. 1, by far.

**Mr Abba**—Mr Chairman, at one stage of the game there was nothing in Japan. We worked hard and invested time and money in it. I think what we are suggesting, through you, Mr Chairman, is that the South American market is a great potential market for Australian goods and services. You have to invest time and effort in it as was invested in Japan and a variety of other markets in order to get them off the ground.

If I could go back to Austrade, one of the problems that goes on is the limited time that commissioners spend, not just in South American posts but elsewhere, and it seems that by the time they build up the network of contacts and understanding off they go. That is a great pity because expertise does require time in a post. Three years is not a long time to get there.

**CHAIRMAN**—I take that on board and I think we will take that up with Austrade. Are you making that pertinent to a Latin-American market rather than to an Asian market, or is it the same everywhere?

**Mr Abba**—I understand it is fairly common across the board.

**Mr BAIRD**—For Austrade postings?

**Mr Abba**—Yes.

**Mr BAIRD**—It used to be three but it is now usually four.

**Mr Abba**—I do not think that has been the case in recent times in South America.

**Mr Blanco**—Last year I think there was a series of events that necessitated changing so many posts all at the one time. Perhaps it is not going to be repeated in the years ahead.

**Mr Bradley**—It is just an example. Also, in the Department of Foreign Affairs and Trade, after the previous election they had some cutbacks. One of the casualties in those cutbacks was the Latin-American desk. What we are talking about is resources, generally.

**Mr BAIRD**—David, you were known for leading trade missions in lots of parts of the world. Do you think that that is the type of thing we should be doing in South America?

**Mr Abba**—Absolutely. I took several to South America, as I think I said when you were out of the room. Not one of the companies that I took the first time—one did—had ever done any business in Latin America, and they all came back with business. One was from Bathurst and came back with lots of orders for plastic piping—something you would never dream of. Arnotts went on the first mission and got a lot of orders for their products. The fascination that I found with it was that the people who went had completely different products and I had no idea whether they were going to sell or not, but they all made sales. The only holding back factor at that stage was the shipping services. Those have been slightly overcome these days. I remember working very hard to get some direct shipping services between Australia and South America. But my experiences on the second and third times I went were exactly the same. The opportunities are just absolutely amazing. It is a matter of exposure to our business community of those opportunities. As they said, anybody who has been over there comes back quite sure in their own mind that this is a major market for the future for them. Too few people know that.

**CHAIRMAN**—Should those delegations, the business people, be led by state or federal government? Western Australia is a great example of a state that really gets off its backside and does it. Who should do it?

**Mr Abba**—I think there is room for both. I think trade missions that have a minister, whether they are a federal or state minister accompanying them, ensure you get a lot of doors opened and you get a lot more contacts than you would normally. I can remember back in the 1970s, Don Day, who was from the then Labor government, took several trade missions overseas with great success because of the fact he opened the doors. When I took them we did not have ministers' gain, but we used the chamber of commerce network to try and open the doors, which we did, but it would have been easier if we had a state or federal minister with us. So in answer to your question, I think either/or.

**Senator CHAPMAN**—Mr Bradley might be able to answer this the best because of his involvement with Mexico. Do you see any threat to Australia's capacity to develop the potential with South America from the possible extension of the NAFTA agreements into South America?

**Mr Bradley**—About four years ago we attended a briefing from DFAT about Australia's trade relations with South America, and it was apparent at that meeting that the biggest threat to Australia was New Zealand. Because of Australia's policy of multilateral relationships in trade at all costs it was a big impediment. New Zealand was much more pragmatic in its relationships and quite prepared to get involved in bilateral relationships with a lot of these countries, which is the way they prefer to deal, and they were winning business, especially in the dairy and agricultural areas.

At the moment I think the policy has changed, so the government is now more prepared to get into bilateral agreements. But, yes, my response would be you have to be a bit pragmatic about it. If the other side wants to have a bilateral agreement, then we should be prepared to do the hard work, even though it is a lot of hard work to maintain a number of

bilateral agreements—for DFAT, that is. We should be prepared to do the hard work to keep up to speed with the rest of the world in that field.

**Mr Lees**—The other area which is important is trade fairs. I think that Austrade should support trade fairs in the major South American countries.

**Mr BAIRD**—Specialised or just general?

**Mr Lees**—Agricultural equipment, for example; food trade fairs. These are very big events now in most South American countries. I have been to several over the last few years. Very, very few Australian companies have exhibited, and if Austrade took the lead and organised a stand at a number of these fairs, I am sure they would have a very positive response from this end and that would help enormously.

**Mr Bradley**—I would endorse that. Trade fairs in this day and age are the most important way of networking for business—no doubt about it.

**CHAIRMAN**—It is not always that, but you have got to look at the cost benefits, of course, and that is what you are saying, is it? I have written down three good, strong recommendations here. You have got to be a bit more controversial, I guess, to get the media coverage that Mr Baird has suggested.

**Mr Abba**—Just on this trade fair, for instance, in Chile there is a major exhibition or trade fair—I think it is every year. All Latin American countries come for it. You could go to that and get exposure to most Latin American countries just in one major trade fair. There is also in Brazil a major automotive trade fair, and our automotive spare parts area is starting to export quite well. It would be another one that I would be suggesting was worth while. But you could pick, probably, two or three in the first instance which would maximise the exposure of Australian goods and services in the cheapest possible way. I think you would agree with me, Don, on that.

**Mr Lees**—Yes, trade fairs are not that expensive on the basis that you need somebody to get the ball rolling, and then Australian companies chip in with part of the cost, so at the end of the day I do not think that Austrade would be up for much. That holds for food trade fairs, equipment, IT, et cetera, and there are an extraordinary number of fairs held throughout the year in these countries. What you find is that fairs in Brazil, for example, will attract people from Chile, Argentina and the other major countries, and the same holds for this fair you mentioned in Chile.

**Mr Abba**—Santiago.

**Mr Lees**—FIHA.

**Mr Abba**—Yes, that is the one.

**Mr Blanco**—I would like to point out that trade is very important, and it is necessary to maintain a strong campaign to assist small to medium Australian companies to export, et cetera. The issue of time is also relevant here—time in the sense that if we look at just, say,

the Chilean market and where it is today compared to where it was 10 years ago, a lot of the sectors are today quite mature and the opportunities available to Australian companies to get in are limited because other players have gone in, positioned themselves and have basically captured the market. The same applies to the wider South American context. The longer that we delay in taking our companies to the region, the fewer opportunities will be there because, whilst we talk about it, others do something about it.

If you look at the flow of foreign investment into the region, I think the Spanish are very much leading the way in many areas, but there is a whole range of other countries that have very significant interests in the region. Here we need to think about acting fast and, if we are going to act fast, we need to get some of our very large companies to go there and have a look. The reality is that there are not enough of our big companies looking in that direction. So if you want to take somebody to South America, can we take the Prime Minister, and can the Prime Minister use his influence to take the top echelon of corporate Australia with him, because that is what other countries do. When they take a delegation, they are not talking about 24 small to medium enterprise representatives; they are talking about 500 or 600 businessmen from a wide cross-section of industry. So I hope that Mr Baird finds that sufficiently controversial to be quoted at a subsequent time.

**Mr BAIRD**—It is not controversial; it is a good recommendation.

**Mr Blanco**—I think there is a lot of merit for that because, if you get major companies making a commitment to a market you get publicity, and what makes small to medium sized companies take a look in a particular direction is if they get that warm, fuzzy feeling that it is okay to do it because the big boys are doing it. If we look at what is the current Australian presence, particularly in Chile, I think you can trace most of it back to BHP's involvement in Escondida. In the early 1990s we knew less than we know today about the region, but everybody knew the word Escondida. They knew it was a copper mine and they knew it was ours. As a result of that, we then had other mining companies go there and behind the mining companies went the other ones that were selling products and services to the mining industry. Today they leave quite a reasonable footprint in South America.

We talked before about Hoyts and Village, and then behind them you have companies that go and sell the advertising, the Val Morgans, and then people that might want to sell other products. We need that. We need the big end of town to go across.

**CHAIRMAN**—Perhaps to be fair we should be saying that Alan Bond really led the way into Chile. I think we should take our hats off to him because I think he went in there with some pretty smart ideas, did he not, even though he might have run a little bit too fast before he could crawl and fell over. That is a different story.

Can I say that the Chilean ambassador made this remark the other day about the Prime Minister going there as a guest of the President of Chile, for example. I think that is coming through quite clearly.

**Mr Bradley**—As a corollary to those statements, in terms of publicity, one of the best events in recent years, I think, held by the Business Council, was a function hosted for President Menem of Argentina. At that function we got plenty of media, plenty of publicity,

plenty of people wanting to come from the higher echelons of business because of the personality factor of President Menem. You have to do a lot of hard work to get publicity when it comes to South America. You have got to get a pretty good drawcard.

**Mr Abba**—Has a Prime Minister of Australia done the tour of South America, or even been there? I cannot remember in 25 years or more if one of our Prime Ministers ever—

**CHAIRMAN**—Tim Fischer was the most senior, I think.

**Mr Abba**—Yes, that would be it, and yet we are both in the Southern Hemisphere and they are our neighbours.

**CHAIRMAN**—That is quite right. So that recommendation is very loud and clear, and I think you should put a media release out about it tomorrow to say that you put it to this committee. But don't quote me—no, you can quote me because I will follow it through.

**Mr Bendixsen**—Regarding the Australian representations in South America, I think it has been mentioned before—and I refer mainly to tourism which I am more familiar with—that whilst it is still run from a regional office based in the United States it is always going to play second fiddle and it is not going to get the attention that is required for the growth that we want to see. That is the way it is because, as Jose Blanco said initially, it is considered the Americas. The regional offices are all based in the US and South America is part of their patch, so to speak.

**Mr BAIRD**—Los Angeles, isn't it?

**Mr Bendixsen**—Yes, via Los Angeles. I think that is something that has to be addressed because South America is far too big an area and population—we are talking 350 million people—to be handled in that fashion if we want to get results.

**CHAIRMAN**—Could I ask a question on the airlines? For example, you can fly to BA and then you can go through to London, can't you?

**Mr Bendixsen**—Yes.

**CHAIRMAN**—At the moment, everyone goes, most probably, to Los Angeles, New York and London from Australia, but there is no reason why you cannot go to BA, if you like, and then fly from BA to London.

**Mr Bendixsen**—Absolutely. In fact, it has become a very popular route out of New Zealand because the New Zealanders have always travelled over Los Angeles and across to Europe over the north. Now they are finding they can go via Buenos Aires, and it is no longer. The world is round after all.

**CHAIRMAN**—Do you think that you should be promoting that more as an around the world ticket, basically, rather than an around the world ticket that people have some other way?

**Mr Bendixsen**—We do promote it. I have to say that it is not a high priority for us because of the problem of the yield of fares in the marketplace for Europe. They are extremely low at the moment. As the Qantas people were explaining earlier on, to make an aeroplane reasonably profitable you need to have a good mix and match of fares on board the aeroplane. If you are concentrating on the low end you are out of business. Europe, for us, out of Australia is complementary traffic and not something on which we would concentrate.

**Senator CHAPMAN**—Mr Lees, with regard to your own industry, the seafood industry, the report of the Department of Foreign Affairs and Trade 1997 on trade and investment relations with South America indicated that South America was a major competitor with Australian seafood in the marketplace, and particularly in the United States. I assume you have a different perspective given that you regard it as a potential market. Does DFAT have it wrong? Where are we complementary and where are we competitive, particularly in your industry? Do you have any insights into other industry sectors as well?

**Mr Lees**—As far as seafood is concerned, of course, large quantities of seafood come into Australia from Chile and Argentina. That is because we are talking mainly of very cheap white fish which is used by fish and chip shops, used for further processing into fish fingers and that sort of product. That is where the South American countries are strong with that sort of product. Australia's strength lies in much more expensive types of seafood—lobster and prawns, et cetera. There is really not that much competition coming out of South America. Their forte is volume and low price. There is not that much direct competition at all.

As to other areas you mentioned, we are also involved in things like dairy products. Australia, in many areas, would compete with Argentina, but there are some specific cases—cheeses, for example—where Australia would have very good markets in South America if an effort were made to promote the product. New Zealand has done that very successfully with trade fairs and with representative offices. Australia has never really done that at all with cheese, powdered milk and that sort of product. Australia could do very well in countries such as Brazil, Peru and Chile.

**Mr Blanco**—Can I just point out when we talk about the dairy industry that, to the best of my knowledge, the New Zealand Dairy Board has annual income in the vicinity of \$A800 million from its activities in Latin America. That is a combination of both export and internally generated revenue through investments that they have made over the years. Their level of revenue in, for example, a country like Venezuela is over \$US100 million. If we look at issues such as meat, and agri-industry generally, there is no doubt that a country like Argentina is and can be an even greater competitor for Australia. But that is only one way of looking at the relationship. You can say that they are a competitor and try to ignore them, but they are not going to go away. You can say, 'Does that offer me opportunities?' The opportunities can come through, as someone mentioned earlier, an exchange of technology or an export of technology, a utilisation of our technology in their marketplace. You say, 'We can't tell them what we know because then they will be more efficient.' Well, if we do not tell them, some other country or some other company will tell them, they will still find out anyway and we will have missed the boat.

An example of what should be happening is provided by businessman Mr Kahlbetzer, who has the Twynam Pastoral Company here in Australia and who also has considerable land holdings in Argentina. I think there is a lot of merit in having a foot in each of the regions and utilising the know-how in both of those regions, using the same distribution channels. Argentina, for example, is not exporting as much meat as it would like, but it has the potential to do so. It needs a lot of investment in different areas, including the abattoirs, the distributions, et cetera. We can provide a lot of that. Again, if we do not, somebody else will. If you look at other sectors, the same situation applies.

**Mr Abba**—Supplementary to that, up until now Argentinian cattle meat was barred from being exported to the EU and the United States. I think they will be declared free—that is being cleared up at the moment. But, as Jose says, whilst they are going to be competition, we have some great expertise in the meat processing area, in abattoirs. As Senator Brownhill will know, I used to run the National Meat Association, which included the processing sector, so I have knowledge of that. Really, it is about value adding or providing technology, methodologies and so forth. Our food safety standards in Australia are probably the best in the world because we have been made to have them better than the rest of the world by the United States and the EU, which use food safety as a barrier to our exports. I think our export processing is the best in the world. We can sell that expertise, and sell the methodology to be used and so on.

**Mr Bradley**—Further to all the comments about different products, in the wine industry Australia is both an importer and an exporter of wine to South America. We import blends in bulk and we export premium wines in bottles. That comes back to what we were saying before about value added. You could say that South America is a competitor in that industry, but it is really a matter of how you take advantage of the market.

**Mr HOLLIS**—We have heard about all these challenges, but tell us about some of the difficulties of doing trade there. There must be difficulties. You have all done trade there. What difficulties have you run into?

**Mr Lees**—I do not think we have ever had financial difficulties. Letters of credit come through very quickly. If you choose your customers there are no major problems. More than anything else, it is a question of going over there and being recognised, and that is not happening. As far as transport shipping is concerned, there is a monthly service now, and has been for a number of years. That works fairly well. There is a lot of transshipment cargo via South Africa and via American ports as well, but with the direct Mitsui service things are reasonable. The rates Mitsui have are competitive. I cannot think of many problems.

**Mr HOLLIS**—What about local agents in some countries? Various people talk about the importance of having the local agent. Do you have to have local agents there?

**Mr Abba**—Yes, and it is always useful to have that, but you do not have to have local agents to do business. Don, would you agree?

**Mr Lees**—I would say more and more relationships are direct nowadays. So many companies in Australia and companies over there have their own web sites that you are



seeing a dramatic change in the terms of trade. There is a lot more producer to direct importer business.

**Mr Abba**—There was before a lot of problems with inflation and financial management. I would have to say that financial management in most Latin American countries has dramatically improved. You will recall the days when a million-peso note in Argentina was worth 3c, and I remember bringing back lots of them to give as presents to people. The inflation rates in Argentina and in Brazil are pretty well under control. In most of those countries now that is not the impediment it used to be to doing business. And, as was said, with your letters of credit and so forth you really eliminate that sort of problem anyway.

**Mr Blanco**—I think there are problems and that you have got to differentiate. If it has not been said before, we are talking about South America, and we have to acknowledge it is not a single, homogeneous market; it is a number of markets, all having different characteristics. It is fair to say that in some markets you have greater need of a facilitator than in other markets. Whether you say the facilitator goes towards an issue of corruption or not is very debatable. I just think it is someone that knows the ropes and can open doors faster than you might be able to if you were trying to do so without such assistance.

There is a lot of cultural similarity between Australia and the markets in South America, but there are also some differences. I find from talking with Australian businessmen that many of them do feel a degree of frustration when they go there to set up a business, simply because they are accustomed to things happening the way they happen in Australia and they do not happen that way in South America. For example, here, we are very—pedantic is perhaps too excessive, but we enforce rules to the letter. Over there, I think there is more a shading of the rules, more a bending of the rules, et cetera—it is just a way of doing things.

I think there are delays in some ports with getting merchandise. There is not the same quality of infrastructure for distribution in some of the markets. If you were trying to service the region you could not do so with a single set of labels. Even the advertising needs to vary from some markets to others. So it is not all a bed of roses. There are difficulties.

I agree with Don, I do not think finance is one of the problems. If you do the proper due diligence, if you deal with reputable companies and reputable financial institutions, it is as safe as doing business in any market. There is a tendency to greater volatility, no doubt, so obviously you need expert people who can advise you on foreign exchange issues, et cetera. But, again, that is normal prudent business behaviour that you would do in any market. So to me, at the end of the day, whether we do business there or not, the issue is one of commitment. If you say, 'Where is there an opportunity?' I will tell you that there is an opportunity wherever an Australian businessman wants to find one.

**Mr HOLLIS**—Yes, but I think we have to be realistic too, in that the South American market is never going to be our major market.

**Mr Blanco**—Agreed.

**Mr HOLLIS**—I was on a committee that was looking into our relationship with Africa a couple of years back, then the committee did an inquiry into our trade with India. It always

amazes me that the things that are being said here are exactly the things that were being said during the African inquiry: if people would only get out there and find a niche market, if only the Prime Minister would lead a delegation, if only you would tell BHP or someone to go there. That was all said on our African inquiry, and that report is gathering dust somewhere. The same things were constantly said in the Indian one. Sometimes I think that, as a nation of 18 million people, maybe we cannot have a presence everywhere. Late last year, I was in Estonia and places like that, and people were putting the same things to me there, telling me about the potential markets there and saying ‘Why don’t you send a trade delegation? The Prime Minister has never been to Estonia.’

**Mr Blanco**—The issue for me, if I can put it succinctly, is that Australian companies are shaping their international strategy without having regard to all the potential markets, so that they are taking decisions based on a very narrow view of what is available. My argument is that, if Australian companies consider all the alternatives—and I think you throw in there the African region, India and wherever you want—at the end of the day, they may well find that for some of them South America holds little promise; for many others it may be the ideal destination. If a company such as Fosters were to have made that type of evaluation in the early 1990s, I think they would have gone to South America. They should have gone to South America. They may want to go there now, but there is not a lot left for them because it has been taken by others. That is the issue.

**Mr HOLLIS**—There is no disagreement there. The only thing that worries me is what is the role of the government in a free enterprise society? We can encourage them, but we cannot force them. You talk about BHP with the mine in Chile and you talk about Bond, but they made these commercial decisions after going there and doing their own research. There was no prime ministerial trip that took them there and they saw these. These were decisions that they made. As members of parliament, we can make recommendations and point out the challenges or the opportunities there, but we cannot force any firm to invest anywhere.

**Mr Bradley**—I will answer that in trading terms. In my experience in over 10 years of trading with Latin America, the government has a very important role as do suppliers, shippers and customers. Of all our parties, in that equation, our suppliers have brought down their prices. The government has reduced its duties and taxes. We have brought down our prices, and even the shipping companies are beginning to reduce their freight rates, which is all counting towards more trade, and which you are seeing in the figures. So, yes, the government does have an important role.

**Mr HOLLIS**—A lot of these things are commercial decisions. The government does not set the rate for ship rates.

**Mr Bradley**—No, but the government does set duties and taxes.

**Mr HOLLIS**—Yes.

**Mr Bradley**—And that has been a big contribution to making it much more efficient to do trade with that part of the world and other parts of the world. The government also has the EMDG program. Of course, the EMDG program—I have been told the EMDG program is on a budget of \$150 million—has supported something like \$5 billion in trade. It is a very

important program. We are just here to suggest ways in which those actions can be directed towards the markets that we are interested in, and some of us are interested in those markets for the very reason that they are niche markets and they are not overcrowded.

**Mr Blanco**—I look to the government for leadership, and leadership entails ensuring that Australian business has the information that it requires to take the decisions. I fully agree with you: the government does not tell business where to go and pursue its interests. However, at the present time, we do not have an environment in Australia which enables Australian companies to sufficiently know what is happening in Latin America. If you were trying to put into a single room the number of Australian executives with first-hand experience of South America, you could not fill it, irrespective of the size of the room.

**Mr HOLLIS**—But you could say that about many countries, about many regions?

**Mr Blanco**—Yes, but we are only saying it about Latin America because that is the one we are focusing on at the moment.

**Mr HOLLIS**—I know, but I think we have to realise, too, that it is only one region that many people are looking at.

**Mr Blanco**—Then you have to apply whatever criteria you want. Do you want to do it on the basis of population? Do you want to do it on the basis of GDP? Do you want to do it on the basis of national interest in terms of diversification of our international relationships? Do we want to continue to put all the eggs in the Asian basket? If we are happy to put all the eggs in the Asian basket, then do not waste your time on Latin America.

**Mr HOLLIS**—I am from the opposition, anyway!

**CHAIRMAN**—I hope that gets in *Hansard*!

**Mr Abba**—I will make three points in response to you. Firstly, you said that, with a population of 18 or 19 million, Australia cannot be everywhere. Let me put it this way: New Zealand, with a population of three million, do their trade far better than we do.

**Mr HOLLIS**—Yes.

**Mr Abba**—We have to ask ourselves, should we not be learning from what New Zealand is doing? Secondly, I refer to your same comments about Africa and the Indian subcontinent and the report that was done. What if the Prime Minister had gone to Africa or the Indian subcontinent with a 100 delegation of senior business people? What might be the situation now with the trade? What we are saying is that, yes, you cannot tell big business where to go, but if the Prime Minister were to say to the senior business executives around Australia, ‘I am going to do this grand tour of Latin America. Would you like to come along? You’ll be able to meet a lot of people and make a lot of contacts.’ I have a very strong suspicion that they would be there in their dozens. We are suggesting that it is a way of opening up the understanding of a major potential market for Australian goods and services.

**Mr HOLLIS**—There is no disagreement there, especially with what you say about New Zealand. If you go anywhere, you can see what the New Zealanders are doing in so many parts of the world—Asia, the Pacific Islands and so on. With regard to the prime ministerial tour, I remember the Canadian Prime Minister going somewhere and taking 600 business people with him. Our Prime Minister will not even go to the Pacific Islands. But I am from the opposition.

**Mr Blanco**—You raised the issue of markets such as India. I am conscious that time will run out. To cover the issue of South America, you could spend quite a considerable amount of time. But India is not as open as the South American markets. The South American markets, by and large, are selling everything. If you start to look at them one by one, you can ask: what remains to be privatised? In some of those countries, there is not a hell of a lot. If you go and buy similar assets in India, they will not let you have them.

**Mr HOLLIS**—I do not want to get into a debate.

**CHAIRMAN**—We are having an inquiry into—

**Mr HOLLIS**—The difference in India is that it is the second most populous nation on earth. It has a middle class with a disposable income as high as ours with something like a couple of hundred million people. That is the difference between the two: in India, there is the one market; within Latin America, there are many markets.

**Mr Blanco**—Yes, and if you go to a city like Sao Paulo, you will find 20 million inhabitants. If you say, ‘I’m going to discount 60 per cent because they are very poor and can’t buy my product,’ it will still give you eight million people who can buy from you everything you can make in Australia. Is that not, in terms of purchasing power, a similar market to our own?

**Mr HOLLIS**—True.

**Mr Blanco**—That is only in one city. So you do not have to focus on the entire region, you just pick a city and concentrate your efforts there. It is very exciting to discuss South America, because at the end of the day it has got a valid argument to advance as to why it warrants Australia’s attention. We would like to ask one question, and that is: will the members of this committee be travelling to the region for an inspection prior to lodging its conclusion?

**CHAIRMAN**—I reply on behalf of the committee that we are anticipating doing that within the next four or five months. Hopefully, we can organise it from here and from the other end, and people will want to see us there. Obviously, you will play quite a part in that, Mr Blanco.

**Mr Blanco**—I think it is fundamental because it is one thing to read data and another thing to see it first-hand. In all honesty, if you said, ‘I want to go to a place where I will enjoy doing business,’ South America has that aspect. If you want to find a place with density of business and opportunity, it has that. Until you have made that trip, you really are not in a position to make any conclusions about all the submissions that you have received.

**CHAIRMAN**—Thank you for your recommendation.

**Mr HOLLIS**—I agree with you entirely. I also want to make the point that I think all of us have been to parts of South America. In my own case, I have been a couple of times to various parts. So we are not completely unaware of the things that are happening there. We are pushing for that. For the reasons you have said, to look at it from the different perspective of this inquiry would be very important.

**Mr Blanco**—At the end of the day, business is done by people. If you do not have people that relate to one another, you are not going to find business flourishing. What you need is the CEOs of Australian companies to be happy and to be able to go and play a round of golf, a game of tennis or sail a boat with their counterparts in the South American countries. That is what makes business.

So far, most of the businesses that have gone there have been because there have individuals within companies with enough clout or just sheer luck to be able to convince their particular company to go there and investigate. If you do not have that at the top echelon, any submissions that come from below run a very grave risk of not being properly dealt with and perhaps being rejected.

**Mr BAIRD**—Firstly, I congratulate you in the way that you have come to this forum with quite firm recommendations. Sometimes people miss that. Our job is really to bring forward recommendations to government. I have certainly noted some of the key things that you have recommended. I, for one, have not been to South America and so I find it very useful to have your input.

Several of you have had a high profile in promoting South America. I knew Mr Blanco and Axel Bendixsen from Aerolineas Argentinas days, and the extent to which you have lifted the profile of the South American service is amazing. You have got new aircraft on the route and Qantas has now joined you as well. David Abba is well known for his promotional skills.

In terms of what I have written down, obviously we are looking to the end report and I will come back to the promotion when we are ready to bring down our report. It is appropriate that you guys be ready to respond. So when the media interview us, you should be ready to put out at the same time. I have noted that resources for Austrade, are fairly thin on the ground. I know, as a former trade commissioner, it is an appropriate way to go, and, despite some comparisons with New Zealand, they do compare more than favourably with most trade services around the world.

The tourism offices are based in LA and the overall management of the Americas for Austrade is based in LA as well. I have noted the need for specialised fares, the use of missions, the use of the PM and some of the areas you have suggested for concentration. There are two things I am interested in: is there anything further in terms of the trade area? Secondly, with regard to ETA and transit visas, Qantas have spoken quite a lot about the impact, that we do not have ETAs available from South America. We have got restrictions in bringing people through from Asia because of the lack of stopover visas. I have a question to you, Axel: how many tourists does it cost us, do you think? There are two aspects: firstly, is

there anything else that you want to finally put on the table as to what you would like us to bring forth in recommendations; and, secondly, the issue of visas?

**Mr Bendixsen**—The issue of visas is always going to be a thorn for us because it is an obstacle for facilitating traffic in both directions. Argentina in the course of last year abolished the visa for Australian nationals on a unilateral basis, which was a big step, and I think that obviously—

**Mr BAIRD**—And we did not reciprocate, did we?

**Mr Bendixsen**—No. However, we are always pushing for whatever improvements we can make in that area. On the other hand, the requirement for a transit visa for traffic that is coming through Sydney is a tremendous obstacle as well. Our offices here in Australia are regional offices and we have to cover everything from Tokyo right through to the Asian region to New Zealand. That is our area which is pretty vast. Through our various agents in our own offices throughout Asia, we are very active in promoting traffic and freight via the Sydney gateway rather than the traditional Los Angeles gateway. But these things make it difficult.

**Mr BAIRD**—So you bring in people via Auckland instead of Sydney because of the visas?

**Mr Bendixsen**—In many cases, yes. It is subject a little bit to connecting flights and that sort of thing, but it is certainly a lot easier via New Zealand.

**Mr BAIRD**—Is that because of the visa issue?

**Mr Bendixsen**—Yes.

**Mr BAIRD**—Does the lack of the ETA system cause a problem?

**Mr Bendixsen**—Yes, it is a difficulty. As you know, the diplomatic and consular representations in South America are not thick on the ground. Therefore, you are limited to the major cities where there is representation to obtain a visa, so ETA would be a tremendous help.

**Mr BAIRD**—Finally, what are your recommendations? This is the other thing that is on your shopping list.

**Mr Blanco**—I would go back to education, even though we have said that you will find a lot of senior executives who speak English and that will facilitate the doing of business. I think the lower you get down the management ladder, the harder it becomes to find English speakers. It varies from country to country. Also, the teaching of the language, to me, entails the teaching of the culture and the history of a country and a region. It has been a long time since I went through the Australian education system but, when I did, Latin America did not get a guernsey on the itinerary. I do not know if it does today; I would be surprised if it did. So it is very hard to develop close links with any market or any region if you do not have an understanding of what it is all about. For me, education continues to be fundamental.

**CHAIRMAN**—In Australia that is.

**Mr Blanco**—Yes, in Australia. Also, if we look at the way that we have related with Asia by making a great effort to attract their youth to come and complete their studies in our institutions and then go back; some have stayed. What that creates is an entire group of people who have dual knowledge and who then have identified opportunities in Australia because they know their home market and they know Australia. They then go back, and they are the businessmen who develop the relationship further. We really do not have that flourishing at the present time with South American countries, and I think we need that. So it is both attracting their students here and sending our students there.

Let us also recall that the region there may not be as economically vibrant today as it was five years ago or as it potentially could be, but there are very substantial corporations throughout most of the countries in South America. There are companies there that have the potential, if they choose, to invest in Australia. We have done very little about that as well, and I think that is where education has a role to play.

**CHAIRMAN**—I will sum up by saying that you want more commitment and leadership and you want more information about your area of interest, which is Latin America, into Australia. I would suggest that means that you actually have to play a part in that. You are saying that we should be doing more bilateral deals if we want to keep up with the New Zealanders. We should be attending more trade missions, as Bruce mentioned, and trade fairs. As part of our commitment and leadership, you want a visit by the PM to Latin America. Regarding Austrade, you think the length of time that people spend in the region is not enough and the resources they put in are not as good as they should be. I was the junior minister responsible for Latin America, so I will have to admit my failings. You also think this committee must visit Latin America. We will, and we thank you for your invitation.

**Mr BAIRD**—Who is paying? That is the question.

**CHAIRMAN**—We thank you for your help and support in putting together the program, and I say that on behalf of Jane Vincent. Other areas of concern are tourism, which Bruce brought up, and education in Australia. I have talked a bit about Latin America, which never hit the Richter scale at all, and the Spanish language. I cannot understand why we do not teach more Spanish. It is the second or third most spoken language in the world, is it not?

**Mr Blanco**—You have forgotten my Garnaut style report and the creation of my South American analytical unit.

**CHAIRMAN**—You have brought up Garnaut once before with us. Garnaut, of course, got the publicity because it had all the wherewithal of the government behind it. I believe that we have to lift ourselves, too, from this side of the table, as far as embellishing our reports goes. Sometimes we sit on inquiries and we do not do much. The East Timor inquiry, which I am sitting on at the moment, has plenty of media coverage the whole time we are sitting, but this one has no media coverage whatsoever. I suggest that you put some media releases out about those issues I have just covered, saying that you have put them up to the committee today and that you trust and hope the government does something about them because they are so important.

**Mr Blanco**—I know that time is running out. I am delighted to hear that the members of the committee will be lifting themselves. Nonetheless, I reiterate my request. You asked for a shopping list, and on my shopping list is definitely something a la Garnaut style. If, today, we enjoy enormous success with Asia, I think some input into that success came from having the South-East Asia Analytical Unit, with its enormous resources, putting out information and making people aware; why can't we have a South American analytical research team in place?

**CHAIRMAN**—I think you should also read a report I did on Latin America about seven years ago in which I said that there were great opportunities and great competition.

**Mr BAIRD**—With your, Jose's and David's promotional skills, when are we going to see Ricky Martin out here for one of your big shows?

**Mr Blanco**—Can I say we have a big show scheduled for 13 November in Sydney. Speaking on behalf of the members, we would be delighted to extend an invitation to the committee to join us on the night. Our budget only goes so far, so we are prepared to extend funding for a table but, if all of the members of the committee accept the invitation, we would like to ask you to dip into your budget to cover the other table that may be in place. We will certainly be in touch with you about that.

**CHAIRMAN**—I accept that invitation on behalf of the committee. As for the monetary side of it, obviously we will not be expecting any subsidies or handouts.

**Mr Blanco**—There are no subsidies. It is an invitation, an investment, on the part of the business council.

**Mr Abba**—Mr Chairman, the guests of honour are the Minister for Trade and the Argentinian Treasurer, so you ought to be there to meet them anyway.

**CHAIRMAN**—Thank you very much. We have run 25 minutes over time, which I think shows that this side of the table must have enjoyed your submissions. We are sorry to have held you up for as long as we have.

**Mr Blanco**—Thank you for your time.

**CHAIRMAN**—Thank you very much for your attendance.

**Proceedings suspended from 12.57 p.m. to 1.33 p.m.**



**BOURNAS, Mr Juan, Trade Commissioner, Trade Commission of Chile**

**CASSIDY, Dr Peter, President, Australia-Chile Chamber of Commerce**

**FITZHARDINGE, Mr Guy Berkley, Vice-President, Australia-Chile Chamber of Commerce**

**MEAD, Mr Nicholas Graham, Treasurer, Australia-Chile Chamber of Commerce**

**CHAIRMAN**—Welcome. 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 invites you to make a short opening statement, if you wish, before we proceed to questions.

**Dr Cassidy**—We have no formal submission. We are very interested to make some observations on the trade relationships and on what we feel can best be done to facilitate the trade. To that end, we have been working closely with both the Chile representative here in Australia and with Austrade. So I think it is best if we just make some observations, on which you can then ask some questions.

By way of background, I have been travelling backwards and forwards to Chile since about 1993. At that stage, we were invited by the government. To my mind, the biggest change in the facilitation of trade has been the improvement of the air links. They have only really come about by virtue of the Asian economic crash, which forced Qantas to change the direction in which it believed its business could be developed. So it only occurred this year, as it started to formalise links with direct flights into Buenos Aires and indirect flights into Santiago, linking with Lan Chile. I can vouch for the fact that every hour that you can remove from the flying time makes the task of conducting business a lot easier. Today the flying time is being reduced substantially.

A number of years ago, we made some suggestions. My colleagues at AMP and I were travelling quite substantially into Chile on some mining related business. It was apparent to us that one of the real problems for Chile, Argentina and Australia was that we were effectively both end stops in a game, where once you arrived there was nowhere else to go except to turn around and go back the way you came. With the advent of modern technology and the 400 series jumbo jets and the like, today both Australia and that southern cone of Santiago and Buenos Aires can be viewed as transit points to each other. I think that is a major advance. Why? Because both that southern cone—Chile, in particular—and Australia are suppliers of raw materials into Asia and increasingly suppliers of services into Asia and, respectively from that southern cone end, suppliers of services as well as goods into North and Latin America.

The opportunity today is to convert what were effectively end games, or ends of the transport link, into a link between regions. We are quite excited by that as a thought because Chile is in APEC and Australia is a substantial member of APEC. We are not sure whether

APEC is going to continue to be the powerhouse that it was, but new bilateral type relationships may emerge and maybe even trilateral relationships or other permutations. That will start to link Australia with Asia and with South America. Where there are chances to travel and to make doing business easier, then Australia has a chance to be a hub in that particular game.

That can actually be supported by government. I think it is a big enough concept for government to grab as an initiative. The trade blocs of South America and Asia are sufficiently large for Australia to benefit, as long as it is given the right support. With the advent of Qantas's enthusiasm and proof that the transport link has the capacity to sustain the planes flying, there is a potential benefit emerging for Australia that will be quite substantial. Australia can be the sensible transit point for South Americans going into Asia rather than flying out through LA, which is a very long trip. It is much shorter to go across the pole. Australia can become the transit point for South Americans going into Asia and, equally, the transit point for Asians heading off to Latin America. That is the big picture view that I would like to leave you with. I think that is a very exciting opportunity to be a hub rather than an end game, and out of that some real wealth creation can occur.

From the Australia-Chile Chamber of Commerce's perspective, we are one of two organisations in Australia that link Chile to Australia. One is based in Melbourne and the other is based in Sydney. One broadly looks at supporting what I would call the larger corporate sector; it has been supported by the BHPs, the big banks, and basically is driven out of the need for organisations like BHP to be seen to be helping the linkages at a community level. It has a major representation in Chile. Our organisation, which we are working to build up, has a service that is provided to the smaller business people wanting to build up their particular small enterprises in links through to South America. That has been particularly difficult. We do rely on government, and to have Juan Bournas here supporting us has been very useful.

The best service we can provide to our people is to make information available to them, so we have got a web site up and we produce a newsletter. But in terms of being able to do things that are substantially larger than that, it is very difficult—we just do not have the financial capacity. Sponsorships are viable and if we can, over time, attract people to agglomerate around that we have a chance of building a business community that can facilitate the relationships between the regions. So that is the agenda of the Australia-Chile Chamber of Commerce. I know the Chileans are very keen for it to work the other way, as they project themselves into Asia, and perhaps Juan would like to make a comment on that. Those are broadly the observations that we can make.

**CHAIRMAN**—Thank you very much. The joint declaration at the end of inaugural meeting of the Australia-Chile Bilateral Trade and Investment Commission meeting in November last year—so it is now almost one year on—expressed concern about the shipping services between the two countries. Has there been any change? Has there been any dialogue on it?

**Dr Cassidy**—We have not had reason to become involved in it. I think it would be sensible to wait for the representation from Mitsui in the next presentation.

**CHAIRMAN**—Okay, we will not pursue that now. The other issue was that there should be an exchange of experts in the area of e-commerce. Has that happened, or have you no knowledge of that?

**Dr Cassidy**—We have no knowledge. We have not been contacted by the Australian government in relation to those sorts of issues. I have to point out that at that level it is very difficult for us as a chamber to be involved in any particular issue.

**CHAIRMAN**—I was thinking of whether members of the chamber might have had some knowledge. Are many people in the chamber into e-commerce?

**Mr Mead**—Not that I know of. They are mainly freight forwarders, more physical businesses. We have not had any applications of late from anyone in e-commerce who is doing business over there.

**Mr BAIRD**—I am sorry I missed your presentation—I had other priorities, as you can see. In terms of Chile and its economic position, what we always have represented to us is the ABC of South America, with Chile being part of it.

I understand that the Santiago service is going very well and in fact is a competitor for Buenos Aires, even though Qantas is on that route. What would you want to change about government policy or initiatives to foster the relationship between Australia and Chile and improve the trade relationships and air service arrangements? These committees are basically about facilitating the process for exporters to get out into the marketplace and encouraging tourism et cetera.

**Dr Cassidy**—I will make some observations and then ask Juan to, from his side, because I think this trade issue is a two-way street. Once you can get it working both ways it is a great improvement. I can tell you that the air link took seven years to get to the point where Qantas was willing to fly direct. Mind you, technology has moved a bit too and now you can do it effectively with one stop into Buenos Aires. From an Australian perspective, most Australian business going into that part of the world ends up spending time in Chile because a lot of it is mining related. Chile is the major mining area and the most developed of the mining areas in that part of the world, certainly more than Argentina. There is still room for the flights to be optimised. If we fly out of Santiago we have to fly to Buenos Aires, for example, and then come back again through Auckland.

**Mr BAIRD**—Don't you have flights via Tahiti?

**Dr Cassidy**—Yes. I can only talk on a personal level here, having done it too many times. The fewer stops you can make, the better it is. If you go out through Tahiti you go Sydney, Auckland, Tahiti, Easter Island and Santiago. They may be moving one step out of that. Lan Chile might be able to fly Santiago direct to Tahiti, but it is still a three-stop leap. If we could force them not to go through Auckland and hub through Sydney—that is a little selfish, I suspect, but it is where the population centres really are—you could, by and large, at least fly one way almost direct Sydney to Santiago.

**Mr BAIRD**—The other alternative, if the service to Buenos Aires proves more viable, is to triangulate over Santiago.

**Dr Cassidy**—That is right. That is the other option. They can step it that way.

**Mr BAIRD**—Is it not beyond the range? I thought it was on the cusp of whether it was within the air range.

**Mr Mead**—We were discussing that yesterday in our meeting. It seems as if there is a flight from Chicago to Hong Kong which would be similar to Sydney-Santiago. It seems as if it is on the cusp but it could very well be plausible.

**Dr Cassidy**—I suspect it depends which way the wind is blowing. They do help you going and hinder you coming.

**Mr BAIRD**—The air services are important and the fact that Qantas has started at Buenos Aires has been one of the factors involved in this study. We are not really in a position to influence that. We can make an observation but it is really the government involvement in issues such as Austrade's performance, the Australian Tourist Commission, visas and participation in specialised trade shows which are some of the things that other people have raised. What we are interested in now is specifically related to Chile.

**Dr Cassidy**—Let me just ask Juan to see if he would like to make some observations to the committee.

**Mr Bournas**—Thank you for inviting me. I am a member of the Chilean government so perhaps I can give a view from this side of the Pacific Rim. First of all I would just like to echo the words of the President of the Chamber of Commerce. We also believe it is incumbent to improve air services between Santiago and Sydney because, on a political level, on a level of declarations, we have always put forth that Chile and Australia have a great deal of similarities in terms of our agendas on world trade and in terms of market access issues. There are a great deal of similarities between both countries.

What has probably not worked to the extent that it should is the business-to-business contact and the building up of the modest level of trade that actually exists between Australia and Chile. One of the reasons that many of the Chilean businessmen do not come to this side of the world is precisely because of the fact that the air services that are currently being provided are not attractive to them. It has only been through the commencement of the Qantas flights in November of last year that there has been some interest generated in terms of comparing—you can compare Sydney to Santiago as something similar to Sydney to Frankfurt. There is certainly I would say a psychological factor in the improvement of air service links.

That said, there was some mention of where we can improve the commercial relations with Chile and the honourable senator mentioned electronic commerce. Chile at the moment is probably the most advanced country in terms of electronic commerce within Latin America. We export a great deal of electronic services to our neighbouring countries, be it Bolivia, Peru, Argentina, Paraguay, Ecuador and so forth. If there was a possibility to build

upon business relations perhaps we could build upon electronic commerce and other value added services because obviously we export a great deal of similarities. We are commodity based. We export minerals. We export copper. We export agricultural products. We even compete in the same markets for wine. We need to sit down and analyse what fields of possible cooperation can exist.

The Chilean government looks upon Australia as an ally. We think that relations at a political and economic level are excellent. Now what we need to do is to get our hands dirty and do the practical work of building up those business relations. With that we can solidify what we have already attained within the APEC realm in terms of sheer numbers and use each other as gateways—in a literal sense. I know for the past four years the Chilean government has tried to position itself as a gateway to Latin America. That has been successful in terms of generating a great deal of commerce with China and Korea. There is even talk of a possible free trade agreement with Korea now. Discussions are commencing.

Perhaps with Australia that has not worked. What we need to do is to analyse in what fields it can work because Chile—I know this sounds biased—is probably the most stable of the economies in Latin America. It has stable playing rules. We look upon Australia as an ally in terms of being able to work towards opening up markets in Asia. You have the regional know-how and we have the regional know-how in our neighbourhood, so it is just a matter of building up those relations.

**Mr BAIRD**—That is good and it provides us with quite an interesting background. What about the question of why you put a tax on our coal that the Canadians do not have to pay, if we are basically such good friends?

**Mr Bournas**—The reason is that Chile's international assertion strategy has been multifold. That means that we participate in international and regional integration schemes, such as APEC, Mercosur, the free trade of the Americas agreement—

**CHAIRMAN**—The Cairns Group.

**Mr Bournas**—The Cairns Group. We also sign bilateral trade agreements as a way of locking in market access. The Canadians, back in 1995, approached us when the NAFTA plus Chile arrangements did not come to fruition because of the domestic situation within the United States. That said, I believe also the moment could be ripe to explore the same economic arrangement with Australia. Thereby you would not have the tax accord and therefore you would create the environment appropriate for business facilitation and for the creation of wealth. We have been studying the possibility of seeing if it is a New Zealand, Australia plus Chile arrangement, or perhaps it might include Singapore, but we are willing to study all those possibilities so that your coal can be exported without any tariffs and that you can use not only Chile as a gateway but as a way of securing your investments towards Latin America.

**Senator CHAPMAN**—Is the fact that Australia's trading relationship focus is tending towards multilateral rather than bilateral agreements a serious impediment to developing that arrangement? What is your judgment of Australia's likelihood of being interested in a bilateral arrangement?

**Mr Bournas**—It is a matter of assessing the developments within APEC that lead us to believe that achieving the free trade goals of Bogor, meaning free trade amongst the industrialised nations in 2020, is getting further and further away. One way that we would incentivate the creation of regional free trade areas would be to sit down with the Australian government and explore the possibility. We do not see that as an impediment whatsoever.

**CHAIRMAN**—Are you saying in a bilateral way?

**Mr Bournas**—We can explore it bilaterally or pluri-laterally as well.

**Mr BAIRD**—You talked about the areas of agreement and you talked about e-commerce. Did you have some other areas that you saw from your experience that were obvious ones that we could explore a special relationship with in product areas?

**Mr Bournas**—I would not want to prejudge what precisely the business sector in Chile would favour but, offhand, I would think agro-industrial and perhaps even mining equipment. If I could just go back to the Chamber of Commerce, if we were to study these types of economic arrangements, one optimum way of being able to channel the interest of the business sector would be precisely through the Australia-Chile Chamber of Commerce. The President, Dr Peter Cassidy, has done an excellent job in being able to put forth those objectives.

**CHAIRMAN**—When we had the Australia-Latin America Business Council here we were provocative in trying to get them to say where there was any media interest in their submission, were they going to say something that was provocative to raise the awareness of Latin America in the broader sense in the community. Whose job is it to do this? Is it for the Chilean chamber to do it individually, or is the government not doing enough to raise the awareness? What should be happening? Have you got a media release to put out when you finish here today after having said something provocative?

**Dr Cassidy**—No, we do not develop policy by press releases. We would take the view that the level of awareness of things being front of mind as opposed to back of mind or on the margin of mind is very much related to the energy of the interaction and whether there is anyone with a bee in their bonnet who is doing something. I will just go back a couple of years—and I am not making any observation on anyone because these are all human issues. I know that when I first started going to Chile Australia had a very good ambassador in Santiago who got out amongst the community. He orchestrated me to meet people and he did a terrific job.

**Senator CHAPMAN**—Can you tell us what his name was?

**Dr Cassidy**—Yes, Matthew Peek. He did a terrific job looking after us. At the same time, Chile had a terrific ambassador in Australia, a guy called Fernando Zegers. Fernando was also like a bee in a bottle over here. He was out in the community and raising the profile. That is the sort of front of mind thing. Most business people actually do not have the time or, I suspect, the inclination just to present profiles. An organisation like the Australia-Chile Chamber of Commerce certainly does not have the horsepower to convince anybody. It

certainly does not look like the Australia-Israel or the Australia-US Chamber of Commerce where there are huge numbers of people. So it is problematic.

In a scale sense, you might see that the Latin American Business Council, which presents for the region, has actually got a little bit more oomph or grunt behind it to be able to do that. Being able to raise awareness is one issue, but I can assure you awareness never really equates to increased trade. You have got to work out where you are going to put the rubber on the road. I have always been far more inclined to try and at least present a perspective that enabled people to get their mind around what the bigger issues were. In that, government is important.

I do not know whether you people can remember back but Minister Fischer, at the start of the previous government, did a study on Latin-American business as well. In that, we put in the concept that Australia could be an APEC hub—hubbing between the two regions. Back at that time flights were terrible—no-one was particularly interested—but today it is actually meaningful. It does not kill you to get on a plane and go to Buenos Aires or Santiago. The trend is going to be that Australia is not going to be an end game; it will be a transit point to somewhere else. As soon as it becomes a transit point, it will develop all those services necessary to service the people coming through, going between the regions. You have to realise that Australia, with 18 million people, does not really count but, if it can get a bit of the action between Asia with its billions of people and Latin America with its billion-odd people, you have half a chance of actually capturing a little bit of the wealth. But you have got to position yourself to want it and you have got to get people to want to travel in your direction rather than going in someone else's direction.

**Mr BAIRD**—Just out of interest, which is quicker? Is it quicker to go via Australia to South America, or is it much quicker going the other way, from Asia?

**Dr Cassidy**—If you were in Singapore, it would be almost six of one and half a dozen of the other, I suspect. It is probably slightly shorter coming down through Sydney.

**Mr BAIRD**—It is not something that you tend to think about, is it?

**Mr Fitzhardinge**—Aerolinas, of course, only come down in Auckland, as you know. They fly direct to Buenos Aires. Of course you are going around the pole, so your actual distance is obviously less than going across that way.

**Dr Cassidy**—But you have got an eight-hour flight coming down from Singapore, for example, to Sydney and then you pick up. I think Qantas got the biggest surprise of its life that the Buenos Aires flight actually worked. You have been shouting at them for years to do it, and it took a crash in Asia for them to be deflected to try something new. That was what drove it.

**CHAIRMAN**—The crash as in the financial crash?

**Dr Cassidy**—The economic crash in Asia. It was not worth their while flying to Korea and to Japan, and they had a lot of planes, I suspect. The place that had not crashed was

South America. And, lo and behold, all of a sudden they found that they could put a jumbo on that link, and now it is full, as best I can tell.

**Mr BAIRD**—Not quite.

**Dr Cassidy**—I have flown on it a couple of times now—

**Mr BAIRD**—I think they said 60 per cent load factor.

**Dr Cassidy**—Right. All I can say is that when I have flown on it it has been a pretty full plane.

**CHAIRMAN**—Might I say to anyone who has not been to Easter Island that it is absolutely a tourists' delight.

**Dr Cassidy**—Yes.

**CHAIRMAN**—It is, seriously. I went to see the statues and the rocks that were put there and it is absolutely amazing. You would want to do it once.

**Dr Cassidy**—If I can just reminisce a little, seven years ago you had to have a 15-hour stopover at Papeete. It was nearly a two-day trip.

**Mr BAIRD**—That was a bit tough!

**Dr Cassidy**—The problem was—

**Mr Mead**—They did not have VIP lounges in those days.

**Dr Cassidy**—you arrived early in the morning and you left at about midnight or 1 o'clock in the morning. So you were exhausted by the time you got to the other end, and it was the exhaustion level that got at you. Now you can basically do it in two steps. I am arguing that, with a bit more cleverness, they will get it down to one step, at least one way, and then you have got a viable transit lounge you can create for Australia. That is actually worth fighting for.

**Mr BAIRD**—It is something that had escaped me before about the Asian connection.

**Dr Cassidy**—Once you are building those linkages to the big population centres, the trade will occur. Australia then can be a service centre in the same way Chile can be a service centre at the other end, coming around in that southern cone.

**CHAIRMAN**—I have to say—and I have a personal explanation here—that, having gone across to the APEC conference via Auckland, Papeete, Easter Island and Santiago, getting there at 10 o'clock at night and having a breakfast meeting the next morning, I decided to come back via Dallas Fort Worth and Los Angeles. The time was nearly the same, and it is a long way. Senator O'Brien, do you have some questions?



**Senator O'BRIEN**—I am interested to get some comment about your perceptions on Austrade's role in South America, and Chile in particular, and on their activity level and any suggestions you might have as to what they should be doing.

**Dr Cassidy**—Guy might be a little better to make an observation on that than me. I will explain why. Having worked with a large organisation, I can say it is very easy for people like us to get to the levels we want to in new places, so I personally have not tended to need to utilise Austrade that much. But I know that as you go down to smaller businesses trying to build their business bridges it becomes very important. One observation I would make, having been in that type of business in the past and knowing the economic imperative to make everything work, is that it gets a little interesting at the margin when you have got to worry about paying for everything as you are trying to build the bridges. If you are a small person that gets difficult. Again, this is not criticism at all, but, on the other side, an Austrade is always trying to get a bigger bang for its buck, so it is always going to try and deal with the bigger business because then the statistics work a little better for it. So there would be some very interesting issues at the margin there, and I honestly do not know the answer, except that I suspect that government should not disenfranchise the little guys.

**Mr BAIRD**—As a former trade commissioner, I can say the problem we had when I was there, predominantly in the seventies, was that a lot of our resources were spent chasing the rats and mice—the ugh boots and the opals and so on—at the expense of pursuing the more lucrative areas. I think they have effectively turned it around so it is much more professional and with a real eye to what the commercial outcome is likely to be. We were available for everyone and a lot of resources were wasted with stuff that would never pay off in any significant amount.

**Dr Cassidy**—As I said, I do not think I know the answer. It is a balancing act, and that is just a matter of judgment.

**Mr BAIRD**—Not having been responsible for it but observed it, I think there is a better balance than there used to be.

**Mr Fitzhardinge**—I really cannot say anything worth while because I have not had any personal experience with Austrade. But my feeling from talking to people is that they have improved over the last few years and they do have more representation now all over South America than they would have had maybe six, seven or eight years ago. I cannot really make any worthwhile comment, having not used them at all.

**Senator O'BRIEN**—We talk about the flight services between Australia and the South American cone, as it is being described. Is there a real prospect for two-way tourism flow from Chile to Australia?

**Dr Cassidy**—Australia does have a fairly sizeable Chilean population that came in a couple of basic immigration waves and they are fairly well assimilated into our community.

**Mr BAIRD**—What are the numbers?

**Dr Cassidy**—Sixty-odd thousand. It is in that order of magnitude. I suspect that there are some very real tourism opportunities, but that is always in the eye of the beholder, and the ability of the operator to get out and promote at either end. Having been to both, they are both terrific.

**Mr Mead**—The latest trend seems to be adventure tourism and going off trekking and hiking in the mountains. Chile offers some great trekking opportunities. There is a wide variety of regions. If you like the desert, you go north; if you like fjords—and I have been to the Chilean fjords and the Norwegian fjords—the Chilean fjords are great because they are smaller and therefore you are closer to it. I do not know what the tourism is like now but I just took a cargo boat from Puerto Montt all the way down towards Tierra del Fuego. I got onto a cargo boat that also took on passengers, because there are no highways down that way, and three days through those Chilean fjords was great. There is a great opportunity for promoting the adventure holiday scenario, especially in the south of Chile. There are the huge Patagonian peaks along the mountain range and there are the waterways. So there is the idea of beginning to push that, and we should do the same thing in reverse because we have got so much to offer for them. The level of economic activity has increased Chileans' disposable income to a level where a certain percentage of the population would be able to afford to come out here.

**Senator O'BRIEN**—What sort of percentage would that be?

**Mr Bournas**—Chileans have a very large disposable income and they travel very much. They travel throughout the Northern Hemisphere—Europe, the United States, Canada. I go back to the air services links: you have about eight flights from Santiago to Miami every day and then you have at least three or four flights to Madrid, Paris, Frankfurt. So there is such an ease of travel opportunities that do not exist vis-a-vis Australia and that really paved the way for Chileans travelling in those countries.

**Mr BAIRD**—In terms of travel, is the visa issue significant?

**Mr Bournas**—I would not say it is of major importance. Going back to the travel link, I would say that about 80 per cent of Chilean business within Asia is done with Japan, Korea and China. Most of these businessmen travel from Santiago to Miami, Miami to San Francisco or Los Angeles and get to Tokyo or Beijing in 2½ days. Obviously, if you improved the link between Sydney and Santiago, you would have that very large flow of businessmen coming through this route and going up.

**Mr BAIRD**—I just wondered whether you had heard complaints from Chileans about the problems of getting visas to Australia and whether that was an inhibitor.

**Mr Bournas**—I have heard comments. I think there are physical regulations—you have to take medical exams. That could play a part.

**Mr Mead**—Earlier this year or late last year, I was arranging for Peter to go back to Chile. I cannot remember how it came up, but suddenly Peter needed a visa whereas there was never a visa requirement before. I rang the Chilean consulate and asked why. The reason was that suddenly Australia placed the demand on Chilean businessmen or Chileans

in general to have visas to come to Australia, so quid pro quo they put a visa requirement on us. If you can work at that level and work out to take the visa off again that would help.

**Mr Bournas**—New Zealand eliminated visa requirements for Chileans and vice versa.

**Mr BAIRD**—Do you know the tourist numbers? Are there more Chileans going to New Zealand than Australia?

**Mr Bournas**—It is a biased figure because they hosted APEC this year—a whole lot of diplomats and businessmen came across.

**Mr BAIRD**—It would be interesting from our point of view. You have almost got a test case. If you can get a fix on that, it would help us and that would be good.

**Mr Bournas**—It is difficult comparing Sydney with Auckland or Wellington. The tourist attraction of Sydney is much wider than Chileans travelling to Auckland.

**Senator O'BRIEN**—I will branch out a bit. It seems to me that there has been a lot of discussion about the problems and a bit of a focus on awareness. Probably this may come to you from out of left field but, if you want awareness in Australia, a lot of awareness comes from our sporting links. What opportunities are there to promote those?

**Mr Mead**—Not so much with regard to Chile but I do know that the Brazilian football team is coming out in November to play at Stadium Australia. Relating back to the Chilean population here and our immigrant population in Australia, principally soccer football—

**Senator CHAPMAN**—Rugby as well.

**Mr Mead**—Rugby, because the Argentinians have got the Pumas and they are going to be playing in the World Cup.

**Mr Bournas**—Chile as well.

**CHAIRMAN**—Chile has now got a Rugby team.

**Mr Bournas**—Chile has played Rugby since the English settlers set foot 100 years ago in Valparaiso. The Rugby tradition has been preserved not only in universities but also in the AB high school level. There are quite a few Rugby teams within Chile.

**Mr Mead**—From personal experience again, I used to be involved with the exchange student group AFS—you may have heard of it—and I went to Brazil. That was my first connection. I spent a year in Brazil as an exchange student and in return my family hosted exchange students from overseas. Once there was an Argentine fellow. I am originally from Melbourne and I am a mad football fan. The actual vibrancy of the Australian Rules football takes any foreigner by storm. This Argentinian fellow left with a full Essendon kit. He had videos and he took a football back with him.

**Senator O'BRIEN**—You biased him while he was there.

**Mr Mead**—It is no disrespect to soccer in a sense, but Australian Rules football has got a lot of action and it is rather exciting for them. Channel 7 always sprouts off about the grand final going live to every country under the sun, which is not necessarily true. It was shown in Argentina when I was there in 1992 two weeks later on the ESPN International. It still gets shown over there and it did create some sort of interest: what is this funny game? In a way, the AFL, or whichever body at a national level, has some sort of captivating factor which attracts the curiosity of people to that particular sport.

If you think back to the more international game of soccer, the Olyroos or the Socceroos, or whoever you want, we put up a good fight against the Argentinians two years ago, or whenever, in Buenos Aires and so on. I think that is a pretty good stage on which to promote Australia. It will have the support of the Australian Chileans, or whoever, if you are playing Argentina. If the Socceroos are playing Argentina, I am sure all the Australian Chileans will be supporting Australia. If you can get a few more of the Brazilians coming out to Australia, or Chile coming out to Australia, I think that is a great basis for it.

**Senator O'BRIEN**—That was the basis of the question: do you think there is any possibility of the Chilean government being involved in promoting some sort of trans-Pacific event like the Bledisloe Cup in Rugby?

**Mr Mead**—We had the bicentennial cup, when Brazil and Saudi Arabia came out and I think another country. I think you could start a similar thing again to try and get a promotional deal around it, and then try and make it a bit more regular. Again, with Stadium Australia now up and running and creating world records for this, that and the other—every time they put on a game—it will be interesting to see how big the crowd is for Brazil in November. I think it will be pretty big. If the MCG continues on with regard to its competition now in Sydney, I think you have got two good stadiums to hold these events and you have the two major populations in Australia. I am sure the people over in Perth would like to see these things as well.

**CHAIRMAN**—With regard to the strategic alliances, what is the potential there with companies in Chile? We have two already: BRL and Mildara Blass are two wine companies with strategic alliances. Is that the way forward or is it just a one-off with the wine industry?

**Dr Cassidy**—I suspect the Chileans might be interested in something in the salmon industry. We actually have a joint venture with a Chilean group in mining. It has just put the financing for a new copper development in the north of Chile in place. It is being signed up right at the moment. It is with the largest family group in the country. These sorts of relationships are as good as the efforts that people want to make to build them. I just keep coming back to the fact that, if you can bring things front of mind, if you can make it easier to get there, there is less excuse for not doing it. People will start to move forward towards it.

The other area which I suspect would be quite interesting is in some of the financial services. I attended the 18th anniversary conference of the Chilean pension system. The Chilean pension system has been extraordinarily successful and it has probably underpinned the country's economic development over the last 18 years and compound interest has got to the point now where they have got US\$30 billion for investment.

It is a very successful system, certainly from an emerging country perspective, but today it is starting to suffer from the problems of its success. It is needing to become a lot more flexible and the government needs to change policy and the like. I was one of two foreigners there. Two outsiders were invited to address the conference: one Australian and one from the Inter-American Development Bank. We talked about the Australian pension system; that type of contribution is a very real possibility. But for it to succeed, Australians have got to want to go and do it. The Latin Americans have always—whether they like them or not—dealt north towards North America.

**CHAIRMAN**—What is the situation with Safcol now in Puerto Montt?

**Mr Mead**—That is a good question. We, as the chamber, had a contact with Safcol years ago and with our new newsletter we returned to them to ask them for an update on what they had been doing. Unfortunately, we got crossed wires, perhaps, so we did not get the information on what their position is in Chile. But we are actually following that up specifically so we can stick it in our newsletter to put it out to the world.

**CHAIRMAN**—That brings me to the next thing—joint ventures. I had a look at eucalypt plantations around Puerto Montt and the eucalypts—they are our eucalypts—are growing much better and more quickly in southern Chile than they grow here in Australia. What is the set-up to get a joint venture? If I want to grow eucalypts in Chile, can I go into a joint venture quickly and easily?

**Dr Cassidy**—I think so.

**CHAIRMAN**—No impediments?

**Dr Cassidy**—No. Chile has had, for a number of years, a couple of rules and they have been very good rules from its perspective. They relate primarily to capital flows. You cannot put your money in and take your money out—it has got to be in for 12 months—but you can bring out your dividends and profits. In fact, you can sign a legal contract, which is enshrined in the constitution, called DL 600, which defines for you the basis of the way your capital goes in. They have stabilised their country against hot money going in and out. That is not an impediment; it is just a set of rules that you have to go through. We have had no problems building our copper mine, for example. As long as you understand the rules I do not think it is a major issue.

**Mr Bournas**—It is non-discriminatory. National treatment is provided for. It is very open, very liberal and very transparent.

**Dr Cassidy**—The most successful group in this part of the world are the New Zealanders over there.

**CHAIRMAN**—Why?

**Mr BAIRD**—They are part of the way there.

**Dr Cassidy**—That could be part of it. The New Zealand Dairy Board has been extraordinarily successful. It has bought a business there and it supplies half the dairy products into Santiago.

**Mr Mead**—The New Zealand Dairy Board is all over Latin America.

**Mr BAIRD**—Is the New Zealand Dairy Board a totally government owned body?

**Dr Cassidy**—It is a cooperative, isn't it?

**Senator O'BRIEN**—I think it is like our Wheat Board and effectively the sugar marketing export body.

**Dr Cassidy**—They are extraordinarily successful. The other one is the fruit board and they have a joint venture producing fruit in Chile that I am aware of. Carter Holt Harvey have a big joint venture in forestry with the Angellini group, which has had its moments in court but they all seem to still be living with each other. In fact, they probably kept the elder Angellini going for a few years longer than he otherwise would have with the legal stoush that they had there for a while.

**CHAIRMAN**—With the apples?

**Dr Cassidy**—This was on timber I think.

**CHAIRMAN**—Has EFIC been successful as far as giving insurance cover for finance? Has there been any problem?

**Dr Cassidy**—It has not been brought to my attention as being an issue at all, certainly not in Chile. It is a pretty stable country. Its credit rating is good and its political risk assessment is not high. People might even decide they do not need to have the insurance issue addressed.

**Mr HOLLIS**—Could you expand a little on the New Zealand matter. You are not the first person to put that to us. I know from personal experience that it is the same in Asia. There is always New Zealand butter at the hotels. I once asked some officials about the market in the Pacific and I was told it was too small a market for Australia—we could not be bothered. Why is it that the New Zealanders leave us for dead in so many fields?

**Mr Fitzhardinge**—I can sum it up in one phrase: aggressive marketing. They wanted to do it and they did it. They set out aggressively.

**Mr HOLLIS**—A committee like us can say our business people should approach these markets more aggressively. The people before you were talking about what the government should do. Is it just a New Zealand trait? Are their business people more aggressive than Australian business people? Do they get backing from their government in the form of the dairy board? Is that a government organisation?

**Dr Cassidy**—I think you would argue that it is a corporatised government entity.

**Senator CHAPMAN**—Run by the industry.

**Mr HOLLIS**—Run on commercial lines.

**Senator O'BRIEN**—I am not even sure that is true. I am involved in an inquiry into the dairy industry side by side. We are very competitive with New Zealand in terms of dairy production, depending on which part of the country you look at. But New Zealand have a distinct advantage. That is that they have kept access to the EU, whereas Australia is locked out, which has given them a market and given them more of an international focus, which we are developing.

**Mr BAIRD**—This should not be recorded, but—

**Senator O'BRIEN**—It has to be, you know.

**Mr BAIRD**—That is part of the reason why they have not been so strong on becoming a republic.

**Mr Mead**—Also, with their home market they have to go out.

**Mr HOLLIS**—But is the crux of it that they have such a small domestic market that they have to go out and aggressively export? Have we been too relaxed about it or has Asia been too easy for us?

**Dr Cassidy**—I do not think you can actually look at it like that. Once upon a time I would have agreed with you, but I think Australians have now got off their backsides and do get out and have a go. They probably walk a larger stage than New Zealand could imagine, just by virtue of the fact that Australia is four times the size. So when you do see the New Zealanders doing something well it is in a couple of areas.

**Mr HOLLIS**—But they do quite a lot well.

**Dr Cassidy**—I am not going to disagree with you.

**Mr HOLLIS**—On this marketing thing, your group identified that—one of you said that they are all over there. I think they are all over Asia. They are all over the Pacific.

**Dr Cassidy**—But looking at the Australian wine industry, it is slugging it out pretty well on the world stage. It is horses for courses.

**Mr HOLLIS**—I missed what you just said.

**Dr Cassidy**—The Australian wine industry is doing a very good job. I can point to a couple of others, if I put my mind to it, that would be comparable by analogy. It is just the New Zealand dairy industry is a dominant industry in that country. If it did not do well they would have a real problem.

**CHAIRMAN**—You can say by the same token that the wool industry is a dominant industry here in Australia, but it has not been as successful as the wine industry.

**Mr HOLLIS**—I am sorry I had to leave the room—I had to make a couple of telephone calls. You were talking about the wine industry. Chile produces wine. People have been talking about joint ventures. Were there any possibilities of, say, joint ventures between the wine industries? Have you dealt with that?

**CHAIRMAN**—There is Mildara Blass, Vina Santa Carolina and Vina Canepa and BRL Hardy.

**Mr Bournas**—Chile and Australia founded a group called the Southern Hemisphere Wine Producers. It must have been about two years or a year and a half ago.

**CHAIRMAN**—There is a meeting next week.

**Mr Bournas**—But now the group has changed. It is called the New World Wine Producers and now the United States as well as Canada has got into the act. Our industry still views very favourably the fact that we can form joint ventures with the Australians and, as the senator mentioned, there are two in place. My own trade office gets various inquiries from Chilean vineyards who are interested in undertaking a joint venture with a counterpart who they believe is of equal size to them. Perhaps I should be speaking off the record now. It would be more difficult to undertake a joint venture with an American or French company because they know that they will be taken over. They view Australians as having the same mid-size capacity as themselves. There is a great deal of scope for this type of cooperation.

**Mr HOLLIS**—What do you do when you get an inquiry like that?

**Mr Bournas**—I try to pass it on to the local chambers of commerce here and your local industry here as well. You are mentioning the New Zealanders and why they are so aggressive in Latin America. Government authorities from New Zealand approach us almost every six months concerning joint ventures and closer economic ties. In Spanish we have a saying for this—they tire us out. We eventually undertake business activities with them. It is their continued interest in our economic sphere that makes us enter into business opportunities with them.

**Mr HOLLIS**—And they are government instrumentalities rather than individuals?

**CHAIRMAN**—I take it that you are saying that New Zealand trade instrumentalities are on your doorstep regularly. The Australian trade instrumentalities are not on your doorstep anywhere near as much. Is that correct? I am not leading the witness.

**Mr Bournas**—That would be correct.

**Mr BAIRD**—It used to be my department.

**CHAIRMAN**—But I think we should know if it is not going as well as it should be. We had people talking this morning about the fact that there were not enough troops on the



ground in Austrade in Latin America. I do not know whether that is right or wrong but that comment was made. The people who are on the ground are not staying on the ground long enough. They are being moved to another area just when they are starting to get to know the people whom they are dealing with in Latin America.

**Mr Mead**—Or going into private companies.

**CHAIRMAN**—That is right. Maybe that is the way Australia should be going—having more privatised trade representatives.

**Senator O'BRIEN**—On the language issue and tourism, the Latin-American Chamber of Commerce suggested that there should be more attention to the Spanish language in our schools. Have you got a view on that matter?

**Dr Cassidy**—One of the big crosses that Australians carry is that they do not have to be multilingual. Once you go into an environment where people are multilingual, those people have a very distinct advantage. If you were bringing up your kids today and had a choice on this you would choose Spanish as one of the key languages that they should learn. For something like 30 per cent of Americans today their first language is Spanish.

**Mr Mead**—And Spanish is by far the second language in the United States. I was in San Francisco a little while ago and in certain areas Spanish is the first language.

**Dr Cassidy**—So Australians should not think that English is the be-all and end-all. Of course, you would always put some Asian language, Chinese or something, up there as important, but it becomes a little more difficult. Spanish will get you through an enormous part of the world—Latin America up into North America.

**Senator O'BRIEN**—Do our tourists need it in Chile?

**Dr Cassidy**—No, because they are bilingual there, so you can get by because they speak English. But it is useful. I get by in business in Chile in English, so I do not have to bother—they speak English as well as I do. It just makes my job easier. I just understand my weakness.

**Mr Mead**—I worked with WMC in Brazil. I was the principal Portuguese speaker at the delegation—

**Mr BAIRD**—Is that Western Mining Corporation?

**Mr Mead**—Yes. When the delegation looked at the CVRD deal in 1997 I was the principal Portuguese speaker out of 40. But, in terms of just getting things done, although I was speaking to people who could speak English, once I started speaking in Portuguese it just became a lot easier. So at that level, even though everybody in Latin America at the business level will speak a certain level of English, it is always better to at least have a few words of the language of the country that you are in. It is the same here in Australia: if you get somebody coming over who does not want to speak English, you do feel a bit affronted.

With regard to schools, I agree that perhaps there should be some sort of push for Spanish, in particular. I think that at United Nations level there is a recognition that Spanish is one of the major languages of the world.

**CHAIRMAN**—As there are no further questions or comments, thank you very much for your attendance today, and keep in touch.

[2.47 p.m.]

**HOLYMAN, Mr Thomas William, National Marketing Manager, Mitsui O.S.K. Lines (Australia) Pty Ltd**

**CHAIRMAN**—Welcome. 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 invites you to make a short opening statement, if you wish, and then we will proceed to questions.

**Mr Holyman**—Thank you. I will briefly introduce the company, with whom you may not be familiar, as that may be helpful for your background. The company Mitsui O.S.K. Lines Ltd, abbreviated as MOL, was founded in 1964 by the merger of Mitsui Steamship Company, which was part of the well-known Mitsui trading company which is, as you may be aware, Australia's largest exporter, and Osaka Shosen Kaisha, which is loosely related to the Sumitomo trading group. The company is a publicly listed company. The shareholding held by the original owners of the two companies is now only around 28 per cent, so it is not a part of the Mitsui group, nor of the Sumitomo group, but an independent, publicly listed company. Significantly, in April this year, we merged with another Japanese company, Navix Lines. The joint company, to be known as Mitsui O.S.K. Lines Ltd, is now the largest maritime transport company in the world, with about 500 ships of around 33½ million tonnes deadweight.

Specifically, the business is divided into three main categories: container shipping, dry bulk shipping and tanker business. The dry bulk includes pure car carriers, coal, iron ore, et cetera. The tanker business includes liquid natural gas, including carriage from the North-West Shelf of Australia to Japan. The pure car carriers are just that.

From a specific Australian perspective, the company Mitsui O.S.K. Lines (Australia) Pty Ltd was formed in 1995 to perform agency functions for the principal, primarily. But, as you will see from the documentation, Mitsui O.S.K. Lines are at the moment decentralising their management specifically of the container business around the world, and Sydney or, more broadly, Mitsui O.S.K. Lines (Australia) are now managing the businesses which call at Australia and New Zealand. In other words, we have established an Oceania trade management centre in Sydney. So the company in Australia has a significant input into the strategy of Mitsui O.S.K. Lines globally as one of only five management offices.

More specifically regarding the service to South America, about which we are here today, our original service between South America and Australia/New Zealand was established in 1986. Initially it was a westbound, around the world service—South America, New Zealand, Australia, Mauritius, South Africa and back to South America—on a bimonthly basis and later on a monthly basis. That was then expanded to further incorporate a second—

**CHAIRMAN**—Excuse me, did that go around the cape?

**Mr Holyman**—Yes. It went from Brazil and Argentina, for example, around the cape to Chile, then New Zealand, Australia, Mauritius, Durban, back to South America—a Southern Hemisphere, around the world service, going around both the capes.

**CHAIRMAN**—Do they take passengers on it?

**Mr Holyman**—If you asked me politely, perhaps! But, no, it does not carry passengers; it is a pure freight function.

**CHAIRMAN**—I just wondered because sometimes—

**Senator CHAPMAN**—Just special people.

**Mr Holyman**—And with all kinds of exceptional rules applying. No, these are pure freight services only. The types of ships that operated that original service were semi-container ships with their own cranes. Some of the ports we call at in South America do not have gantry cranes or shore crane facilities that would allow us to turn it into a pure container service. Moreover, the original service relied very heavily on break bulk cargoes, such as steel coil from Brazil to Australia specifically, and break bulk milk powder from New Zealand to Peru. So it was quite important to have ships that were not fully containerised and were able to carry various non-containerised items.

The service, as I said, was expanded in 1989 to incorporate an eastbound, around the world, Southern Hemisphere service as well. That service operated in tandem with the westbound service. There were six vessels, each loop offering a monthly service, west- or eastbound, and calling at roughly the same ports, although there were a few minor variations on that. In 1990, we abandoned the westbound, around the world service and reverted to a three-vessel monthly service between Australia, New Zealand and South America, and return—a pendulum type service. That was done basically in response to changing market conditions and also, frankly, in recognition of some fairly significant losses that we were suffering.

In 1995, we amended the service again and made it a round South America service—for want of a better description—with the vessels calling at Chile, Peru and then through the Panama Canal to Brazil and back around the cape. So at one point we did go through the Panama Canal. That service lasted about 12 months. It is extraordinarily expensive to transit the Panama Canal—about \$US30,000 per entry. We had originally intended for it to be facilitating cargoes between the west coast and the east coast of South America. Those cargoes did not meet our expectation, so we dropped that leg.

The service we have today is Australia, New Zealand, Peru, Chile, Argentina, Brazil, Chile and back again. It is founded on a three-vessel service offering monthly calls. Each of those vessels has a capacity of approximately 900 TEUs, or 20-foot equivalent units, and about 20,000 tonnes in deadweight. Each of those vessels also has self-sustaining cranes. Some of the facilities in South America remain fairly underdeveloped in the ports and we need to have our own cranes on the ships.

We have, as part of that service, a feature of extremely fast transits between Australia, New Zealand and the west coast of South America, and direct calls nevertheless to east coast South America, albeit that the transit times are a little longer. Some of the ports which we have serviced traditionally we have now made on an inducement basis. That is in response to a declining trade volume over the past 12 months.

**Senator O'BRIEN**—What does it mean—on inducement?

**Mr Holyman**—If there are sufficient containers or forecasts of cargoes, we will still make direct calls to those ports, but we need to know that those cargoes will be there, otherwise we will not call. We do have the flexibility to call but, unless there are sufficient volumes, what we tend to do is move those cargoes from those ports—the smaller volumes—to one of the other ports where we will pick those cargoes up. The service is still offered but not by direct calling vessels.

The main commodities supporting the Australia, New Zealand, South America service eastbound are dairy products, and I understand there has been some reference made to the New Zealand dairy industry, but frankly that volume from New Zealand to South America sustains this service. Without those volumes from New Zealand we probably would not have a service, in all honesty.

**Senator O'BRIEN**—Unless you got it from Australia?

**Mr Holyman**—Unless it came from Australia. There are dairy products moving from Australia as well but, frankly, to give you some perspective, we would lift around 140 containers between Australia and South America each month on the direct calls. We would expect to lift somewhere between 250 and 350 containers from New Zealand, of which 80 to 90 per cent is New Zealand Dairy Board cargo. Mitsui O.S.K. Lines are the appointed carrier for the New Zealand Dairy Board between New Zealand and South America. They are contracted to ship with us, and naturally we provide that space. Westbound from South America there were in the past some equally crucial cargoes but we have managed to pick a more diversified range of cargoes to carry now. In the past it was supported predominantly by steel from Brazil to Australia but, for a variety of reasons, those cargoes dropped away, although they are returning now. We have got a fairly diverse mix of cargoes coming from South America to Australia now.

The trade is characterised by those volumes from New Zealand Dairy Board eastbound to South America. Westbound, by far the majority of the volume is to Australia. New Zealand just has such a small population that they do not require large imports, and that characterises most of the shipping services to and from New Zealand as well—it is not just this one. I have listed on the back page the variety of products we carry in both directions.

One final point in opening would be to say that this service has been very close to extinction on a number of occasions in the past 18 months to two or three years. We have taken a number of steps, as you can see, from rationalisation of the number of ships operating the service to change in port rotations in an effort to maintain the service. The returns have improved marginally, largely through our chartering in of tonnage from the market rather than operating our own tonnage. It is one of the foibles of shipping that it is

more expensive for us to operate our own ships in this service than charter them in. I have to say that, unless the volumes from the New Zealand Dairy Board are maintained, and there is certainly no guarantee that they will be, then the service as a direct service between Australia and South America is in dire straits, frankly.

**CHAIRMAN**—It must be pretty sobering news if we are trying to increase trade and traffic. The concern is that it is the chicken and egg, isn't it? If the trade is there, there is going to be more shipping and more competition and you have got bulk, scale and size and you can cut your costs a bit. So one has got to build up, and it will not build up if the other one is not there. What is the cost of a container from, let us just say, Sydney to Santiago? If you want to get it across to Argentina it has to go around, does it?

**Mr Holyman**—It has to wait and go round on the ship, yes. But to answer the first part of the question, the rough costs for a 20-foot dry container from Australia to Valparaiso, which is the port we call at servicing Santiago, is around \$US1,800.

**CHAIRMAN**—It is \$US1,800?

**Mr Holyman**—Yes.

**CHAIRMAN**—Actually, that does not sound as much as I thought it would be.

**Mr Holyman**—It ranges from there to probably up to \$US2,200. For a refrigerated container—because we have been carrying some refrigerated cargoes, butter and at various times some meat or offal by-products—it would be around \$US3,800 to \$US4,200.

**CHAIRMAN**—And what about if you want to get the dry container around to BA?

**Mr Holyman**—We leave it on the ship. Frankly, it is cheaper. Liner shipping services worldwide are really characterised by price taking rather than price setting. We have a number of competitors who take the cargo to Singapore for east coast South America—both Argentina and Brazil. They take the cargo to Singapore and then put it on their ships that operate a service from Asia to the east coast of South America around the cape of South Africa so we are, in the Argentinian market, very much price takers, and the cost there is around \$US1,400 to \$US1,800 for a dry container.

**CHAIRMAN**—So that is actually cheaper?

**Mr Holyman**—It is actually cheaper, but that is really a reflection not so much of our costs but of the market—that we are the only direct service to west coast South America. Although some lines can offer a service via Singapore and Hong Kong and tranship the cargo on to their west coast South American services, it is quite expensive to do that, so really the costs or the ocean freight rates are a reflection of the market as much as they are of our costs. In fact, Buenos Aires is further away, obviously. After we call at Chile we then come around the Cape to Buenos Aires, so the sailing time is longer but the ocean freight rates are cheaper, and even cheaper again into Brazil. After we call at Buenos Aires, the freight rates are now as low as \$US1,200 per 20-foot dry container.

**CHAIRMAN**—Do you go up to Rio?

**Mr Holyman**—No, we only go up to Rio on inducement now because the volumes have slipped away, particularly from Rio back to Australia, and we call at Santos which services Sao Paulo. We also call at a couple of smaller ports in Brazil—Rio Grande and San Francisco do Sul.

**CHAIRMAN**—Do you want to keep going or do you want to have questions as we go?

**Mr Holyman**—Basically, that is it in summary—the history of the service and the background of the company—so perhaps I could take some questions.

**Mr HOLLIS**—If, for instance, your shipping line got out of this service and this cargo going from New Zealand across from Australia, how would that go? Would that then have to go on the off-chance of a ship going there or would there be a route up to America and it be shipped down to Singapore or what?

**Mr Holyman**—To answer the question, the latter part of your statement is correct. There are regular services north-south, if you like, from Australia to Asia and from New Zealand to Asia. What would happen is that the cargo would be loaded onto those ships that are on those services, be taken to an Asian transshipment port and then loaded in Asia onto various services that lines operate out of Asia.

**Mr HOLLIS**—I am not asking you to give commercial secrets away or anything like that but, roughly, what would that add to the costs? You have given us the container costs now, but roughly would that add 20 per cent or 50 per cent?

**Mr Holyman**—Probably add about 20 per cent, because we obviously have to handle it a couple of times in Asia. By handle, I mean take the container off a ship and put it back on, and whilst those costs are ever decreasing with the competition amongst the ports in Asia, it does add cost to us and also transit time. So for the producer in Australia it is going to take that much longer to get to the destination and in many cases that adds cost to them because they do not get paid until the cargo arrives.

**Mr HOLLIS**—It has been quite interesting today. We have had a couple of chambers of commerce in here, more or less giving the impression—rightly or wrongly, I do not know—that there is this vast market out there of all these X millions of people, all gung-ho to do trade, there are wonderful markets, if the Australian business community with just a little bit of a touch up from the government, or maybe a delegation led by the Prime Minister, would take advantage of all these things. You must have perceived that market there before the shipping went in there. Do you see it as a vast market, or what?

**Mr Holyman**—In a word, it is enormous.

**Mr HOLLIS**—Enormous market?

**Mr Holyman**—Enormous markets in South America, and we have heard the same evidence that you probably heard from the chambers. In fact, we are members of all those

chambers that you had in here today, and we have heard the same evidence that there is a huge market there.

**Mr HOLLIS**—Why is your business then wavering?

**Mr Holyman**—Because at the moment there is just not the business moving. The potential is enormous, but there is just not the business at the moment. Our industry, we believe, is a good barometer of trade. We get the figures obviously a lot earlier than they appear in the statistics, and we think we are a fairly good barometer of the potential of the markets as well. We do have a fairly buoyant view of South America.

I mentioned earlier that there were these Asian services to both the east and west coasts of South America. We actually operate them ourselves, one from Asia to the west coast of South America and return, and one from the east coast of South America to Asia and return. If this service was to disappear—the direct service, as you mentioned earlier—we would endeavour to hold onto as much of this business as we could via Asia ourselves, knowing that the potential is there for growth in the future and that perhaps direct services could come back.

At the moment, as I said, the margins on this particular service have improved dramatically, but we just keep hearing these figures about the size of the markets in South America. The impediments we find, for example, are perceived—rather than a real reluctance of Australian business to do business with South Americans—(a) because it is difficult, it is in a very difficult time zone; (b) because they perceive the cost of getting their goods to market are very expensive compared to say their competitors, and (c) their competitors themselves are predominantly in North America, and there is some perception that North America is closer to South America and we cannot possibly compete. A lot of those perceptions are incorrect.

Perhaps, (d), a fourth perception is that the consumption patterns of many of the countries in South America are very similar to our own. They grow their own wine; they grow fruit like we grow fruit—the seasons are the same and, therefore, there is no room for us. But that is quite the contrary. You could argue that because they have similar consumption patterns to Australia that the markets are there. They already drink wine, they already eat the same types of fruit during the same seasons, so you could argue that there is an opportunity for Australians to do business there on that basis—on the similarities—whereas we find that people tend to steer away because the markets are perceived to be similar.

**Mr HOLLIS**—I find that argument a little bit hard. If I am a Chilean red wine drinker, I am not going to give up my local glass of wine, which would probably be cheaper, to go for an imported Rosemount or something from Australia. If I am eating apples or whatever they are producing there, I am not going to go down the market and, if there is a Chilean one there and an Australian one there, go for the Australian one over my local one. I would think the areas of trade would be where we did not have that same climate, and when we were not producing fruit here, or somewhere where they were not producing fruit, and then we could send our fruit in there then to take over that market.



**Mr Holyman**—That is true, and I guess Australia's production capacity will govern that as well. If most of what we grow is going to, say, Asian markets and the margins are better in Asia, then that is naturally what will happen in a free economy. I agree with you except on the point about wine. I guess there is a—

**Mr HOLLIS**—I know our wine is better. I have had Chilean wine.

**Mr Holyman**—In some cases the technology being used to make Chilean wine, though, is now Australian technology. There is a market for Australian winemakers to tour the world and make wine, just as in Australia there was a market for some French technology in the past. What we are finding is that a lot of people are consuming bottled Chilean wine in Australia out of interest, and in some cases we are finding, of course, that Chilean wine on the shelf is cheaper. We do carry a lot of wine, not so much bottled wine, but we have carried in the past and are continuing to carry enormous volumes of bulk wine in containers in bladders. It is blended and goes into our casks. Again, that is just a reflection of the market, that we have had such heavy demand for Australian wine or for grapes in Australia that there has not been enough to make the lower end wines, and that is why we believe we have been carrying a lot of that wine in from South America.

**Senator O'BRIEN**—It is a very famous seagoing name, Holyman, so I suppose it is very natural for you to be involved with such a large shipping organisation.

**Mr Holyman**—Although, Senator, you might suggest that just at the present time it is an infamous rather than a famous name.

**Senator O'BRIEN**—I would never have done that. I am interested in your comments about the cargoes that your company carries for the New Zealand Dairy Board. Is that predominantly powdered milk or is it predominantly butter or a mixture thereof?

**Mr Holyman**—It is a mixture thereof. I mentioned earlier that in the past when we had our break-bulk service there was an enormous amount of powdered milk in sachets, in particular to Peru. As part of trying to make the services more efficient, we have actually put all of those cargoes that previously moved in break-bulk form, loose form on pallets, into containers. Every time it rained, for example, we would have to shut the holds of the ships to keep the rain off the break-bulk milk powder or the break-bulk steel. So most of that cargo is moved in containers.

Of the dry cargoes at the moment, that is powdered milk into Peru, most of the refrigerated cargoes from New Zealand are, indeed, butter, as you suggest. There would be, I guess, somewhere between 50 and 100 refrigerated containers of butter per month. In a good month 100, but more recently about 50. I mentioned that the total volume of dairy products would be somewhere between 250 and 350 per ship per month. So I guess that makes the dry powdered dairy products somewhere between 200 and 300.

**Senator O'BRIEN**—Do you know what the market dynamics are? Your company obviously has an interest in maintaining volume. What are the dynamics of the dairy industry market for the New Zealanders, and why wouldn't we be able to utilise that?

**Mr Holyman**—I am not an expert, I should say, and I would be only surmising. Frankly, I am not close enough to it. However, we have had a number of discussions in Australia—and I should hasten to add that we do actually carry dairy products for one or two Australian producers as well, notably Bonlac and Murray Goulburn, and even United Milk Tasmania, which, of course, is now Bonlac. Some of those cargoes are actually nominated, and by ‘nominated’ I mean controlled by the end user. We are a major carrier globally of Nestle cargoes. Nestle do have significant manufacturing facilities in South America. So often the cargoes come to us looking like they are Bonlac cargoes. This year in particular they have sourced a lot of milk powder from United Milk Tasmania. It looks for all intents and purposes like United Milk Tasmania cargoes but in actual fact it is really controlled by Nestle.

I do not know enough about the dynamics other than to say that obviously the New Zealanders have been in South America for many years. They have established joint ventures, particularly in Peru, Chile and Brazil. They have representative offices. Through those joint ventures, they have established distribution networks. We are delivering to joint venture companies of the New Zealand Dairy Board. In Peru, in particular, those cargoes are delivered straight off the wharf into warehouses and distributed by the New Zealand Dairy Board themselves.

In the past couple of years, there have been suggestions by Bonlac, in particular, that they would like to establish better beachheads in the South American markets. They intended to open offices, but we have not seen any evidence that has occurred. I do not know enough about the dynamics of the dairy industry specifically to offer any expert opinion.

**Senator O’BRIEN**—If this Australia-New Zealand-South American service ends and we need to shift via Singapore, what effect will that have on the cost of shipping from Australia to South America?

**Mr Holyman**—As I mentioned, probably up to about 20 per cent additional, although, at the moment the market and the dynamics of those north-south, Asia-Australia or Asia-New Zealand services will determine that to some extent. Lima shipping is becoming almost a commodity rather than a service. As I mentioned earlier, lines are often driven by imbalances. If there is a huge number of empty containers sitting in Australia and we need to get them somewhere, we are just as likely to reduce the rates for moving those containers out of Australia. If we need them in South America, the dynamics or our costings and our ocean freight will be determined more by those drivers who are getting that container away from Australia rather than by necessarily the actual cost involved in doing so.

To answer the question, I imagine there will be a fairly significant impact on a number of our smaller producers. Our customers in some cases have said to us that, without this service, they would not be doing business in South America. Their business could not stand either the additional costs or the additional transit time which would be involved in going through Asia. One notable shipper who produces polymer coatings here in Sydney said that they did not want their cargo going over the equator. Therefore, if the service disappeared and the cargoes had to go up to Asia, it could have an impact on the quality of the product on its arrival in Chile. So I think there would be a fairly significant impact.

Going back to the dairy industry, with the freeing up of the industry in Europe and the abolition of a lot of the subsidies, there are more and more inquiries coming to us from Europe about sourcing dairy products in Australia not just for South America but also for Asia. In many cases, it includes sourcing dairy products in Australia and New Zealand for South America. I guess, because Australia's industry is somewhat less regulated in terms of its export of dairy products than New Zealand where, if anything, they are moving towards a tighter regime over their exports, the potential for the dairy industry in Australia is actually increasing. Their delivered prices in Asia, and perhaps even in South America, are going to be much more competitive without those European subsidies. For what it is worth, I add that to what I said earlier: there is still enormous potential for dairy exports from Australia, not just from New Zealand. Without the direct services, I guess there is a problem.

With the New Zealand Dairy Board, the recent negotiations we held with them indicated more than ever that these companies are perhaps less concerned about the quality of the direct services. In fact, our main competitors for that business this time around were transshipment operators who were going to tranship the cargo at Taiwan. They would carry it from New Zealand to Taiwan. In the past, the New Zealand Dairy Board was very focused on the quality of the service to ensure that it delivered those products on time and regularly. It seems that it is now less concerned with that and more concerned with the bottom line returns, even if it may be at a small cost to its service quality.

**Senator O'BRIEN**—But it would not affect powdered milk, and I suppose it would not really affect butter in refrigerated containers.

**Mr Holyman**—Probably not but, again, I am not aware of the—

**CHAIRMAN**—At least there would be the use-by date, wouldn't there?

**Senator O'BRIEN**—Not with powdered milk but possibly with butter.

**CHAIRMAN**—Yes, with butter.

**Senator O'BRIEN**—I would not have thought that it would have a material effect.

**Mr Holyman**—It is certainly not as critical as, for example, chilled meat to Japan, where they measure the days from the kill to the shelf. I have not heard of any reference to that with regard to butter or powder.

**Senator O'BRIEN**—Is it fair to say that your costs could be reduced by increased volume and a larger exchange of cargo volumes between South America and Australia?

**Mr Holyman**—Absolutely. At the moment those ships are full. They have been full over the last two or three months, and they are forecast to be full for the next few months for the trips from South America to Australia. The immediate problem we face is trying to generate enough volume going in the other direction: from Australia back to South America. New Zealand generally, as I said, has been fine, but Australia has been very lethargic with volumes.

**Senator O'BRIEN**—Is most of our return trade, like coal, carried by bulk carriers?

**Mr Holyman**—Yes. Those types of commodities will always move in bulk. If statistics are examined regarding the value of the trade, you will find that the vast majority by volume certainly, and also by value, is coal. Even some liquid chemicals also move in bulk.

**Senator O'BRIEN**—So you do not carry agricultural chemical loads? I suppose you would have some.

**Mr Holyman**—There are some. For example, we carry chemicals from Queensland to Chile for the mining industry, but we miss out on the carriage of bulk grains to Peru, which has gone in the last few years. Despite the fact that the actual freight rate has reduced for some of those commodities in containers, it is still more expensive than shipping in bulk lots.

**Senator O'BRIEN**—Yes, there is no doubt about that.

**Mr Holyman**—Can I add to that. One interesting development has been the large quantities of fish meal that previously moved in bulk from Peru to Hobart. Recently, we have managed to get to a point where we can carry that cargo in containers—and it is currently moving in containers—but the sensitivity is such that even a small increase in ocean freight for the containers would almost certainly see the business move back to bulk. Some of the low value commodities are really sensitive to that. Even \$US100 for, say, 20 tonnes in a container is \$US5 a tonne, and \$US5 a tonne on the value of a product like fish meal is fairly significant.

**Senator O'BRIEN**—I suppose so. I am looking at the cost of converting that into salmon, for example, which is where most of it would go, if not all of it. It does not seem significant to me, but I suppose—

**Mr Holyman**—It does not seem significant to us, but the \$US100 is.

**Senator O'BRIEN**—I am sure it is, in terms of the conversion. Thank you very much, Mr Holyman.

**CHAIRMAN**—I have a couple of questions. The airlines talk of using Australia as a hub for Asia. You have sort of touched on it, but you are basically referring to us as going to Asia and then sending from Asia to here, rather than Asia coming here as the hub for trade to South America. That is what I gather. There is no chance of Australia becoming a hub for shipping?

**Mr Holyman**—Absolutely not, despite the very optimistic designs of most of the port authorities in Australia, who all have pretensions to operate hub ports, albeit for the other Australian ports. The answer to the question is no. The hub concept is driven by volume, and that is why services like this one in particular are in danger of becoming extinct. I will add to that by suggesting that even services such as those between Europe and Australia—which are currently direct services—are in danger of becoming extinct. They are described as long, thin trades—a long steaming time and long distances but very thin volumes compared to,

say, those between North America and Asia, or those between Asia and Europe or even those within Asia itself, which are the three biggest trade lanes. For example, the trans-Pacific trade comprises something like 5½ million 20-foot equivalent units, TEUs, per annum. The total Australian business is only about 2.2 million. So we are less than half the size of the trans-Pacific.

What is happening is that those very large trades, in Asia, Europe, on the trans-Pacific and even in the Atlantic, are increasingly serviced by very large ships. To give you an idea, I mentioned that these ships are around 900 TEUs. The latest container ships being built are around 6,800 and they are rumoured to be larger. On the drawing board already are plans for vessels which are in excess of 8,000 TEUs to generate the same economies that we referred to earlier—larger volumes generating economies for us. So those types of vessels calling in at fewer and fewer ports, and more and more ports in Asia, and areas such as Australia and New Zealand in particular are in danger of becoming feeder destinations only for hub ports in Singapore and—

**CHAIRMAN**—And pulling back, say, to Singapore or to Hong Kong?

**Mr Holyman**—Singapore, Hong Kong, Taiwan.

**CHAIRMAN**—Before they head off back to wherever they have come from?

**Mr Holyman**—Yes.

**CHAIRMAN**—From Sydney back and then going across?

**Mr Holyman**—Yes, we do that on a fairly large scale already.

**CHAIRMAN**—You made the point about the New Zealanders doing that because it is not time sensitive?

**Mr Holyman**—Yes.

**CHAIRMAN**—Why is it that Australia has never had a good shipping industry? I am not talking about shipbuilding, but transport wise. You would think, being an island, we would have been the home of seafaring transport to the world.

**Mr Holyman**—You would think that, Senator. I am the fifth generation in the shipping industry in my family and I have an interest in the industry in Australia. To use a microcosm, my family's business was built on the back of Tasmania, which is an island and relied therefore, very heavily and still relies fairly heavily on the shipping industry. I do not know what the answer to the question is and I suspect that, if I gave one, I might be vilified. I think there is a long history of neglect of the industry generally, when you compare it to, say, a group of islands like Japan.

**CHAIRMAN**—They have got a shipbuilding industry and also a shipping industry.

**Mr Holyman**—I think they recognised, perhaps much earlier than Australia, that that industry is absolutely integral to their growth.

**Senator O'BRIEN**—Let us face facts: Japan sits alongside China and Asia and across the water from the United States and cargo volumes for its own island nation, without even considering those, are greater than Australia's. Our problem is distance and size, but we have had shipping industries which were more viable in the past, I suspect.

I risk getting into the debate about the shipping industry. To go to this idea of the supercontainer ship that you are talking about, would they end like the supertankers, circumnavigating the globe, going through the major ports and feeding off to the hub, say, calling in at Singapore and Amsterdam? Would they just go around the world, picking up and dropping off cargoes that way? Is that how you would envisage the supercontainer ship operating?

**Mr Holyman**—That is how those services are operating right now. It is just a matter of the evolution of the ships. Of course, one of the problems when those ships were built is they do not have the shore facilities even to service them. The 6,800 TEU ships that arrived in Asian ports had to berth one side or the other, too, because the cranes physically could not reach across them. So the technology on the shore has to catch up with the ships. But even now, for example, those ships that I mentioned cannot go through the Panama Canal. They can still get through the Suez, but there may be an issue with that as well. But they are being built to Suez maximum beam.

In our particular case, our Europe-Asia service calls at only five north European ports. All of the cargoes from other European ports are centralised into those, either by land or by sea. Some of those services by sea we operate ourselves and some of the land based services we operate. They then come from Europe and call only at probably two ports in southern Asia: Singapore and/or Laem Chabang in Thailand and/or Port Kelang in Malaysia. They then move up to one port in Hong Kong, to one port in Taiwan, then maybe only to China, and then turn around, whereas a separate loop will call at the same number of ports in Europe but, when it comes around, it might stop at Singapore, then go straight to two or three ports in Japan, then Korea and back to Europe.

So some of those ships are only calling at three or four ports in Asia and five ports in Europe. They are discharging obviously significant volumes at these hub ports, and then they are being dispersed from those hub ports by a number of feeder services. One reflection of how far that concept has come is that the feeder ships that used to do the feeding into and out of Hong Kong and into and out of Singapore only three or four years ago were 700 or 800 TEUs, and now they are as large as 2,500 TEUs, which is as big as the largest ship that comes to Australia. So the concept is growing.

The impact is that a lot of the big ships are replacing other ships and, rather than being scrapped, they are moving down to the next service and the next service down after that. What we are finding now with some of the services that the lines are operating to Australia is that they are bringing in quite old tonnage that has been in the Europe trade or the trans-Pacific trade. They are coming down with very large ships compared with those that we saw in the past, and that is the fallout at the bottom of this trend.

**CHAIRMAN**—So, if you are on the right shipping route, your costs are going to come down?

**Senator O'BRIEN**—They will not go up.

**CHAIRMAN**—Let us put it the other way—they will not go up because there will be mass, size, scale, continuity and that sort of thing.

**Mr Holyman**—Yes. The key measure for us now is the cost per slot—by slot I mean a 20-foot equivalent unit in a ship, although the main measures are a 20-foot and 40-foot container. The cost is per 20-foot slot per day per kilometre steamed. So the bigger the ships, the less the actual cost per slot, and of course the fewer the ports they call at, the more trips they do, and that brings down the cost per day. That is the measure we use. So the costs will only come down as the ships get bigger, call at fewer ports and have quicker turnaround.

**CHAIRMAN**—Looking at your map of all your movements, it is a pretty complex business, isn't it? You must be computerised—I say that with my tongue in my cheek. I had a meeting once, when I was parliamentary secretary for trade, with an Indian minister and, being a bit naive, if you like, I said, 'You have this market and that market, why can't we have more of it?' Obviously it was going to be a one-way market, and we were going to have a bulk container ship coming to Australia with product, or vice versa, but then there was no back trade. Of course, that is one of the problems, isn't it? If you are going to send bulk from here to Chile, let us say, there has got to be bulk coming back, otherwise it is going to go via Los Angeles to Tokyo, and the ship will never come back to Australia, and then you have got your containers in the wrong spot. Am I correct in the summations there?

**Mr Holyman**—Absolutely.

**CHAIRMAN**—This is the last question, unless the others have got more. The Australia-Chile Bilateral Trade Investment Commission has recognised that the relatively infrequent and indirect shipping service between Australia and Chile was a problem for the exports of both countries—which we have discussed; this was the first question I asked—and did little to encourage trade, and that is why I mentioned the chicken and the egg problem. Both governments, though, have called on the private sector and the key shipping countries to undertake discussions aimed at rectifying the current situation in relation to time sensitive products. Has any discussion gone on, or do discussions go on regularly or is it a little bit ad hoc?

**Mr Holyman**—Do you mean with the chambers or with the exporters?

**CHAIRMAN**—I was talking about with the shipping companies, the exporters and such like and with the government. If we want to get more trade into Latin America or if Latin America wants to get more trade here, is there a holistic approach to the problem? We might expand the question and say: globally, is there a good combined effort to cooperate with each other?

**Mr Holyman**—Perhaps I will answer the last part of your question first. Globally, there is very much an emerging trend of bipartisan relationships between shipping service providers and shippers. Frankly, the influence or the participation of governments is fairly minimal—that is a very broad generalisation.

**CHAIRMAN**—You do not want governments there anyway, I guess.

**Mr Holyman**—No, not particularly—not unless they help. Also, I have to say that, in regard specifically to South America, we have developed a very good relationship with Austrade. As I mentioned earlier, we are members of the chambers, and generally the service that we operate to South America more specifically rather than globally is quite well known by Austrade people on the ground in South America and by the Americas desk of Austrade here in Australia.

I have to say that, when considering trade, shipping tends to be left until last. It tends to be more a government and private sector manufacturing industry approach. They say, for example, ‘Let’s do business or establish business,’ or ‘Let’s clear the tariff barriers,’—if there are any—or ‘Let’s facilitate smooth trade in that manner first.’ Then the question is asked, ‘How are we going to get the goods to market? We had better see if there is a shipping company involved.’

We find that that has been the case in a number of instances with trade, particularly with South America. Possibly, it is because the industry itself is low key. Going back to what you said earlier about why we perhaps do not have a larger recognition of the industry in Australia, it is because it is a low key industry and it has a relatively small market. We are not selling a consumer good to every person who walks down the street, so I think it tends to be, for that reason, left until last. I do not know if a holistic approach is possible all the time.

**CHAIRMAN**—If I am exporting, let’s just say, a manufactured product, obviously I do not manufacture something unless I have a market for it. Do I then look at the shipping of it or do I actually look at that last—which I think you have just told me—and then say, ‘You must be a price maker,’ and you say, ‘Look, mate, if you want to get that stuff to Valparaiso, you are up for \$3,000 a container’?

**Mr Holyman**—Exactly. If I had a dollar for every time the manufacturer came to us and said, ‘If you don’t reduce your offered freight rate, then we can’t do any business,’ I would be more than a millionaire. We are constantly coming across that.

**CHAIRMAN**—You are trying to cut your rates obviously, but you do not want to send yourself broke.

**Mr Holyman**—That is right. In fact, as I say, that is why I know that it is looked at last, because the manufacturing costs, the tariffs and all of those issues, are looked at well prior to coming to the shipping company; it is the done thing.

**CHAIRMAN**—So you give him his bottom line?



**Mr Holyman**—I cannot understand how people can actually calculate the bottom line without calculating how much it is going to cost to get the goods to the market.

**CHAIRMAN**—I thought they would work it back to the shop floor—but everyone to their own business.

**Mr Holyman**—Yes.

**CHAIRMAN**—Are there any further questions?

**Senator O'BRIEN**—I am very tempted to ask a number of questions, but they would not be relevant to this inquiry.

**CHAIRMAN**—I think you should ask them.

**Senator O'BRIEN**—I can assure you, we have not got enough time.

**Mr Holyman**—Perhaps in Tasmania some time, Senator.

**Senator O'BRIEN**—Yes, indeed.

**CHAIRMAN**—If you have nothing further to add, I thank you for your attendance today. The subcommittee authorises the incorporation into its records of the exhibits from Qantas and Mitsui OSK.

Resolved (on motion by **Senator O'Brien**):

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

**Subcommittee adjourned at 3.40 p.m.**

